As losses mount, US banks cut thousands of jobs

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Banking and other financial firms in the US continue to report enormous financial losses, inevitably accompanied by mass layoffs. While present and former executives of these companies are well insulated from the disaster over which they have presided, tens of thousands of their employees are not so fortunate.

A number of major US banks reported first-quarter earnings this week, and more will do so next week.

On April 17, investment bank and the world's largest brokerage Merrill Lynch announced a loss of $1.96 billion in the first three months of 2008, a turnaround of more than $4 billion from the same period a year ago (when it made a profit of $2.11 billion).

Merrill Lynch announced it was eliminating another 2,900 jobs, bringing the total of its proposed job losses for 2008 to 4,000.

The following day, banking giant Citigroup reported a $5.1 billion loss in the first quarter, a change in fortune of $10 billion from the first three months of 2007 (when its profits amounted to $5 billion). *Forbes.com* remarked that the earnings "were even more dreadful than the miserable results investors had expected."

Citigroup has said it will lay off some 9,000 employees in the next 12 months. This comes on top of 4,000 cuts announced in January.

This is unlikely to be the end of the firm's layoffs. Vikram Pandit, Citi's chief executive, indicated Thursday that the bank would be seeking to slash costs by as much as 20 percent. The comment, noted the *Financial Times*, had the effect of "deepening fears that Wall Street and the City of London are about to be hit by tens of thousands of additional job losses."

The business paper suggested that analysts are anticipating the elimination of some 25,000 jobs "in the next few months" at Citigroup.

The bank is not out of the woods yet. Moody's Investors Service warned that because of "Citigroup's complexity, its significant exposure to the global capital markets, and current illiquidity and volatility of some of those markets, additional marks in its investment bank cannot be ruled out."

JPMorgan Chase announced April 16 that its earnings had been cut in half in 2008's first quarter due to problems with mortgages and other bad loans. JPMorgan's recent purchase of bankrupt Bear Stearns will undoubtedly lead to slashing the latter's workforce of 14,000. The *Wall Street Journal* reported April 12 that the "emergency takeover" is expected to cost at least half of the jobs at Bear Stearns.

Other large US banking firms, such as Washington Mutual (a $1.14 billion loss and 3,000 layoffs), Wachovia (a $393 million loss and hundreds of layoffs) and Wells Fargo (a decline of 11 percent in profits), have also reported grim first quarter earnings. Bank of America is not expected to have anything good to report next week.

There is no end in sight to the financial and employment bloodletting. Financial firms globally have taken some $200 billion in write-downs (reductions in the book value of assets because they are overvalued compared to their market value) since the middle of 2007. Citigroup alone has now taken write-downs totaling nearly $39 billion since the crisis began; JPMorgan has taken about $10 billion.

After the announcement of Merrill Lynch's most recent earnings, John Thain, its new chairman and chief executive, called the first three months of 2008 "as difficult a quarter as I've seen in my 30 years on Wall Street." Merrill Lynch executives indicated that March was "a significantly more difficult month" than January or February.

In an interview with the *New York Times* April 17, Thain sounded "a more negative note than some of his Wall Street colleagues, saying he did not think the downturn was near its bottom."

Thain told the *Times* that thus far "the slowdown has been finance-driven. ... What we haven't seen yet is the impact on the consumer of falling house prices, rising energy prices, higher food prices and higher unemployment."

Floyd Norris, the *Times'* chief financial correspondent, writes April 18 that "Since the big banks first realized last fall that their capital situations were perilous, more than $100 billion has been poured into them. Without all that cash, the system would be in horrid shape, and there would be a lot more blood on the Street."

Norris takes note that bank chief executives "now profess to see light at the end of the tunnel, and they may be right. ... The trouble with such assurances is that the bosses of Wall Street have been repeatedly blindsided by newly discovered risks that their firms—and others—had taken."

Norris ends on a pessimistic note: "With credit hard to come by, the real economy may be in for rough times, creating more loan losses. Wall Street may not need to beg for any more capital, but it is a good bet that its layoffs are only starting. There is not much need for the people who put together securitizations when there is virtually no market for such deals."

The estimates on potential job losses in the banking and wider

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financial arena vary, but they are all substantial.

On April 1 financial research firm Celent LLC issued a report suggesting that some 200,000 of the US commercial banking industry's 2 million jobs could be lost over the next 12 to 18 months. That would be an unprecedented number. But Octavio Marenzi, the head of New York-based Celent's financial consultancy unit, argued that the economic situation was without precedent.

"The banking industry over the past 40 years has never seen a downturn in its revenue growth," Marenzi told the *Associated Press*. "In 2008, it looks like it will decrease for the first time in living memory. They're going to have to respond with severe cost cutting. It's not an environment they're entirely used to."

