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THE ECONOMIC CRISIS

Wall Street's $18.4 Billion Bonus

After getting $125 billion in taxpayer bailouts, the top officers at Citigroup, Merrill Lynch, Goldman Sachs, and three other banks agreed to forgo their 2008 bonuses. Now they're awarding billions to their troops. Can government "claw back" that money?

BY MICHAEL SHNAYERSON MARCH 2009

On December 8, *The Wall Street Journal* reported that John Thain, the 53-year-old chairman and C.E.O. of Merrill Lynch, had let it be known he wanted a $10 million bonus.

In-Thain Demand: Ex–Merrill Lynch C.E.O. John Thain ($15 million signing bonus in 2007) and predecessor E. Stanley O'Neal (compensation: $87 million in five years). *Photo illustrations by Darrow.*

And why not? After all, Thain had made the brutally pragmatic decision, over the mid-September weekend that changed Wall Street forever, to sell the 94-year-old firm to Bank of America for $50 billion,

averting the bankruptcy that awaited Lehman Brothers that Monday and saving Merrill's shareholders billions of dollars. Surely, even in a bad year, he was entitled to the equivalent of a 25-cent tip on the deal.

But the directors balked. Wouldn't that send the wrong signal after Merrill's net losses for three quarters of $11.67 billion? Especially after Bank of America had taken $15 billion of federal bailout money and was due to take the $10 billion earmarked for Merrill as well? When as many as 30,000 jobs may be lost from the acquisition?

The same day came a scathing letter to the board from New York attorney general Andrew Cuomo. Soon after, a grim Thain walked into Merrill's boardroom and apparently told the directors he'd had a change of mind: no bonus for him, thank you.

Thain had gotten the message at last: bonus season would be different this year. At least, it would have to *look* different.

Only a year before, Wall Street's financial firms had paid out $33.2 billion in bonuses—down a mere rounding error from the $33.9 billion bestowed in 2006—even as the credit crisis spread and $74 billion in shareholders' equity went poof. But now one firm after another had teetered or collapsed. And Treasury Secretary Henry Paulson had stridden to the podium for his Al Haig moment, inflicting upon already hard-hit 401(k)-holding Americans the unfortunate acronym TARP (Troubled Assets Relief Program), and through it propping up nine large banks with $125 billion in federal bailout money. Paulson had taken the Cabinet post, in July 2006, with only the noblest of motives, but in hindsight, the move had been fortuitous; the former Goldman Sachs C.E.O. had been forced to sell his Goldman Sachs stock, then worth almost $500 million, at pretty close to its market peak.

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How did we get into this mess? Visit our archive "Charting the Road to Ruin." *Illustration by Edward Sorel.*

Also: A quick rundown of what bonuses look like at seven big TARP recipients this year.

For many U.S. taxpayers, the bailout was infuriating enough on its own terms: $700 billion of public money in all ($5,073 for every taxpayer) given to Wall Street for bingeing on risky bets and pocketing the profits, living high and leaving the government to mop up the losses. But ... bonuses! That was an incitement to riot.

And so, Thain's misstep notwithstanding, the top officers at six large TARP-infused firms declared they were forgoing bonuses this year. The headlines were dramatic, and they seemed to work. Editorial writers held their fire, public outrage cooled. But did all this falling on swords really mean no bonus season on Wall Street this year?

It did not.

Retreat in Style

The first cause for concern came well before the formal bonus season. It was the much-reported $440,000 junket last September to the Tuscan-style St. Regis resort at Dana Point, California, enjoyed by 70 high-performing employees of insurance giant A.I.G. The retreat, which included $23,000 for spa charges, was held less than a week after the company was promised its first $85 billion from a TARP fund separate from the one helping the banks.

In his office at 120 Broadway, Attorney General Andrew Cuomo started strategizing with his deputy counselor, Benjamin Lawsky, about how to stop what he would soon call "unwarranted and outrageous expenditures" by A.I.G. Civil charges could be brought, he decided—and would, if A.I.G. persisted in exploiting taxpayers. And so began a campaign on Cuomo's part to rein in A.I.G. that would broaden to include nine TARP-infused financial firms and their top officers' lingering hopes for bonus season.

