

United States Senate

WASHINGTON, DC 20510 - 3505

May 7, 2018

James P. Gorman
Chief Executive Officer
Morgan Stanley
1585 Broadway
New York, New York 10036

Dear Mr. Gorman:

I write to express my concerns about the outsourcing of U.S. jobs by the bank you manage. Though banks are among the biggest winners from the recent partisan tax bill and ongoing unraveling of financial protections, firms like yours continue to view workers as just another cost to be cut to further juice profits. Meanwhile, executives and shareholders are enjoying record compensation packages and stock buybacks. I, therefore, write to request that your bank produce a public plan to invest a far greater share of your company's resources in good-paying American jobs.

As noted in a recent report by the Communications Workers of America and the Committee for Better Banks,¹ banks have continued to slash jobs in America and also move and keep jobs overseas. Although changes to bank employee levels have not been uniform, overall, the nation's largest banks have cut at least 8,000 jobs over the second half of 2017, including many in the call center and customer service industry.² In many cases, these layoffs of American workers come as banks are outsourcing work to overseas facilities.

Morgan Stanley has added employees globally between 2013 and 2017³, but your bank announced a shift in operations from the U.S. to India and Hungary in an effort to cut \$1 billion worth of costs by 2017.⁴ Your bank's facilities in India alone can accommodate nearly 4,000 workers. In making the announcement to outsource jobs, you were quoted as saying "we have too many employees based in high-cost centers doing work that can sensibly be done in lower cost centers."⁵

¹ Communications Workers of America and Committee for Better Banks. "Tax Bill's Big Bank Beneficiaries Offshoring American Call Center Jobs." March 2018. Available at: <https://www.cwa-union.org/sites/default/files/20180306-cwa-cbb-bank-offshoring-report.pdf>

² Scheer, David. "Big U.S. Banks Slashed 8,000 More Jobs Before Tax-Cut Windfall." *Bloomberg*, January 18, 2018. Available at: <https://www.bloomberg.com/news/articles/2018-01-18/big-u-s-banks-slashed-8-000-more-jobs-before-tax-cut-windfall>

³ Data reported on form FR 9-Y C and filed with the Federal Reserve.

⁴ Oran, Olivia. "Morgan Stanley Looks to Move Jobs to Cheaper Cities in Bid to Cut Costs." *Reuters*, January 19, 2016. Available at: <https://www.reuters.com/article/morgan-stanley-outsourcing/morgan-stanley-looks-to-move-jobs-to-cheaper-cities-in-bid-to-cut-costs-idUSKCN0UX2RN>

⁵ Id

This offshoring announcement comes at a time when banks are making record profits⁶ and have just received a huge gift in the form of the partisan tax bill signed into law in December 2017.⁷ In fact, banks as a sector are among the biggest winners from the tax bill.⁸ Recent analysis examining the impact of the bill found that the six biggest banks, including yours, will save nearly \$14 billion in 2018 alone.⁹ According to Goldman Sachs Investment Research, the partisan tax bill will reduce Morgan Stanley's effective tax rate by seven percentage points and increase the bank's net income by \$833 million and earnings per share by 11 percent in 2018 alone.¹⁰

Instead of investing in your U.S. workforce, your bank seems to be using this golden age of profitability to further boost its stock price. In mid-2017, you announced planned buybacks of up to \$5 billion through mid-2018.¹¹ Last year, you paid out almost 90% of your earnings to shareholders.¹²

These payouts do little to help workers – either yours or others throughout the economy. Even when accounting for indirect ownership of stocks via 401(k) retirement plans or similar investment vehicles, only around half of American households own any shares of public companies.¹³ For those who do own shares, ownership is highly concentrated among the wealthiest households. The richest 10 percent of households in the U.S. controlled 84 percent of all stocks.¹⁴ One analysis estimates that only 6 percent of the corporate tax cut will go to workers, while 57 percent will go to shareholders.¹⁵

⁶ Egan, Matt. "Despite Record Profits, Banks Are Playing the Victim." *CNNMoney*, March 15, 2018. Available at: <http://money.cnn.com/2018/03/15/investing/bank-profits-senate-banking-bill/index.html>

⁷ See Tankersley, Jim. "Banks Are Big Winners from Tax Cut." *New York Times*, January 16, 2018. Available at: <https://www.nytimes.com/2018/01/16/us/politics/banks-are-big-winners-from-tax-cut.html>; and "Banks, Healthcare Service Firms Among Winners From U.S. Tax Bill." *Fox Business*, December 19, 2017. Available at: <https://www.foxbusiness.com/markets/banks-healthcare-service-firms-among-winners-from-u-s-tax-bill>

⁸ Id

⁹ Ramsden, Richard, James Yaro and Sal Saroni. "Corporate Tax Reform Impact on Large Banks Expected to be Positive." *Goldman Sachs Equity Research Report*, December 18, 2017. Goldman Sachs did not include itself in this analysis, but estimates indicate a savings of approximately \$1.06 billion next year based on 2016 revenue. See Baird, Addy. "How the White House and Wells Fargo Are Trying to Manipulate You, In One Chart." *ThinkProgress*, December 21, 2017. Available at: <https://thinkprogress.org/goldman-report-tax-plan-759ec84f8eee/>. This includes the impact of certain one-time charges accrued due to the tax bill, and also includes changes to the deductibility of Federal Deposit Insurance Corporation payments.