In addition, global securities firms have announced 20,000 job cuts, 6,000 of them in New York.

Financial companies in total have slashed at least 70,000 positions in the US and Europe. Data provider Experian estimates the final number by the end of 2008 could be 240,000.

A recent headline in *BusinessWeek* asked, "How Deep Will Wall Street Cut?" It reported that Wall Street has announced plans to slash 34,000 positions over the past nine months, but noted that the number of layoffs might not be as great as in recent recessions due to the fact that "after the dot-com debacle," only 74 percent of the jobs that had been lost were filled.

Precisely because "There is not a lot of fat to cut," as one economist puts it, the upcoming job slashing will be more damaging. "What's worrisome," writes *BusinessWeek*, "is that companies may have to cut into the meat of their operations." Many positions have been eliminated permanently with improvements in technology, "helping to keep a lid on costs and head counts in recent years. Since those ranks remain relatively thin, firms now may have to whack analysts, traders, and dealmakers. That's not good for the island of Manhattan, where many of these high-paid employees work; banks and brokerages account for 35 percent of the city's wages."

While workers in the industry suffer the consequences of the economic slump, their employers face no such prospect. Apparently whether their firms prosper or not, or even go under, banking executives have organized things so they will be paid fabulous amounts.

Citigroup's Charles Prince and Merrill Lynch's Stanley O'Neal, who stood at the helm of their companies as they lost billions on risky investments in mortgage-backed securities, made off with $68 million and $161 million, respectively, when they resigned or were forced out. Former Bear Stearns chairman James Cayne dumped his entire stake in the failed bank for a mere $61 million in late March, a fraction of what his stake in the company had once been worth. We needn't worry too much about Mr. Cayne. He made $38.31 million in 2006 in total compensation and $155.26 million over five years. There are no indications that he plans to give any of it back.

BusinessWeek last November took note of some of the fantastic "exit packages" that CEOs have organized for themselves. Richard Fuld Jr., for example, CEO of Lehman Brothers, "has nothing to worry about—his exit package is valued at $299 million, putting him close to the record for any such package." Bank of America's chairman and CEO, Kenneth D. Lewis, stands to walk away with $120 million, down from an estimated value of $136 million at the end of 2006.

While much of the country is suffering from some combination of job losses, gas and food prices, disappearing benefits and pensions, soaring medical costs and declining house prices, the super-rich are doing quite nicely. The BBC headlined a recent piece "Manhattan property defies gravity," and pointed out that property prices in New York's wealthiest borough had soared 41 percent over the course of the past year.

On average a Manhattan home costs $1.6 million, an increase from $1.1 million a year ago. Prices in primarily working class Queens and Staten Island dropped by 5 percent and in the Bronx by 1 percent. In Brooklyn, which has seen its share of 'gentrification' and housing speculation, prices rose by 3 percent.

The Real Estate Board's Steven Spinola commented, "Manhattan's luxury market for high-end properties continues to remain untouched by the slowing economy." In fact, Spinola suggested that several luxury developments had just become available to meet the "pent-up demand."

For the working population, the situation continues to deteriorate rapidly. Mass layoffs have been announced in recent days, in addition to those at Merrill Lynch and Citigroup, at AT&T (5,000 jobs), Volvo Trucks (1,100), Asahi Glass (900 in the US and Canada), Harley-Davison (730), Lehman Brothers (600), Siemens Energy and Automation (477), AMD (420), Valley Health System (396), *Newark Morning Ledger* (367), Skybus Airlines (365), Greenville Hospital in Jersey City, New Jersey (356), Aramark Sports and Entertainments (303), Baja Marine Corp (283), Dutch Housing (250) and Summit Production Systems (200), among other firms.

Meanwhile, paychecks of those who have a job are getting smaller as hours and overtime decline. The *New York Times* reported April 18 that "the reduction of wages and working hours ... has become a primary cause of distress, pushing many more Americans into a downward spiral."

From March 2007 to March this year, the average workweek fell slightly from 33.9 hours to 33.8, with the slippage greater in manufacturing. Nearly 5 million workers were working part-time at the end of March "because their companies had cut hours in the face of slack business." That number had jumped 400,000 since November.

Average income declined in March, after accounting for rising prices, the sixth consecutive month "that pay failed to keep pace with inflation." While the increase in average hourly earnings from February to September 2007 barely kept pace with inflation, that is no longer the case. From November through March 2008, as employers began to reduce their operations, "wage growth fell below the pace of inflation, meaning that paychecks were effectively shrinking."

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