Collapse of New York law firm reflects wider crisis

Peter Daniels
15 May 2012

The deathwatch that has been playing out over the century-old New York law firm Dewey & LeBoeuf appears to be drawing to a close. The firm, itself the product of a high-profile merger of two law firms in 2007, until recently had 1,300 lawyers in 26 offices around the world. In recent months, 200 of its 300 partners have left

Last week, 450 secretarial and administrative staff in New York were reportedly given layoff notices, and one employee filed suit in federal court on May 10 claiming workers should have been given 60 days' written notice under the federal Worker Adjustment and Retraining Notification Act (WARN) and 90 days under New York State labor law.

Until recently, Dewey spokesmen claimed that the firm would survive. Two weeks ago, Jeffrey Kessler, the head of its litigation department, was hailed as a savior of the firm. Then Kessler himself left last week for the Chicago-based firm of Winston & Strawn. A few days earlier, Morton Pierce, the former vice-chairman of the firm, had also decamped.

Steven H. Davis, the former chairman of Dewey, who had played a major role in the 2007 merger between his firm of LeBoeuf, Lamb and the equally prominent and older firm of Dewey Ballantine, has been assigned most of the blame for the current disaster. Davis, who was fired two weeks ago, is under investigation by the New York District Attorney's office for possible financial misconduct.

Dewey is the largest and most prominent law firm to fail in recent years, and its rapid disintegration may be a sign of more to come. If Davis is guilty of financial improprieties, he had plenty of company.

The law firm that would later become Dewey, Ballantine, Bushby Palmer & Wood was founded in 1909. By the 1920s and 30s it had become a prominent Wall Street fixture, whose leading lawyers shuttled between careers in government and private practice. The firm became most prominent after 1955, when the former governor of New York State, Thomas E. Dewey, joined its ranks. Dewey had been the Republican candidate for president in 1944 and 1948, and achieved immortality of a sort when his supposedly certain victory against Harry Truman in 1948 evaporated as the votes were counted.

LeBoeuf, Lamb, Greene & MacRae, founded in 1929, had almost as lengthy a pedigree as Dewey. Both of these firms, however, had their origins in a very different era, and the unraveling of their merger is bound up with the financialization of the U.S. economy as a whole, the complete domination of the financial markets and of speculation over all aspects of economic life.

The parasitic excesses of the boom of the last decade of the 20th century and the first decade of the 21st continued even after its collapse. The merger of Dewey and LeBoeuf was based largely on multiyear, multimillion-dollar contracts for its biggest partners; and lawyers were poached from other firms, along with their clients, on this basis.

The old conception of a legal partnership, in which all of the partners shared fairly equally in compensation, has been steadily going out of fashion in the age of financialization. Nowhere was this more extreme than at Dewey, where some of the partners who brought in business were promised as much as $6 million annually for six-year contracts, while many others received "only" $300,000.

Kessler summed up the thinking behind this policy when he told the *New York Times* in a recent interview that it was analogous, as the newspaper explained, "to the sports world, where the salary spread has widened between the star players and others on the team." He compared his exalted status at Dewey to that of Alex Rodriguez of the New York Yankees, explaining that the salary difference between Mickey Mantle and his fellow players in the 1950s was far less than the current disparity.

Former vice-chairman Pierce, who just left Dewey for the firm of White & Case, has reportedly informed his former firm that he is owed $61 million. This princely sum apparently consists of promised pay for future years, plus retirement funds and other compensation.

This is madness of a sort, but it is a social and economic madness, not personal psychology. The high-flying attorneys, mixing socially with their hedge fund clients and similar specimens, insisted on being rewarded on a comparable scale. This demonstrates the logic of the capitalist crisis itself.

The giant firms have been engaged for the last decade and more in a cutthroat competition for clients, stealing lawyers from other firms. The only assets of these parasites are their carefully cultivated clients whom they bring along with them, for mergers and acquisitions and other lucrative deals in which the law firms share.

When Wall Street came crashing down, the bets embodied in the multimillion, multiyear contracts went sour. The trillion dollar bank bailouts legislated in Washington may have saved the biggest financial institutions, but they only staved off the ongoing reckoning with insupportable debt that is playing out in Europe and in the US as well. The ongoing economic crisis and stagnation finds expression on Wall Street in the drying up of mergers and acquisitions deals and similar financial manipulation.

Dewey & LeBoeuf is far from the only firm that has lost customers and that has seen its revenues sink. It apparently was one of the most, if not the most, exposed, however, because of its gambles that were financed by bank debt and also a private bond offering of $125 million only two years ago. Unable to meet its obligations, it began delaying payments of millions of dollars to partners who had been brought on board with the promises of those millions. The partner defections began in earnest soon after they were asked to take massive cuts in compensation.

Of course, while the big partners expect to lose large amounts of money, they will not be suffering financial hardship. For the so-called "service partners," especially those who are unable to find similar positions elsewhere, things will be different. And matters will be even more serious for the staff. Some, in the mailroom, in the secretarial pool and elsewhere, face the possibility of long-term or permanent unemployment. They face mortgage payments, college tuition, and health care costs (insurance coverage will be ending within the month), with little or no demand for their skills in the shrinking market for legal services and the crisis confronting similar firms.

The decline and fall of Dewey & LeBoeuf is both a symptom of the larger disease and also a clear illustration of the brutal meaning of the growing social polarization. Large numbers of workers, of varying backgrounds, education and skills, have been granted a few crumbs from the table of the global capitalist boom in recent decades. These are rapidly disappearing, and the real class relationships are emerging in their full clarity. At Dewey, the staff has gone through recent weeks and months with no information on their future, beyond meaningless reassurances. Now they are being thrown out into the street with no severance or any benefits, even for those who have worked at the firm for decades.