13,000 jobs to be cut in merger of giant banks

Bank of America-FleetBoston deal highlights criminalization of US corporate elite

Barry Grey
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The acquisition of FleetBoston Financial Corp. by Bank of America provides revealing insights into the workings of the American profit system and its social priorities.

On March 17, the same day that shareholders of both banks met to approve the takeover of Fleet, the nation's seventh largest bank, by the number-three financial institution, the *Wall Street Journal* reported that the merged bank plans to eliminate between 12,000 and 13,000 jobs. The job cuts, which amount to 7 percent of the combined work force of the two banks, are to be imposed through a combination of layoffs and attrition, and are to begin when the merger takes effect next month, according to the *Journal*.

These job reductions are only part of a cost-cutting program that will undoubtedly claim many more positions in the coming months. When Bank of America announced its takeover plan last October, at an estimated cost of $48 billion, it promised investors that the merger would enable it to achieve $250 million in cost reductions in 2004 and another $1.1 billion in 2005.

But while thousands of employees and their families pay the price for this belt-tightening regimen, the top executives at FleetBoston are awarding themselves huge windfalls. According to the company's 10-K annual report filed March 2 with the Securities and Exchange Commission (SEC), the five leading FleetBoston executives received $32 million in bonuses and stock awards last year. These same individuals pocketed an additional $23 billion in stock grants this past February.

The banks' chief executive, Charles K. Gifford, received $11 million in salary, bonuses and stock options in 2003, and another $6.5 million in restricted stock last month. President Eugene M. McQuade and Vice Chairman H. Jay Sarles each took in about $8 million last year, and an additional $3 million in February.

Three of the top five at FleetBoston—McQuade, Sarles and Executive Vice President Brian T. Moynihan—will receive severance payments currently valued at $20 million if and when they leave Bank of America, where all three are currently slated to hold high-level jobs. The severance package for McQuade, who is to become president of the merged bank, is by itself valued at $7.85 million. His base salary is to rise from $700,000 last year to $1.25 million. Gifford's base salary of $992,000 in 2003 is to remain unchanged.

To properly assess the significance of such largesse for a handful of executives, it is necessary to place it within the context of the pervasive economic insecurity that confronts tens of millions of working people in America. There are no golden parachutes for ordinary workers who lose their jobs as a result of corporate mergers, downsizing and the plundering of company assets by millionaire executives. For the most part, they receive no advance warning that their livelihoods are about to be extinguished. There are no negotiations and there is no recourse. Under the economic despotism that prevails in American business, they are subject to the diktat of their bosses. A large majority of laid-off workers do not even qualify for unemployment benefits—the result of regressive changes in eligibility rules legislated over the past quarter century.

According to official government figures, 8.2 million are currently unemployed and another 4.8 million are attempting to survive with part-time jobs, because they cannot find full-time employment. Since the Bush administration took office in January 2001, some 2.3 million US jobs have been eliminated. While corporate profits are up 30 percent since the official end of the 2001 recession and dividends paid by Standard & Poor's top 500 companies have increased 19 percent over the past two years, weekly earnings for the average worker in 2003 rose by just half of one percent over two years, after adjusting for inflation.

Some 760,000 people have exhausted their unemployment benefits, which normally last for only 26 weeks. Last December, Congress allowed a temporary program extending the duration of jobless pay to expire.

Not only are the top executives at Fleet giving themselves massive payouts in advance of the layoffs of thousands of their employees, they are doing so under conditions in which both Fleet and Bank of America are mired in scandals relating to fraudulent trading practices. In recent weeks, Fleet has been scrambling to settle a number of fraud investigations so as to clear the way for its acquisition by Bank of America.

The two banks recently agreed to pay $675 million between them to settle civil fraud charges related to improper mutual fund trading. The agreements were reached in connection with investigations being pursued separately by the US Securities and Exchange Commission and New York Attorney General Eliot Spitzer into widespread abuses in the mutual fund industry.