¹⁰ Ramsden, Richard, James Yaro and Sal Saroni. "Corporate Tax Reform Impact on Large Banks Expected to be Positive." *Goldman Sachs Equity Research Report*, December 18, 2017.

¹¹ "Morgan Stanley Announces Share Repurchase of up to \$5 Billion of Common Stock and the Increase of Its Quarterly Dividend to \$0.25 Per Share," June 28, 2017. Available at: <https://www.morganstanley.com/press-releases/morgan-stanley-announces-share-repurchase-of-up-to-5-billion-of>

¹² Estimates based on Morgan Stanley quarterly earnings releases.

¹³ Board of Governors of the Federal Reserve System. "Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances." *Federal Reserve vol. 103, no. 3*, September 2017. Available at: <https://www.federalreserve.gov/publications/files/scf17.pdf>

¹⁴ Wolff, Edward N. "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?" *National Bureau of Economic Research Working Paper 24085*, November 2017. Available at: <http://www.nber.org/papers/w24085.pdf>

¹⁵ JUST Capital, "The JUST Capital Rankings on Corporate Tax Reform." February 28, 2018. Available at: <https://justcapital.com/news/tax-reform-rankings/>

In addition to benefiting shareholders, using last year's compensation packages as an indicator, the proceeds from the tax cut will overwhelmingly go to big bank executives. The average banker bonus in New York City in 2017 soared to its highest levels since the financial crisis.¹⁶ You personally received a generous compensation boost in 2017, totaling 20 percent,¹⁷ and your recently released CEO to worker pay ratio was 192 to 1. Although you recently announced \$1,000 bonuses to employees who earn less than \$150,000,¹⁸ it is unclear whether you plan to provide for sustained pay increases. A one-time \$1,000 bonus, even if given to every Morgan Stanley full-time employee, would only amount to about \$58 million¹⁹ – a drop in the bucket compared to the bank's \$5 billion in stock buybacks.

Furthermore, your bank stands to gain an additional short-term boost from a rolling back of protections established after the financial crisis. The Administration is, at your bank's urging, in the midst of a widespread undoing of financial rules, which will boost your short-term profits substantially. According to recent Congressional Research Service analysis, your bank could benefit from a \$2.5 billion windfall that lets it operate on more borrowed money.²⁰ As noted in a research report from your own bank, "the financial industry [will] be the biggest beneficiary of Republican deregulation attempts."²¹ However, this will inevitably come at the long-term expense of workers, consumers and investors when the next crisis hits.

As the above-referenced report documents, when times are good, American workers don't fully share in the benefits of your companies' profitability. And when times are bad, it's even worse. Eventually, the unraveling of financial protections for which banks advocate will contribute to another downturn in the economy, and your workers will be the first to suffer the consequences with layoffs and cuts to their pay, healthcare and retirement benefits.

In light of this imbalance and unfairness, I ask that you provide the public with detailed plans on how your company will reinvest in American workers and their communities.

Sincerely,



Sherrod Brown
United States Senator

¹⁶ Demos, Telis. "Wall Street Bankers Get Biggest Raise in Four Years." *Wall Street Journal*, March 26, 2018. Available at: <https://www.wsj.com/articles/wall-street-bankers-get-biggest-raise-in-four-years-1522089178>

¹⁷ Melin, Anders and Hugh Son. "Morgan Stanley Lifts CEO's Pay 20% to \$27 Million for 2017." *Bloomberg*, January 19, 2018. Available at: <https://www.bloomberg.com/news/articles/2018-01-19/morgan-stanley-lifts-gorman-s-pay-20-to-27-million-for-2017>

¹⁸ Horowitz, Jed, "Morgan Stanley to Give \$1,000 Bonus to Lower-Tier Employees," *AdvisorHub*, January 12, 2018. Available at: <https://advisorhub.com/morgan-stanley-give-1000-bonus-bottom-tier-employees>

¹⁹ Estimate based on Federal Reserve data totaling number of full-time equivalent employees at the end of 2017.

²⁰ Memorandum from Marc Labonte et al., Congressional Research Service, to the Senate Committee on Banking, Housing, and Urban Affairs, "Potential Effects of Two Policy Changes on the SLR," Apr. 17, 2018. Available on Request.

²¹ Franck, Thomas. "While Big Banks Have Failed, Wall Street Sees Opportunity in Trump's Massive Deregulation Movement." *CNBC*, August 5, 2017. Available at: <https://www.cnn.com/2017/08/04/wall-street-sees-opportunity-in-trumps-massive-deregulation-movement.html>