Summoning A.I.G.'s new C.E.O., Edward Liddy, to his office, Cuomo demanded an immediate end to junkets. He threatened the company with legal action for "fraudulent conveyances": engaging in business transactions without sufficient capital on hand. A.I.G.'s legal team saw that as a stretch, as the law seemed more relevant to bankruptcy proceedings, and A.I.G., thanks to taxpayer money, wasn't bankrupt. But Liddy got the point and agreed to no more junkets.

Liddy had started at A.I.G. only a month before. He'd come from Allstate, and, at the Treasury Department's request, had agreed to work for $1 a year, at least until the company's fortunes improved. His predecessor was the problem. A.I.G. had let Martin Sullivan go last June after three quarters of

hideous losses totaling $18 billion—but had not fired him. Its directors had reasoned Sullivan wasn't responsible for the mountains of credit-default swaps—unregulated insurance-like contracts—that A.I.G. had written on mortgage-backed securities and had to make good on now that the supposedly risk-free securities had tanked. So Sullivan had been free to leave with a package that included a $4 million pro-rated bonus, $15 million in severance, and other benefits then valued at $28 million, for a total of $47 million.

As for Joseph Cassano, the executive whose Financial Products division *was* responsible for all those C.D.S.'s, he'd left in February with a $1-million-a-month consulting contract (since discontinued) and $69 million in deferred compensation. Only six months before, in a widely reported quote, Cassano had said of the $441 billion portfolio of C.D.S.'s he'd bet would not default, "It is hard for us, without being flippant, to even see a scenario with any kind of realm of reason that would see us losing one dollar in any of those transactions." He is reported to have since repaired to his three-story town house in London's Knightsbridge district, on a bucolic square with a private garden, and his lawyer declined to respond to an e-mail from *Vanity Fair*.

The word that's giving top Wall Street officers angina these days is "clawback." Cuomo wanted A.I.G. to claw back those packages, along with those of Sullivan's other top officers, even though A.I.G.'s board had approved them.

On October 29, Cuomo went further. He wrote a letter to the boards of nine big financial firms—Goldman Sachs, Morgan Stanley, Merrill Lynch, Wells Fargo, Bank of New York Mellon Corp., Bank of America, Citigroup, J. P. Morgan Chase, and State Street—and expressed grave concerns about executive bonuses.

That letter may have become a subject of dinner talk between the C.E.O.'s of two arch-rival firms. Goldman Sachs's Lloyd Blankfein and Morgan Stanley's John Mack had taken to commiserating at the Palm, the Manhattan steak house favored by bankers and traders. The two men had a lot in common. With Lehman's fall, they led the last two major investment banks, both soon to become bank holding companies (meaning more financial backup from the government, but more regulation too). Together, they could rue the end of windfall profits from leveraging assets nearly 30 to 1. An era was over.

To forgo or not to forgo bonuses: that was the decision that fell first to Blankfein and Mack because of their late-November fiscal-year end, an investment-bank tradition to be followed one last time before converting to the standard year. Goldman, as always, set the tone. On November 16, Goldman announced that neither Blankfein nor the firm's other six top officers would take bonuses for 2008: only their base pay of $600,000 each.

The Street was rocked. In 2007, Blankfein had set an investment-bank record for C.E.O. compensation by taking home $68.5 million in cash and equity. His two co-presidents, Gary D. Cohn and Jon Winkelried, had gotten $67.5 million each. Now here he was coolly refusing to take more, even though Goldman had stopped bingeing on toxic securities long before the other banks. Its write-down on them was just $7.2 billion.

Going for Baroque: Goldman Sachs's Lloyd Blankfein, who took home $68.5 million in cash and equity in 2007.

Except that with Goldman stock's huge drop—65 percent—how large would the top officers' 2008 bonuses, weighted to the stock, have been in any event? And does forsaking a bonus even matter when Blankfein alone had earned $210,169,732 in total compensation from 2003 to 2007, according to Equilar, a compensation-tracking firm? "If they really want to forgo, give back the last two years' bonuses and give back half of your deferred compensation," suggests Gustavo Dolfino, founder and president of the WhiteRock Group, a Wall Street recruiting firm. Without a bonus this year, Blankfein might have to tighten his belt a bit—no more shopping, perhaps, for $40 million Southampton estates, as he'd done the year before—but still, he had the consolation of a new, $26 million apartment at 15 Central Park West. The suddenly bonus-less Winkelried has reportedly put his 5.9-acre Nantucket estate up for sale at $55 million, after annoying his neighbors by closing off a long-used lane that runs along the property.

