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US lawmakers vote to tax AIG bonuses

Bill applies to all firms that got major bailouts; tax set at 90%

ALVIN FOO

THE intense public fury over the huge staff bonuses announced by insurer AIG this week has sent White House officials into damage control mode and handed United States lawmakers a golden opportunity to attack Wall Street excesses.

The House of Representatives eagerly seized the chance yesterday, voting 328:93 in favour of a draconian 90 per cent tax on some bonus payouts.

The tax would apply to staff with incomes of more than US\$250,000 (S\$382,275) working for companies that have received at least US\$5 billion in bailout money from US taxpayers.

President Barack Obama, who is feeling the heat from the issue, said: "Today's vote rightly reflects the outrage that so many feel over the lavish bonuses that AIG provided its employees, at the expense of the taxpayers who have kept this failed company afloat."

Similar legislation has been introduced in the Senate, and the two chambers will have to reconcile any differences in the Bills passed before they can go to Mr Obama for signing into law.

Treasury Secretary Timothy Geithner has also become a lightning rod for public protest.

He has been roundly criticised for not doing more to stop the AIG payouts and was forced to concede that he was partly to blame. He said he only learnt "the full scale and scope of these specific bonus problems" on March 10. Some Republicans have called for him to step down.

OUTRAGED TAXPAYERS

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The level of outrage clearly took officials by surprise and seems to have brought to a head the public's simmering anger over the perceived greed of Wall Street.

AIG, which has so far received US\$180 billion in aid, provided the tipping point with its decision to award 463 employees - including those from the financial products unit that brought the insurer to near-collapse - US\$165 million in bonuses. US lawmakers leapt into the fray following widespread public condemnation.

"We want our money back, and we want our money back now for the taxpayers," said House Speaker Nancy Pelosi.

Mr Charles Rangel, the chairman of the House Committee on Ways and Means, said: "These people are getting away with murder. They are getting paid for the destruction they have caused to our communities."

Hundreds of protesters took to the streets across several US cities to condemn the AIG bailout. One protester said: "We are sick and tired of corporate greed and excess."

The outrage is threatening to get out of hand. Some AIG employees have received death threats and have hired private security guards to keep watch over their homes.

On Wednesday, AIG chairman Edward Liddy said he had asked employees getting more than US\$100,000 each in bonuses to repay at least half. Some had already agreed to give back the whole sum, including Mr Douglas Poling, who received the largest payment - more than US\$6.4 million.

The bonus fiasco follows an equally incendiary announcement from AIG a few days earlier when it disclosed that it had paid out US\$93 billion - equivalent to more than half of its bailout money - to various banks.

They were owed money by AIG because they had bought its credit derivatives - a type of insurance designed to protect buyers should their investments turn sour.

The sums included US\$12.9 billion paid to Goldman Sachs, US\$6.8 billion to Merrill Lynch and US\$2.3 billion to Citigroup.

Major foreign banks such as Societe Generale and Deutsche Bank each got nearly US\$12 billion.

Human resource experts in Singapore told The Straits Times that bonus payments - both here and in the US - will become an even more sensitive issue and subject to increased public scrutiny.

This development will probably also mark the end of lavish payouts for the finance industry.

NEAR-CRIMINAL INDULGENCE

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ENDING OBSCENE PAYOUTS

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“Maybe, this is the beginning of the end of big, fat, obscene bonuses,” said Mr Paul Heng, the managing director of NeXT Career Consulting.

“People don’t want to be caught holding a hot potato, so the companies will exercise extreme caution and discipline in making the awards from now on.”

However, he does not think the bonus payment system for other financial companies should change, as AIG is “in a specific space”, having received government aid.

Mr Mark Ellwood, Robert Walters’ managing director for South-east Asia, said those not getting government aid might also decide to change their bonus structures, but more because they want to “focus on reducing costs in the short term” than as a response to government policy.

GMP Group senior manager Josh Goh said the sector will see some “shake-up” in terms of bonus structure, with “considerable downward pressure” given the bleak economic outlook.

He said companies might decide to “stretch out the bonuses over a longer period”.

Financial institutions have been re-examining staff remuneration systems in the wake of the crisis, with banks such as UBS, Morgan Stanley and Credit Suisse rolling out rules that allow a portion of bonuses to be recovered if they are later shown to have been based on flawed bets.

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