

Bloomberg

Geithner Slams Bonuses, Says Banks Would Have Failed (Update2)

By Robert Schmidt - Dec 04, 2009

Dec. 4 (Bloomberg) -- Treasury Secretary [Timothy Geithner](#) criticized the record bonuses set to be paid by big banks this year and refuted claims by [Goldman Sachs Group Inc.](#) that it would have survived without government aid.

Taking aim at what he called “an era of irresponsibly high bonuses,” Geithner said all banks -- even those that have repaid government aid -- need to restrain the amount they pay their leaders and tie compensation to long-term goals.

“We want to see fundamental constraints on how senior executives are paid at these institutions,” Geithner said in an interview today for Bloomberg Television’s “Political Capital With [Al Hunt](#),” that will air today and through the weekend. “It is very important that we change the way these executives are paid, the form of compensation, this year.”

Lavish pay on Wall Street has become a flashpoint in Washington as President [Barack Obama](#) has blamed compensation tied to excessive risk-taking for fueling the financial crisis. Trying to counter some of the anger over the \$700 billion banking bailout, the administration has named a special master to approve compensation packages at firms that have gotten exceptional aid.

In the interview, the Treasury chief also disputed claims made by Goldman Chief Executive Officer [Lloyd Blankfein](#) that his firm would have survived last year’s financial crisis without assistance from the federal government.

‘Classic Run’

“The entire [U.S. financial system](#) and all the major firms in the country, and even small banks across the country, were at that moment at the middle of a classic run, a classic bank run,” Geithner said.

Of the [biggest banks](#), “none of them would have survived a situation in which we had let that fire try to burn itself out,” he added.

Blankfein told Vanity Fair magazine in an article published online this week that he thought the company could have survived the financial turmoil on its own without government help.

Goldman's president, [Gary Cohn](#), was more definitive. "I think we would not have failed," he told the magazine. "We had cash."

Goldman Sachs, the most profitable securities firm, accepted \$10 billion from the U.S. Treasury and used other forms of government support to help it weather the worst financial crisis since the Great Depression. The firm has since returned the funds with interest and reported record earnings for the first nine months of the year.

Often cited on Capitol Hill as a prime example of Wall Street excess, Goldman Sachs has set aside \$16.7 billion for compensation in that nine-month period, enough to pay each worker \$527,192.

Goldman spokesman [Lucas van Praag](#) today said Goldman Sachs wasn't in imminent danger.

"When markets became very difficult we didn't wait for the government to act, we went out and raised money in the private sector," van Praag said. "We didn't know what was going to happen and were very glad as a result of government intervention we didn't have to find out."

To contact the reporter on this story: [Robert Schmidt](#) in Washington at rschmidt5@bloomberg.net.

To contact the editor responsible for this story: Christopher Wellisz at cwellisz@bloomberg.net

©2010 BLOOMBERG L.P. ALL RIGHTS RESERVED.