

Citigroup downsizes as US and global bank crisis deepens

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15 January 2009

Citigroup announced Tuesday that it will spin off its Smith Barney retail brokerage arm in a joint venture with Morgan Stanley, a move that reportedly is only the first step in a drastic plan to shed a series of businesses and shrink the bank's balance sheet by one-third from its current size of about \$2 trillion.

The *Wall Street Journal* reported Wednesday that the bank, the world's largest by revenues as of 2008, will announce steps to rid itself of two consumer-finance units and its private-label credit card business and scale back its trading operations when it reports its fourth quarter 2008 results next week. It is expected that the giant bank, which employs more than 300,000 people in 100 countries, will report an operating loss of at least \$10 billion, its fifth straight quarterly loss.

Since October, the bank has received \$45 billion in cash infusions from the US Treasury, making the US government its largest shareholder. In November, the Treasury and the Federal Reserve mounted a massive rescue operation, allocating more than \$300 billion in cash, loans and guarantees to prevent the bank from failing.

None of this has halted a precipitous slide in Citigroup stock, which fell another 21 percent last week and tumbled a further 23 percent on Wednesday. The collapse of the bank's stock is one of the sharpest expressions of a crisis of solvency that is affecting many major banks in the US and around the world. Citigroup was one of the most aggressive speculators in subprime mortgages, encouraged to dive into that high-risk, high-profit market by Robert Rubin, who became a board member and senior counselor after serving as treasury secretary in the Clinton administration. Rubin resigned his post under fire last Friday.

With its move to shed many of its businesses, a

desperate attempt to stem its losses and stave off bankruptcy, Citigroup is removing large pieces of the company formed in a 1998 merger of Citicorp and Travelers Group, designed to create a "one-stop supermarket" financial behemoth embracing commercial banking, investment banking, stock trading and other financial businesses. That merger produced a highly profitable entity in a period of government deregulation and cheap credit that fueled an enormous growth of debt and huge compensation packages for Wall Street executives. The inevitable implosion of the housing and credit bubbles has cut the ground from beneath the bank and sent it, and others, into the current tailspin.

The spread of the crisis from the financial sector to the broader economy, producing the deepest global recession since the 1930s, is feeding back on the banks, undermining their holdings and investments beyond housing to credit card debt, auto loans, commercial real estate and other assets as unemployment surges and consumers and businesses are unable to make their payments. This, in turn, is compounding an already sharp contraction in credit and further eroding confidence in the solvency of major financial institutions.

Citigroup's announcement places in sharper relief the rush by the incoming Obama administration and outgoing Bush administration to secure congressional approval for the release of the second \$350 billion installment of the \$700 billion Troubled Asset Relief Program (TARP) passed by Congress last October. Federal Reserve Chairman Ben Bernanke delivered a speech in London on Monday, the same day that Obama and Bush formally requested the second \$350 billion in bailout funds for the banks, in which he insisted that these and perhaps much greater sums of

taxpayer money would be needed to prop up the banks.

The *New York Times* web edition reported Wednesday that the Treasury Department is preparing to provide Bank of America with billions of dollars in additional aid. The bank received \$25 billion in TARP funds last year, but, according to the *Times*, is facing mounting losses at Merrill Lynch, which it acquired in a government subsidized deal last September engineered to avert the collapse of the investment bank.

It is widely reported in the financial press that US banks will report their first-ever collective quarterly loss when they issue their earnings results in the coming days. It is expected that JPMorgan Chase, up to now considered among the stronger major banks, will report a loss.

The global scope of the banking crisis was underscored Tuesday when Deutsche Bank, Germany's biggest bank, reported a loss of about €4.8 billion (\$6.3 billion) in the fourth quarter and British bank Barclays announced plans to lay off 2,100 employees worldwide.

The latest signs of financial crisis coincide with new indications that the recession is worsening at a rapid rate. US stock exchanges fell sharply Wednesday in response, beyond the dire news on the banking sector, to a record drop in retail sales in December. The Commerce Department reported that sales at retailers dropped 2.7 percent, more than twice as much as forecast. The December slump marked the sixth straight months of declines, the longest since records began in 1992.

The Dow Jones Industrial Average fell 248 points, or 3 percent; the Nasdaq Composite Index dropped 57 points, or 3.7 percent; and the Standard & Poor's 500 Index fell 29 points, or 3.4 percent.

Announcements of new layoffs are coming on a daily basis. Motorola announced Wednesday that it will slash another 4,000 jobs as a result of a sharp fall in its cell phone business. Gannett, the biggest US newspaper publisher, said it will force thousands of its workers to take week-long unpaid furloughs. The Canadian telecom giant Nortel filed for Chapter 11 bankruptcy protection, as did Gottschalks, a department store chain with 58 stores in six Western US states.

Other firms announcing layoffs over the past several days include the bookseller Barnes & Noble, the pharmaceutical giant Pfizer, engine maker Cummins, printer maker Lexmark and the Dutch financial services

group ING, which is cutting 750 jobs in the US.

The US Labor Department's Bureau of Labor Statistics reported Tuesday that the US in November had 3.8 job seekers for every job vacancy, more than twice the 1.8 job seekers per job vacancy in November 2007. This is the highest figure since the recession of 1981-82.



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