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A Salary Cap for Employees of Financial Institutions

2009 turned out to be a good year for financial institutions. The hundreds of billions of taxpayer dollars that the Bush Administration "loaned" to those institutions in the last three months of that Administration, to cover the bad bets that those institutions had made in the previous three years, were used to buy up stock in other, non-subsidized, businesses, the prices of which had plummeted to multi-year lows.

One of the reasons those stock prices had plummeted was the widely-publicized idea that those businesses could not get financing from those banks that were being subsidized by the taxpayers, so that non-financed businesses were in danger of shutting down. One of the effects of the stock-price plummet was that individual stockholders and individual retirement accounts got ruined. The financial institutions therefore had the opportunity to use the taxpayer subsidy to buy stocks in March, 2009, at a small fraction of the price for which those same stocks had sold in 2008.

After scooping up those bargains, the banks began dribbling out some commercial lending, so the publicity would look hopeful and the stock prices go up. Most stock market averages went up about 60% from March to December, 2009. In December, some of the financial institutions announced that they had made so much money gambling with the taxpayer loans, that they were paying those loans back.

The reason some banks paid the taxpayer money back in December, 2009, was not a legal or moral obligation, but the banks' desire to distribute their end-of-year winnings to their gambling employees, in bonus amounts that outraged furloughed American workers. The banks argue that they HAVE to pay huge compensation to their money-gamblers, so that the lucky gamblers do not go to other employers and the original-employer bank then becomes non-competitive.

In 2008, the Bush Administration told us that automobile manufacturers had to become MORE competitive by cutting the compensation of their workers. Why do banks become LESS competitive in 2010 if they don't pay their officers huge bonuses?

President Obama responds to public outrage about bank official mega-bonuses by suggesting some sort of tax on this practice, the specifics of which are as yet undisclosed. The Old Country Lawyer suggests this: Impose a Salary Cap on financial institutions, as a condition of participation in the Federal Deposit Insurance (FDIC) program. Americans are familiar with the term "Salary Cap" even if most of us don't know how it works for major league sports, so it sounds patriotic enough that the Opposition will not be successful in deluding the public into believing it is another communist plot.

Work it like this. Pick a number to be the amount of annual compensation to trigger the Salary Cap, for instance, a million bucks a year, to use a round number. Pick another number to be the percentage penalty for exceeding the Salary Cap, say fifty percent, and maybe graduate that number. For any amount of compensation in excess of a million bucks a year that an insured financial institution pays to any one employee, the employer pays a separate Salary Cap Penalty Tax to the IRS in the amount of fifty percent of that excess over a million. For any amount in excess of two million bucks a year that an insured financial institution pays to any one employee, the employer pays a Salary Cap Penalty Tax in the amount of one hundred percent of that excess.

With this system, the financial institution is unrestricted as to how much it can pay any employee, so the institution can offer however much it takes to hire or keep an employee it wants. But, every dollar the bank offers in excess of a million a year, costs that EMPLOYER a dollar and a half, and every dollar the bank offers in excess of two million a year costs that employer two dollars. The bank can bid as high as it wants for an individual employee, but the taxpayers of the United States begin to benefit at the point that the bidding goes over a million dollars a year.

The employee is still subject to only standard tax rates, so the employee gets to keep the standard share of whatever compensation the employer pays, and the employees of financial institutions are not subject to a discriminatory tax. The Salary Cap applies to ALL financial institutions who participate in FDIC, so any bidding by competing banks for a specific employee is on an equitable basis - they ALL have to pay two dollars for every dollar they offer over two million.

One of the risks of this approach is that the members of Congress from Greater Boston might seek to impose a similar system on Major League Baseball, so as to make it even more expensive for the New York Yankees to continue to try to buy championship teams. But, no legislation is without its risks.

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