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MPs say big City bonuses fuelled crisis

MPs have hit out at "gob-smacking" City bonuses which they say helped to create the economic crisis.

At a meeting of the Treasury select committee last week, MPs attacked the "culture of machismo" and risk-based incentives they believe is a major cause of the credit crunch and the resulting economic downturn.

Labour MP Jim Cousins said: "What risk does a trader take personally to warrant gob-smacking bonuses? Everyone risks losing his or her job. The general public does not think the risk of losing your job warrants a bonus three times your salary. They were not even risking their own money. I do not understand this claim that traders were taking a risk and then benefiting personally."

Fox Law Firm founder **Ronnie Fox**, a City lawyer and a supporter of big bonuses, defended the remuneration strategies, saying: "It is unfortunately not a fair world. Some people are not necessarily the people we would choose to be so well remunerated."

Sir John Cass Business School fellow Peter Hahn told MPs that he believed there was a lack of correlation between risk and reward.

He said: "Incentive compensation encouraged risk-taking, which benefited shareholders so the structure was incentives for shareholders to get more returns and that has driven it for years and years.

"A lot of these large rewards did not take into consideration the amount of risk that people took to earn those rewards and that is where we have to focus in the banking system."

Trades Union Congress general secretary Brendan Barber called on the FSA to use its powers to change capital requirements depending on remuneration structure, something that FSA chairman Adair Turner is considering.

He said: "A higher capital requirement is certainly a sanction that should be considered. It is an obvious area to start with."