Mack Attack: Morgan Stanley's John Mack, who has made around $70 million since 2005 despite forgoing bonuses the past two years.

As for Goldman's 440 partners, they *are* getting bonuses this year. Maybe in many cases not the $12 to $15 million each got in 2007—more like packages worth $3 to $4 million, according to *The New York Times*. Goldman has 30,000 employees in all, so some of the company's overall $10.9 billion in compensation and benefits this year will go to assistants, junior analysts, and the like, who will share a pool that's 46 percent smaller than last year's. But what's striking about the figure is that it's exactly as much as U.S. taxpayers just handed over to the firm. "For Goldman Sachs to get billions in TARP money and then three months later pay out a fortune in bonuses ... is political tone-deafness," says Richard Cellini, of Integrity Interactive, an adviser on corporate ethics and compliance.

Goldman spokesman Michael DuVally says no TARP money is going to bonuses: "The compensation that was paid to employees came out of our business activities." Charles Geisst, finance professor at Manhattan College and author of the upcoming *Collateral Damaged: The Marketing of Consumer Debt to America,* begs to differ. "If they didn't have the TARP money, they would be forced to raise fresh capital," he says. "Now, I agree it's a long-term item on the balance sheet. But [without the government money] they would have to take a dip into what operating profits they have left, and reduce those salaries. So the TARP money *is* a substitute. Theirs is an extremely disingenuous argument." Counters DuVally, "Professor Geisst is wrong. We paid bonuses out of earnings, not capital." But as former compensation

consultant Graef Crystal put it on Bloomberg.com, “The argument of saying we’re not using the bailout money is just crap because money’s fungible. Money’s money. It exposes them to ridicule.”

Just as hard to buy is the old mantra that Goldman has to pay staggering sums to its partners to keep them from being poached by other firms. To date, some 200,000 jobs have been lost in the financial sector, many of them at the executive level. Where are all those partners going to go?

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Some, says a recruiter who has clients at Goldman Sachs, are actually in deep financial trouble. “Hypothetically, they had $100 million of stock at its 2007 value,” the recruiter says. “I’ve heard stories where people have borrowed $30 to $40 million to invest in real estate or private equity or hedge funds. Well, that $100 million is worth maybe $25 million. So you have some partners and senior directors who are really hurting.”

Three weeks after Blankfein’s bonus announcement, John Mack sent out a memo to Morgan Stanley worldwide: he, too, would forgo his bonus, as would his two top lieutenants. The next 35 or so officers of the firm would have their compensation cut by 65 to 75 percent. It was the second year in a row that Mack had scrapped his own bonus: for Wall Street, that was pretty close to noble.

At the same time, Morgan Stanley had had to take $15.2 billion in write-downs on toxic securities through the third quarter of 2008, all on Mack's watch. The share price had dropped by 70 percent, and the firm had come close to bankruptcy last September before securing a lifesaving $9 billion infusion of Japanese capital. Now Morgan, like Goldman, had $10 billion in TARP money, and, like Goldman, it would be paying bonuses to many of its 47,000 employees and partners. Morgan noted that, overall, the bonus pool would be cut by 50 percent, but that would still mean an estimated $5 billion in bonuses for 2008—more than the company's modest $1.59 billion profit for the year.

Just since his return to Morgan Stanley in 2005 from a short stint at Credit Suisse, Mack has been awarded, according to Equilar, $69,565,233, more than enough for greens fees at the Apawamis golf course, in Rye, New York, where his home, resembling a French château, looks out on the 18th hole. Forgoing his 2008 bonus would hurt, but perhaps not that much.

Raising the Stakes

How had it come to this? Huge bonuses in good years leading, or so it seemed, to terrifying drops and talk of clawbacks? For, not so long ago, investment bankers were like dentists and lawyers, toiling in the upper middle class for 40 or 50 years before retiring to their nice homes in Connecticut. Their firms were partnerships. In a good year the partners got bonuses; in a bad they wrote checks to the partnership to cover the shortfall.

