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Central bankers' pay sheds harsh light on bonus culture

Mon Oct 20, 2008 12:17pm EDT

By Marc Jones - Analysis

FRANKFURT (Reuters) - Governments threatening to cap the pay of bank bosses in retribution for the financial crisis might be better off linking their earnings to the more humble salaries of the central bankers now cleaning up the mess.

Multi-million dollar bonuses and lavish perks were the norm for bank executives until the high-risk debt they allowed to proliferate bought the global financial system to its knees.

Governments and central banks around the world have now pledged roughly \$3.2 trillion in bank bailouts, guarantees and money market cash injections to try to keep funds flowing to businesses and consumers.

The use of taxpayer money to clear up the mess left by a decade of bank partying has sparked public and political outrage and Britain, the United States, Germany, France, Switzerland and Australia have all now promised to curb the culture of excessive salaries.

Ben Bernanke may be one of the most influential people on the planet right now as he heads the U.S. Federal Reserve's efforts to contain the crisis. But his \$191,300 a year looks like loose change when compared with the near \$500 million earned by Richard Fuld in his eight years in charge at Lehman.

Fuld picked up \$22 million as a bonus in March alone just as his firm was being dragged under by the credit crisis.

"It is an easy-to-sell but fairly moot point after a crisis has emerged, that bankers made a lot of money but didn't end up making any for their shareholders while central bankers work a lot making relatively little money," said Lars Frisell, one of the co-authors of a recent paper on central banker pay and governance.

Fuld was certainly not the only troubled CEO to make mega money. Merrill Lynch CEO John Thain got a \$15 million cash bonus when he joined the firm last November, while UBS Chairman Marcel Ospel pocketed bonuses worth 130 million Swiss francs during his 10-year tenure.

Australia will push plans to outlaw excessive bank pay at next month's G20 in Brazil and German Finance Minister Peer Steinbrueck has said executives whose banks tap rescue packages should be paid a maximum of 500,000 euros (\$673,800) a year -- no bonuses, no dividends and definitely no pay offs.

By comparison, central bankers such as the Fed's Bernanke, ECB President Jean-Claude Trichet and the Bank of England's Mervyn King, earning between \$100,000 and \$700,000 on average, have been applauded for their efforts to repair the damage.

"It seems offensive to a lot of people these days that bankers are/were paid a lot of money. But if we believe in a free market, banks and their shareholders should of course be free to pay whatever they like," Frisell said.

"The potential problem then is not bankers' pay in itself, but shareholders' incentives when it comes to rewarding them."

A recent paper by the Frankfurt-based Center for Financial Studies (CFS) described some banking bonuses as "perverse" in that they encouraged the delivery of short-term profit regardless of the longer-term risk. It suggested deducting pay for failure as a counter balance.

They must have been given a copy down the road at Deutsche Bank HQ. This week CEO Josef Ackermann, who made most of his 14 million euros last year from bonuses, said the bank's board members would forego their bonuses this year.

And while Ackermann and other bank chiefs may balk at the thought of having their pay capped at Steinbrueck's proposed 500,000 euros, they would still be earning more than ECB chief Trichet and Bernanke put together.

EUROPEAN PAY LEAGUE

There are anomalies, too, in the ECB's pay league.

Bank of Italy's Mario Draghi was the ECB's top earner last year, taking home about 500,000 euros. ECB President Trichet earned 345,252 euros in 2007, only seventh in the ECB leaderboard.

The bank's second highest earner was Guy Quaden who picked up 472,792 euros in his role as head of the Belgian central bank. That's two thirds more than Bernanke -- yet according to United Nations statistics, Belgium's economy is seven times smaller than European powerhouse Germany's, 5-1/2 times smaller than France's and 30 times smaller than the United States'.

By comparison, Bank of England governor Mervyn King earns a mere 275,340 pounds a year or roughly 352,000 euros, while the 35.78 million yen salary of Bank of Japan Governor Masaaki Shirakawa is worth about 265,400 euros.

Academics and analysts admit there is no obvious explanation for the differences. Frisell's recent paper for the Center for Economic Policy Research described the variation in central banker pay as "stunning."

But it seems fairly irrelevant when you calculate that the combined pay of all 21 of the ECB's policy-makers is still millions of euros short of Fuld's last bonus. Even the world's best paid central banker, Hong Kong's Joseph Yam at HK\$10.33 million (\$1.32 million) a year, would have to work for over 16 years to earn what Fuld's bonus paid him.

(Reporting by Marc Jones; Editing by Ruth Pitchford)

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