



The big brains in banking just aren't feeling the love.

By DAVID GILLEN - Published: February 21, 2009

Up and down Wall Street, financial types are grumbling that their industry's highest highfliers are getting their pay capped.

Many Wall Streeters say this would be disastrous. The sharpest financial minds will up and quit, the argument goes, and take their smarts with them at the very moment they're needed to re-engineer their companies and restart the economy.

But is this brain drain real, or merely a bit of self-justification? And would it really matter much anyway? There are good reasons for paying any chief executive officer well. The decisions made by C.E.O.'s are so crucial to their companies that the priority should be to hire competent people rather than penny-pinch on pay.

But it's hard to argue that Wall Street executives were on their game. After all, a lot of smart people in this business did a lot of stupid things. Traders took foolish risks with tricky mortgage investments, and, for their folly, collected seven-figure bonuses. Their bosses, hoping for big paydays themselves, turned a blind eye to the dangers. And the bosses' bosses, the folks who actually run these companies, never quite wrapped their heads around all this. As long as the profits rolled in, everyone made money. Until, of course, they didn't.

John H. Gutfreund, who ran Solomon Brothers during the 1980s, says many Wall Street executives are just whining. They got used to the monster-pay they pocketed when times were good, and don't want to give it up now. But during the boom and bubble, the financial industry grew much faster than the economy as a whole. Now the bankers, like the rest of us, may simply have to lower their sights a bit. "People got spoiled," Mr. Gutfreund says. As for that brain drain: Not likely, he says. "There's always someone else coming up the ladder."

Still, the stimulus bill signed into law last week clamps down on outsize pay at companies that have received large amounts of taxpayer dollars. While lawyers and compensation consultants are already hunting for loopholes, the days of jaw-dropping pay for the top brass seem to be over for now. Junior executives have their own worry: that limiting compensation at senior levels will depress pay throughout the ranks.

That's hard to swallow in an industry where "a buck" is code for \$1 million, and where top producers can pull down 20 or 30 "bucks" a year, or even more. Unless you've worked on Wall Street, it's hard to grasp the psychic space that pay — both your number, and how it stacks up against your colleagues' — occupies there. Money is the ultimate measure.

But times have changed. Worldwide, banks have hemorrhaged more than \$1 trillion since this crisis first flared in mid-2007, and some experts say their total losses could be three times that before this is over. Tens of thousands of bankers and traders have lost their jobs.

So the résumés are flying. One Wall Street headhunter, Gustavo Dolfino, says that back during the bull market, 30 or so bankers and traders would ping him weekly, looking for jobs. Now he hears from 300.

So if a few masters of the universe threaten to leave, where are they going to go? People are angling for new jobs at hedge funds, corporate buyout shops, boutique banks and startups. Others are decamping to London or Singapore. Everyone says the same thing: Wall Street as we know it is finished.

Banking executives and recruiters say talented financiers — the driven, hyper-numerate, slightly ruthless ones with a preternatural knack for making money in bull markets and bear — are always in high demand. But given the tumult in the industry, it's a buyer's market right now.

At once-proud [Merrill Lynch](#), which collapsed into the arms of [Bank of America](#), years of profits have been vaporized. [Goldman Sachs](#) and [Morgan Stanley](#), long the envy of the industry, face uncertain futures now that they have become old-fashioned banks just to survive. Judging by the stock market, investors seem to think big banks like Bank of America and [Citigroup](#) could end up being [nationalized](#) (the banks say that won't happen).

For years, managing a hedge fund, and making a fortune for yourself in the process, was the running dream on Wall Street. But now that industry, like much of finance, is withering. Many hedge fund investors are folding. Since last May, these funds' assets under management have dwindled to \$964 billion from \$1.4 trillion. The private equity business, one of the iconic businesses of the boom, is struggling with a deep slump of its own. Not that any of this will keep bankers and traders from jumping ship if they can. Wall Street has always had its share of mercenaries, hired guns for sale to the highest bidder. Few of them expect to spend their careers at one bank. In this business, 12 or 18 months can seem like an eternity. Loyalty? Please.

All of this is actually good news for financiers like [Roger C. Altman](#), who served as a [Treasury](#) undersecretary in the Clinton Administration and now runs [Evercore Partners](#), a small, independent investment bank. Capping pay at big banks will enable firms like his to cherry pick some talent, he says.

Even so, Mr. Altman says he thinks pay limits are a bad idea, even if his company stands to benefit. The move could have some perverse effects, like raising cash salaries to get around bonus restrictions, or encouraging banks to use creative legal techniques to move certain businesses offshore. Some banks might rush to give taxpayer money back to get out from under the government's thumb, whether or not they, or their industry, are ready. And Mr. Altman worries the brain drain is real, and that it will leave weak banks even weaker.

Then again, a lot of this high-priced talent got us into trouble in the first place. If some Wall Streeters move on, perhaps other, more innovative professionals will take their place and build something a bit more durable.

"You might get down to the core group that actually likes finance, and lose people who are coming just for the money," says David S. Resnick, co-head of investment banking at Rothschild in the United States. If he's right, that's sounds like the kind of brain drain we could live with.