Then, in the 1980s and 90s, the firms went public, and everything changed. "They shared the downside risk with their investors, yet seemed to keep the upside for themselves," says Charles Elson, director of the Weinberg Center for Corporate Governance, at the University of Delaware. "It's a lousy deal for shareholders."

Only, the shareholders didn't seem to mind as long as the stock went up and the stakes grew larger and larger. By the late 1990s, investment bankers were no longer Cheever-esque commuters. The best were more like star professional baseball players, aiming to make their fortunes in 5 or 10 years of high-pressure trading or deal-making. The higher the risks, the higher the bonuses. The game was to win—and get out before those risks came home to roost. And then came the 00s, with the seemingly no-risk game of securities backed by subprime real-estate mortgages. For the banks, it was a lot like printing their own money—and all of it led to the year-end bonus, which by this time wasn't a bonus so much as expected pay. By tradition the firms paid out nearly half their revenues in compensation and benefits each year, so as the revenues skyrocketed, so did the "pay."

“As bonuses grew and grew, thinking beyond the next quarter became irrelevant to the management of the firm,” says Richard Ferlauto, director of corporate governance and pension investment at the American Federation of State, County and Municipal Employees union, for whose 1.6 million members he works as a shareholder activist. “Pay became so large that it was decoupled from providing incentives to drive long-term strategic planning.”

The worst part, says Russ Gerson, of the Gerson Group, a Wall Street recruiter, was that there was no disincentive for taking major risks. “Think about it: if you’re a Wall Street professional and you know that if you can create $100 million of revenues you’ll get $15 million, while if you lose $100 million you’ll still get paid $2 to $3 million, what would you do?”

Or what if as C.E.O. you could drive your firm to take maximum risks in mortgage securities, rack up $8 billion of write-downs, and still be allowed to resign, not be fired, so you could leave with $161 million in deferred compensation and stock? Wouldn’t you do that?

Merrill Lynch’s E. Stanley O’Neal did, leaving the storied firm in tatters in late 2007 with no successor in place. Desperate for top talent, Merrill’s board threw Thain a $15 million signing bonus and a multi-year pay package worth between $50 million and $120 million, depending on how high he pushed Merrill’s share price. Unfortunately, Thain was stuck with O’Neal’s mountain of toxic debt. By the time he reached out to Bank of America’s Kenneth D. Lewis last September, he was presiding over another roughly $40 billion in write-downs and watching the share price plummet from more than $50 to $17. All he had to show for saving Merrill was his $750,000 base pay and that $l5 million signing bonus.

Thain, like Blankfein, had built up quite a lifestyle. There was a $27.5 million duplex at 740 Park Avenue—the late philanthropist Enid Haupt’s old place. Plus a huge Westchester estate. Before he was forced out by Bank of America, in mid-January, Thain reportedly spent $1.22 million of company money redecorating his new office with such items as an $87,000 area rug, $11,000 window shades, and a $68,000 credenza. And the two top lieutenants he’d hired away from Goldman to help him turn Merrill around hauled home as much as or more than $100 million between them in contractually agreed-upon pay and bonuses.

Thomas K. Montag, 51, started in August as Merrill’s new global-sales-and-trading head, after a signing bonus of $39.4 million and a pledge to have Merrill buy his $50 million of Goldman stock. This was money no board or public official would shame Montag into surrendering. Some of it may have gone to redecorating the six-story, Stanford White–designed l903 town house on East 73rd Street that Montag

had purchased earlier in the year. The house, listed at $38 million, reportedly has a wood-paneled basketball court and a capacious climate-controlled wine cellar.

At least Montag is still on the job. Peter S. Kraus, 55, reported for duty at Merrill in early September as head of growth-and-acquisitions strategy. Soon Merrill was sold to Bank of America, and Kraus left, pocketing, for his three months of work, a contractual severance package that *The Wall Street Journal* reports could be as high as $25 million. On December 18, Kraus's wife, Jill, closed for $36.63 million on the seventh-floor apartment at 720 Park Avenue that used to be owned by onetime adman and former ambassador to Slovakia Carl Spielvogel and his wife, Barbaralee Diamonstein-Spielvogel.