The mutual fund arms of both Bank of America and FleetBoston are accused of secretly allowing certain big investors to make rapid-fire trades in their mutual funds, in some cases after the legal close of the trading day. This practice, called market-timing, enables crony firms and individuals to profit from short-term discrepancies between valuations on a fund's underlying holdings and the fund's overall fund share price. Market-timers hurt long-term investors—for the most part, small investors—because their speculative profits tend to come at the expense of the overall financial position of the mutual fund.

In his complaint filed last September against Bank of America, Spitzer said the bank provided a New Jersey hedge fund with a "state-of-the-art electronic late-trading platform" that enabled the hedge fund to make illegal late trades in "the hundreds of mutual funds that the bank offers its customers." Spitzer said that the bank also gave the hedge fund permission to rapidly trade in and out of its funds. Bank of America took in millions of dollars in fees servicing the hedge fund, while the hedge fund made tens of millions in profits from the improper and illegal trading.

Fleet's mutual funds are the target of state and federal investigations into similar practices. The SEC and Spitzer filed fraud charges in February alleging secret market-timing arrangements at Fleet's two mutual fund subsidiaries, Columbia Management Advisors and Columbia Funds Distributor. Fleet's mutual fund managers permitted rapid-fire trading involving $2.5 billion over a five-year period. The bank expects to pay at least $25 million to long-term shareholders who were hurt by the market-timing arrangements.

Spitzer said in the suit filed in federal court in Boston: "Columbia managers and executives knew that making arrangements with market timers was harming long-term investors, but they facilitated it because it was a lucrative source of revenues." His statement said Fleet secretly promoted the market-timing arrangements by "favored institutional clients in return for infusions of assets that generated management fees."

Brian T. Moynihan, who oversees Fleet's Columbia mutual funds, received $4.5 million in 2003 in salary, bonuses and stock, plus another $3.2 million in stock in February—the same month that Spitzer and the SEC filed fraud charges. Despite the massive fraud that occurred under his watch, Moynihan has been tapped to head the combined mutual fund operations of the two banks following the merger.

But allegations of fraud and illicit insider trading extend beyond the mutual fund operations of the two banks. On March 10, the SEC censured Bank of America and fined it a record $10 million in relation to a separate case involving SEC allegations against the bank's securities brokerage unit. The SEC charges that the former director of the brokerage traded stocks in advance of the publication of research reports, with market implications, prepared by company analysts.

The fine was for the bank's refusal to turn over documents related to that probe. The bank said some of the documents were missing when they weren't, and deleted certain e-mail exchanges that had been sought by the SEC. Other documents were destroyed one week after the SEC asked the Bank of America unit to produce them.

Finally, Bank of America is under investigation for its role in the collapse, amidst massive accounting fraud, of the Italian dairy giant Parmalat.

For its part, Fleet agreed earlier this month to pay $59.4 million to settle an investigation into trading abuses by its Fleet Specialist market-making arm. The suit charges Fleet brokers with trading their own shares ahead of those of their clients.

Putting the matter diplomatically, David Marder, an attorney at Robins, Kaplan, Miller & Ciresi LLP in Boston and a former SEC enforcement official, commented, "When you have a merger of two companies, both of which are accused of serious misconduct, you need to wonder what kind of ethics the resulting entity is going to have."

But neither the multiple fraud investigations, nor the obscene payments to Fleet's top executives, nor the massive destruction of jobs has created a serious obstacle to the merger of the two financial giants. It was approved by both the Justice Department and the Federal Trade Commission, and on March 8, a week after Fleet's 10-K filing revealing the multimillion-dollar windfalls for the company's top executives, the Federal Reserve Board, in a 6-0 vote, including that of Chairman Alan Greenspan, gave its approval, clearing the way for the legal consummation of the deal on April 2.

The sordid facts surrounding this mega-merger demonstrate that, notwithstanding the highly publicized conviction of Martha Stewart and the prosecution of a handful of executives involved in more serious abuses (Enron, Tyco, WorldCom), the socially destructive and rapacious practices of the US corporate elite continue apace. The Bank of America-FleetBoston deal highlights the fact that corruption, fraud and parasitism are pervasive features of American capitalism.