

Bankers' bonuses

As austerity measures impact on the lives of people all around the industrialised world, a simple question is once again being asked: "Should bankers get big bonuses?" This leads to several more complicated questions: what is each employee worth in terms of salary? Should bonuses be a part of your salary, or should they only be given to reward success? Should anyone receive high payouts when many others are suffering hardship? And how does one financially reward the board of director, the CEO and other senior management?

The current row over bankers' bonuses has erupted around one man, Stephen Hester, the chief of RBS - the Royal Bank of Scotland. Everyone remembers how the banks were rescued, how the government stepped in to prevent the banks from failing. Today 82% of RBS is owned by the taxpayers. At the end of 2008, RBS reported the largest annual loss in UK corporate history: over £24 billion. Stephen Hester was brought in to turn around the bank's fortunes.

Hester has, by most accounts, done well. This year he was awarded a 'share-only' bonus, worth nearly £1m. What happened next was a huge public outcry. How can such an award be justified? This month, in an extraordinary move, Stephen Hester said he would waive his right to these shares, due largely to public pressure.

Since then, the chief executive of Network Rail has turned down his bonus of over £340,000. In his case, the company failed to meet some of its performance targets.

The argument on pay is now sharply polarised. One side believes simply that rewards for City executives are too high and need to be reduced, especially in a time of austerity.

The other side say that this view is fundamentally 'anti-business'. Bonuses and pay are essential to ensure the work attracts the most skilled people and so leads to broader prosperity. In other words, success should be rewarded.

So, the controversy about bankers pay and bonuses goes on, raising many issues. Questions to ask your students include:

Was Stephen Hester right to turn down his bonus?

Do bonuses exist for some jobs in their own country? Are they fair? Should bonuses always be linked to success?

Whose salaries (banker, doctor, politician, CEO) are too high?

Here are two interesting links:

Public 'want top pay reined in'
'We expect restraint' on executive pay

<http://www.bbc.co.uk/news/uk-16778264>
<http://www.bbc.co.uk/news/uk-politics-16694862>