That seems to be where the big money is still going this bonus season: to the executives a level or two below the C.E.O.'s. Some make news when jealous or appalled colleagues leak to the press. But most avoid public scrutiny. The trading floors of one large New York firm are abuzz about the $15 million bonus due to go to the head of one trading desk. Rank-and-file traders who work for the guy are used to getting bonuses of between $300,000 and $700,000 above their $150,000 base salaries. This year it's rumored they're getting nothing.

A Tale of Two Citis: from left, Citigroup's Vikram Pandit, who got $165 million when his hedge fund was bought by Citi in 2007; former C.E.O. Charles Prince (total compensation: $158.3 million over four years); and "senior counselor" Robert Rubin (total compensation: over $126 million in the past decade).

Looking Under the TARP

What *are* the restrictions on executive compensation and bonuses demanded of the TARP recipients by Henry M. Paulson Jr.? A paltry few. Pay of more than $500,000 for top five executives can't be booked as a tax deduction by their employers, for example. And a severance package can't be greater than three times the annual base pay. "Annual bonuses or discretionary bonuses—those aren't directly regulated or restricted," says David M. Lynn, a Washington lawyer and former S.E.C. official. For that matter, he says of the banks and their TARP money, "there's nothing in the law itself that prevents them from doing what they want with the money."

The bigger the TARP infusion, the more galling the lack of bonus restrictions. Take Citigroup, so sodden with toxic securities that the Treasury's first $25 billion in TARP funds had to be followed in less than a month with another $15 billion, as well as a separate guarantee of $5 billion: $45 billion in all. In December, as Thain decided to embrace relative penury and fellow C.E.O.'s such as Jamie Dimon, of J. P. Morgan Chase, were hinting they'd follow, Citigroup's Vikram S. Pandit stayed mum on the bonus question. Even a stern admonition from Cuomo failed to budge him.

Pandit, like Thain, could attribute his firm's mess to his predecessor, Charles O. Prince III, who'd pushed the pedal to the metal on mortgage-backed securities and, like Merrill's O'Neal, walked away in late 2007 with a whopping bundle, in his case $68 million, because Citi, like Merrill and A.I.G., had declined to fire its C.E.O. for cause. Pandit, in his one year as C.E.O., chalked up more write-downs (more than $30 billion to date), and a net loss of $18.72 billion for 2008. Surely weighing on the issue of a bonus for Pandit after this performance were the terms of his triumphal arrival.

And no one at Citi had forgotten the terms of that arrival. At the suggestion of resident wise man Robert Rubin, Treasury secretary in the Clinton administration, Citi had brought Pandit in by buying his fledgling hedge fund, Old Lane Partners, for $800 million, of which Pandit reportedly pocketed $165 million. (Last June, Citi announced it was closing Old Lane, incurring a $202 million write-down.) At about the same time he paid $17.9 million for the 10-room apartment at the Beresford, on Central Park West, formerly owned by actor Tony Randall.

Rubin, oddly enough, let it be known in early December that *he* would forgo his $14 million bonus package for the second year in a row. Still, it was a piddling gesture. Rubin had pocketed an annual compensation package totaling $14 million or more from 2000 through 2006. One of Wall Street's highest-paid directors, he had professed in interviews that he had no operating responsibility, yet reportedly pushed Citi to take ever higher risks on what proved to be toxic securities. Now the company's market cap was down from $244 billion in 2006 to $20.5 billion, some 75,000 jobs had vaporized, and its share price was down to $3.77, a low not seen in more than a decade. Finally, on December 31, Pandit

coughed up the bilious words: no bonus for him or chairman Winfried F. W. Bischoff, 40 percent less for other top officers, and a drastically reduced bonus pool for everyone else.

