

Getting Theirs Cuts Both Ways on Wall Street

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There was none of the old swagger at [Citigroup](#) headquarters on Friday. The bonus checks had landed — and some of the bankers were grumbling.



Mark Lennihan/Associated Press

Many of those walking to work on Wall Street in Manhattan are walking away with less bonus pay because of outside pressure.

After a year of yawning losses at the company, employees lamented that times were getting lean. The giant bank, the recipient of two multibillion-dollar rescues from Washington, had paid out only about \$4 billion in bonuses. Only?

“Without a doubt, \$18 billion is a lot of money, but it’s a drop in the bucket on Wall Street,” said Gustavo Dolfino, president of the WhiteRock Group, a headhunter for the banks. “These bonuses are down, and the salaries are not enough for these people. They can’t live on \$150 to \$180,000, so they haven’t saved any money. They put it on credit lines and at bonus time, they thought they’d pay it off.”

If you’ve never worked on Wall Street, it is hard to wrap your head around the idea that a company that lost nearly \$19 billion in a single year, as Citigroup did in 2008, could still pay its employees billions in bonuses. It is probably even harder to believe that some of those employees grumble about it.

“I feel like I got a doorman’s tip, compared to what I got in previous years,” said a 30-something investment banking associate at Citigroup’s offices in Lower Manhattan.

That kind of glum talk is being heard all over Wall Street, where money is the measure and bonuses the ultimate yardstick. To bankers and traders, bonuses, which account for the bulk of their pay, justify those long days and sleepless nights spent crunching numbers or watching bond prices dance across computer screens. But with everyone from [President Obama](#) on down chastising bankers for paying themselves billions in bonuses at a time taxpayer money is propping up the financial industry, once-unthinkable questions are starting to arise. Could bonuses, the stuff of Wall Street dreams, become a thing of the past? Could this decades-old incentive system, born of the private partnerships that once ruled Wall Street, be replaced? If so, by what?

For all the tectonic shifts reshaping the financial landscape, one thing has not changed: the bonus culture. Wall Streeters who make a lot of money for their employers expect to reap the rewards. In the parlance of the industry, they expect to eat what they kill. But bonus resentment is building. On Friday, Senator Claire McCaskill, Democrat of Missouri, proposed a bill to cap workers’ pay at banks that received bailout money at \$400,000, including bonuses. Even now, with Wall Street awash in red ink, stars are pulling down millions.

“It’s just not acceptable. You’re talking about the same banks that caused the foreclosure crisis, took record bonuses in the past and continue to,” said George Goehl, executive director of National Training and Information Center, a nonprofit community reinvestment group in Chicago.

Some politicians are calling for banks to claw back bonuses because they were based on earnings that vanished in the [financial crisis](#). President Obama lashed out on Thursday, calling bankers shameful for awarding themselves nearly \$20 billion in bonuses for 2008. Many senior banking executives, including [Vikram S. Pandit](#), the chief executive of Citigroup, agreed to forgo 2008 bonuses. But Washington policy makers did not limit bonuses for rank-and-file employees when the government hastily arranged the sweeping bailout last fall. So banks were free to pay what they wished for 2008, and pay they did.

At Citigroup, Mr. Pandit in November was planning to reduce the total bonus pool by about 40 percent from 2007 levels. But after the company grabbed a second lifeline from Washington, executives reduced payouts even more, cutting the total in half, according to several people close to the situation. One of those people said officials in the Treasury Department, then under [Henry M. Paulson Jr.](#), signed off on the size and the structure of the compensation plan. Pay for several dozen of Citigroup's senior managers was cut between 40 and 85 percent, and the bank imposed new policies to claw back ill-gotten bonuses and limit severance pay.

That could set the stage for a new round of changes. Wall Street compensation in general — and bonuses in particular — are coming under intense scrutiny from lawmakers. Possible reforms include caps on pay, greater use of stock compensation and mandates to return more money to shareholders, rather than workers. The government could also request a seat on the board of every company that accepted taxpayer money.

Even some bankers, at Citigroup and other institutions, said they felt a bit ashamed about getting bonuses in hard times like this. But none of them offered to return the money. "I'm certainly not giving my bonus back," said the Citigroup banking associate, who, like other several other Citigroup employees, declined to disclose his payout and asked to remain anonymous, for fear of angering his bosses.

Granted, bonuses are down from the heady days of the bull market. According to an estimate released this week by the New York State comptroller, which set off the recent uproar, payouts for 2008 at New York financial companies fell about 44 percent from the previous year. But bankers are still taking home about as much as they did in 2004, when the industry was flush. A confluence of powerful forces drove bonuses to record heights in recent years.

Traditionally, banks set aside about half of their annual revenue for employees' compensation. But since the 1970s, and particularly over the past decade or so, the financial industry boomed, and so did pay. In recent years, the explosive growth of lucrative areas like hedge funds and private equity unleashed a war for talent, inflating pay and employees' expectations even more. But for many banks and their employees, the old calculus of risk and reward also changed. For most of their histories, traditional Wall Street banks like [Goldman Sachs](#) and [Lehman Brothers](#) were private partnerships. Partners staked their own money in the markets. When firms went public, Wall Street used shareholders' money. Banks also were able to reward employees with both cash and stock, and bonuses assumed a larger role in total compensation.

By 2007, just before the financial crisis hit, the average worker in the financial industry was earning 70 percent more than counterparts in other fields. The bonus culture runs deep. Executives and rank-and-file workers argue that lawmakers and others who complain about bonuses do not understand how this industry works. Bonuses, Wall Streeters say, are a crucial part of total compensation, and are often treated as deferred salaries. And generally bosses weigh individual performance more heavily than the company's overall results.

In other words, people who made the company a fortune in, say, foreign exchange trading, deserve bonuses even if their colleagues in mortgage [bonds](#) ran up losses that crippled the bank. At Citigroup, for instance, bonuses for currency and interest rate traders, who as a group had a good year, fell 40 to 50 percent. Bonuses for senior bankers shrank by about the same amount. But junior bankers, whose bonuses are smaller, were not cut as much. Some mortgage traders got no bonuses at all. "Compensation will vary based on each person's performance — again, relative to the overall performance of the company," Mr. Pandit said in a year-end memo outlining the bank's pay principles in 2008.

Of course, many Wall Street employees never expected the good times to end. They lived large, believing bonuses would always arrive, so they are ill prepared, both emotionally and financially, to cope with a sudden drop in income.

