



An unseemly kerfuffle

SYL TANG of HipGuide Inc. reported last week that the wives of Wall Street executives have recently stepped up their 'consignment' activities. As husbands are declared bankrupt, and divorce settlements fail to satisfy, well-heeled matrons are being forced to salt away as much they can. Fearing penury the wives of big earners have taken to buying luxury goods on hubby's credit and store cards and promptly taking the frocks, shoes and handbags, complete with their labels and packaging, straight to *Encore* and other second-hand shops on Madison Avenue, where they sell them quick for ready cash. The prospect of having to find a job has driven them into conjugal theft in order to finance their entry into the second-hand clothes business.

In this respect they are little different from the men in their lives. Except, of course, that their slide into fraud and criminality is on a much smaller scale than that of their husbands, fathers and brothers. However, many of these chaps are as honest as the day is long; eschewing even the modest stratagems of their wives, or grand ponzi schemes and other forms of daylight robbery, they have sought to keep both criminality, and the wolf from the door, by ensuring that salaries and bonus payments continue to meet their needs. Selling a slightly used Birkin handbag for \$1,200 or a Chanel jacket (one careful owner) for \$3,000 simply wouldn't do it for the chaps. They need payments of three or

four million to keep themselves, their wives, and their kids in shoe leather and swimming pools.

Of course, they never express it quite as baldly as that. They, like the executives at American International Group, need to be paid big 'retention' bonuses to ensure that they don't leave their companies in the lurch. According to the editor of the *Financial Times* we need to pay these executives oodles and oodles of dollars in order to force them to help us get out of the pickle that they have so expertly pitched their companies and the world economy into. The logic is clear: if you pay literally millions of dollars in 'performance bonuses' to men expert enough to drive their companies into bankruptcy or nationalization you need to pay them millions of dollars in 'retention bonuses' in order keep them on board while they unravel the tangle which they have spent years so skilfully ravelling.

This is, after all, simply the product of market forces. Chief Executives Officers and other senior staff have for some years been engaged in persuading shareholders that vast salaries and vaster annual bonuses are necessary in the struggle to attract entrepreneurial and managerial talent. They argue that global competition for outstanding CEOs and 'the law of supply and demand' dictates the level of executive remuneration packages in much the same way as it does the wages of cleaners, doormen and data entry clerks.

Wages, of course, do rise and fall with fluctuations in the supply of appropriately skilled and trained staff. They may be affected, this way and that, by trade union activity, minimum wage laws, or immigration controls, but basically, supply and demand determines the price of labour. Wage differentials are also, as Marx might have said, determined by the cost of reproduction of particular sorts of concrete labour. Evidently, a cleaner is cheaper to reproduce than a doctor or a computer programmer. Consequently, different types of labour automatically command different levels of wages. Whether this is fair or not is

not at issue, it is the operation of the market, and the value of different types of concrete labour, which determine the range of salaries offered.

Because, almost instinctively, we know this to be true, we cannot see how Premier League footballers, AIG executives, Jonathan Ross or leading bankers could possibly be 'earning' what they get paid in salaries, perks, bonuses, and share options. This is, of course, because they do not 'earn' what they get paid. Indeed, they are not paid wages at all. They are paid a share of the company's profits, which they negotiate with the representatives of the shareholders in advance of the profits actually being made. If the profits fail to materialise the shareholders become outraged because the contracts signed with big players in better days still have to be honoured when everything has gone pear-shaped. In the present crisis the shareholders have mobilised media pundits, public opinion, and government ministers, in order to breach contracts and stop payments. They are even prepared to endorse super taxes on bonuses in the embittered struggle to confiscate payments made to senior staff, which they had optimistically agreed during the boom.

This unseemly kerfuffle has produced much fun, coach tours of executive enclaves designed to reveal the undeserved opulence in which the villains live, death threats made to company big shots, and demands for bankers to be stripped of their ill-gotten gains, as the common words 'bonus', 'salary', 'wage', and 'pension' are applied to the remuneration packages paid to big capitalists and big players across the board. It is rather like comparing the way in which the price of a bag of sugar is determined in Asda with the manner in which payments are made to David Beckham, or a piece by Damian Hurst is priced. The laws of supply and demand and the cost of reproduction of certain types of labour do not operate in relation to luxuries, any more than they do in the payment of CEOs. Senior staffs throughout the world directly manipulate the size of their remuneration packages, diamond handshakes and golden cheerios.

The only competition involved is the competition to outdo each other in the scale of their hubris and their brazen hypocrisy.

The pretence that the size of their incomes are determined by 'market forces' rather than by 'understandings' reached between powerful men in 'closed corporations' and shenanigans more common among oligarchs and gangsters is, as the recession bites ever deeper, wearing thin. The shareholders of big companies have only themselves to blame. They have for years colluded in the idea that executive pay is determined by market forces, just as those same executives have fostered for years the illusion that the value of hedge funds and the value of other exotic financial instruments were determined by 'market forces'. The truth is that all along they've been valuing shares, using means similar to those used to negotiate their own pay: computer models, 'risk assessments' and inducements agreed by an oligarchy of brokers, remuneration committees, and risk managers. *The market and its forces are nowhere to be seen.*

The Senate, the House of Representatives, and the House of Commons, should forget attempting to confiscate 'performance' or 'retention' bonuses. If they want to rein in excess they should stop colluding with shareholders in making an already irate public even angrier. They should instead simply introduce a super tax of 97% on all remuneration packages and personal incomes worth, for example, over a million dollars per annum. They should seek international agreements to enforce something like this in all jurisdictions in order to stop the buggers evading the tax.

The capitalists (shareholders *and* executives) have caused this collapse by stymieing competition and defying the market mechanisms that they have always argued keeps the capitalist system afloat. Now they have come close to sinking it we need to reject the misplaced indignation of shareholders and the populist outrage of lawmakers and simply make the capitalists pay for their own mistakes.