Well, not everyone. At Citi, as at the rest of Cuomo's TARP nine, the bonus pool has shrunk, but hardly evaporated. And, as at other banks, a lot of bonuses are contractual, tied to performance, so some have actually grown. One standout is that of Andrew J. Hall, a low-profile British-born commodities trader at Citi's Phibro who reportedly pocketed around $125 million. About five years ago, Hall bet big on oil futures, locking in prices he thought would look low as demand in China and India grew. He made so much money that Citi let him create his own corporate fiefdom in Westport, Connecticut—and set his own terms. Hall declined to explain to *Vanity Fair* how he made last year's fortune, but energy analyst John Kilduff, of MF Global, suggests a scenario: "You would have bought in January and hopefully sold at the all-time highs, and sold more than you had, went short the market, and rode it all the way down the $100 drop." Hall, a contemporary-art collector, has fought a long, losing battle with his Southport, Connecticut, neighbors for the right to place an 80-foot-long concrete sculpture on the lawn of his Greek Revival home. Last year's windfall will doubtless help him fill the walls and grounds with art at another of his properties: Schloss Dernberg, a 1,000-year-old German castle.

"As previously announced, we will not use TARP funding for compensation," notes a recent Citigroup statement. Others disagree. "I don't see how to separate the $45 billion bailout that Citigroup gets from the $125 million bonus paid to the Phibro commodities trader," says corporate-governance gadfly Graef Crystal. "Obviously if the government hadn't bailed these people out they would have gone bankrupt and the Phibro guy wouldn't have gotten a bonus—no one would have."

For A.I.G., which took three times as much TARP money, that point was at least three times as true. Yet so many versions of the company's own bonus story emerged that Representative Elijah E. Cummings (Democrat, Maryland), of the House Oversight and Government Reform Committee, declared, "It pains me to say this, but I begin to wonder if it has been made intentionally confusing. The arrogance here is unbelievable." (A.I.G. spokesman Nick Ashooh says, "It was certainly not our intention to cause confusion, and we sincerely apologize if we did.")

Perhaps A.I.G.'s game was to distract the lawmakers' attention from junkets. (Ashooh says that wasn't the intention.) If so, it succeeded. By then, Cuomo had persuaded A.I.G. to freeze $600 million of deferred compensation and bonus pools for the company's high-flying financial-products division—the toxic-securities risktakers—including Joe Cassano's $69 million. A.I.G. was also persuaded to freeze $19 million of former C.E.O. Sullivan's $47 million package. (Other clawbacks are under review.) Still, bonuses of one

sort or another would be given to top executives. And that reckoning, as Cummings learned, failed to include the artful introduction of *retention payments (i.e., bonuses)*.

To those who now follow the company's S.E.C. filings, an 8-K on September 22, 2008, shortly after the government's first injection, of $85 billion, was of interest. About 130 executives would be given retention awards. The specific award to be granted to one Jay Wintrob was noted, since Wintrob is one of the public company's five top-earning officers, for whom compensation details must be disclosed. Wintrob was to receive $3 million. He is A.I.G.'s V.P. of retirement services. His total 2007 compensation was $7,632,352.

Junket Bonds: A.I.G.'s new, $1-a-year C.E.O., Edward Liddy, and predecessor Martin Sullivan, who got $35 million for 2006 and 2007.

In a letter, Cummings asked A.I.G.'s new C.E.O., Edward M. Liddy, to explain the 130 retention awards. On December 5, Liddy replied, noting that A.I.G. intended to sell businesses that made up 65 percent of the company—in order to pay back its loan from the government—and that keeping key employees of those businesses was crucial to their value. Helpfully, he mentioned that the pool of recipients had since grown to 168, and that the retention awards ranged from $92,500 to $4 million.

Days later, reporter Hugh Son of Bloomberg News broke an astounding story. According to sources inside A.I.G., the company planned to bestow retention awards not just on 168 employees but on 2,000, who had been advised to keep their awards secret. If they discussed them with anyone but their families and financial advisers, they would lose them. The Bloomberg story noted that as many as 7,000 A.I.G. employees might receive retention awards.

Cummings was livid. "A.I.G. came to the U.S. government and said they were about to go out of existence," he fumes. "They were on the respirator and the plug was just about out of the wall. None of them would be employed if it were not for the U.S. government and the taxpayers of this country." And

here was A.I.G. dispensing public money—$481 million was the latest figure Cummings had gleaned—for secret bonuses? A.I.G.'s Ashooh says the final number of retention-award winners will more likely be about 5,000, receiving about $600 million in all. He does acknowledge that this doesn't include the roughly 380 employees of A.I.G.'s now moribund financial-products division, which traded all those toxic securities. He has no idea what their awards will be. Ashooh says the "secrecy" of the awards was merely an intramural matter, to keep recipients from spreading envy among their colleagues. "It's confidentiality, not secrecy, that's the issue."

Cummings takes umbrage at that. "If they give a bonus, it's public money," he declares. "They are owned by the taxpayers of America, the same ones who are losing their jobs and homes and damned sure didn't have a bonus for Christmas."

Here's the bottom line on Wall Street bonuses for 2008—according to the New York State Comptroller's Office. They're on track to be 50 percent lower than last year's. That's a sharp cut, except that it's still $18.4 billion. Taxpayers may see that money as theirs. Bankers and traders see it as pay for work done. "There's no sympathy for us anywhere," says one thirtysomething trader, "but it's not as if we weren't working hard." Working hard and, in many cases, earning good money for the firm. "The system was: if we pay you $2 million for a job, it's because you helped us make $20 million."

All too often, unfortunately, those profits were of the short-term sort, generated by risky securities now turned to ashes. Bonus-bagging bankers may be loath to admit it, but the answer is obvious: tie bonuses to longer-term profitability. Have them vest in two years, maybe three. Meanwhile, keep them in escrow. The question is: Will the bankers stand for it? "If the government says you can't pay people who are successful, then game over," says executive-compensation consultant Alan Johnson. Second-raters may let their bonuses be tied up, but "the people who are good," says Gustavo Dolfino, the Wall Street recruiter, "will say, 'Screw that, I'll start my own firm or start a restaurant in Greece.'" Or, adds fellow Wall Street recruiter Gary Goldstein of Whitney Partners L.L.C., they'll be poached by unlikely new players: regional banks. "The regionals aren't encumbered by subprime stuff.... They've done so well they're becoming national."

For all the upper-middle bankers still taking bonuses this year, a lot of younger, lower-middle types are getting goose eggs; as one puts it: No bonuses at all. "Now suddenly I have to think about living on my salary," says one mid-30s trader glumly. "It's $140,000 a year—with two kids, and parents who want to retire." Peter Singer, a prominent bioethics professor at Princeton and author of the newly published *The Life You Can Save: Acting Now to End World Poverty,* suggests the bonus-deprived take a hard look at

themselves. “How much happier does it make them to have $10 million rather than $200,000? ... Have they got enough from that salary to provide them and their families with the basics of what they need to live? And by that I don’t mean a six-bedroom apartment on Park Avenue.”

For a lot of them, apparently not. Dolfino says the choice for some mid-level bankers and their families isn’t some firm across the street that will pay more, because none will. That game *is* over, at least in Manhattan. “The market for them is Mumbai, Dubai, Hong Kong, Singapore, Shanghai. We’ve been moving them out there for a year.”

Highfliers who traded the riskiest of securities face a grimmer prospect. In his memo to staff, John Mack declared a new Morgan Stanley clawback policy starting with cash bonuses for 2008. The policy is ominously broad: awards could be clawed back not just for risky trading that results in long-term losses but also for “reputational harm to the Firm”—a pretty vague definition. Soon that policy may be industry-wide.

At least the Morgan Stanley guys have cash bonuses, provisional though they may be, for now. Credit Suisse—not a TARP recipient—is handing out the market equivalent of just deserts. Its bonuses this year are the same toxic securities its bankers and traders sold their customers last year. However, since the securities have already been marked down to 65 cents on the dollar, there may be nowhere for their value to go but up. Shareholders have borne the losses to date; the Credit Suisse–ers may do quite well.

For thirtysomethings and fortysomethings, the worst may still be to come: not just one bad year, but another. “That,” says one Wall Street recruiter, “is when it will hit them.” But for top officers? Maybe not so bad. After all, when a company’s stock has gotten beat down to $2 a share, and the top officers who helped drive it down get a few million shares in stock options, how hard is it to double that money?

A.I.G.’s Ed Liddy, for one, will be eligible for a “special bonus for extraordinary performance” in 2010. What does that mean? No one, including TARP officials, seems to know.

The print version of this article put the total value of 2008 bonuses at $16 billion. This was based on early estimates from the New York Comptroller’s Office, which reached the $18.4 billion figure after the issue had gone to press.

Michael Shnayerson is a *Vanity Fair* contributing editor.