

The World is (Sort of) Coming to an End for Attorneys

By Harrison Barnes from Los Angeles Office Managing Director

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I have been a recruiter for 11 years now and I think this is one of the craziest weeks I have ever seen in my opinion. The drama of layoffs, a leading attorney arrested for possible embezzlement and impersonation, holiday parties cancelled, bonuses cancelled--the news just keeps getting worse and worse. Law schools are also starting to report massively reduced hiring of their students--even the best law schools.

What is going on in the legal field?

I have a lot of opinions about that; however, the short answer is that a lot of stuff is going on and it is out of control. For more than a couple of decades the United States has benefited from a virtual monopoly in many fields. In finance, telecommunication, computers and other fields the United States has been a leader and this has created a great deal of wealth in the United States. What we are now facing, in my opinion, is a "perfect storm" of sorts.

The issues, as I see it, are two fold. Firstly, there are not a lot of new innovations in the pipeline that are driving investment and enthusiasm in the markets. Secondly, the ability of the financial markets to stimulate the economy has run its course, for the time being.

Innovation Has Largely Slowed Down

In 2000 and 2001 when there was a recession this was largely the result of the fact that a great deal of irrational investment had flowed into the Internet and cell phones. People saw the incredible value that these were bringing to the world, how they would change commerce, how we invested in commerce, and how we poured investment into them. When people realized much of this investment was misplaced and overly exuberant, a lot of the money that was flowing into the market was rapidly pulled back. Eventually, money started flowing back starting in 2002 and the economy recovered.

The issue we are facing now, however, is that all of this new technology has largely been adopted by most people so there are few opportunities around the United States for companies to rapidly expand this technology. Most people now use cell phones. Most people now have computers and computers are lasting longer. In addition, as computers spread around the United States this created many productivity enhancements inside companies. Documents could be processed faster and this created many opportunities.

The fact that innovation and productivity enhancements have slowed down so much is a huge problem. This is a very serious concern. The fact that there is nothing in the pipeline right now makes me very nervous indeed. While the prospect of new forms of energy is something that is in the pipeline, this is not necessarily something that is booming. It appears, however, to hold promise for propping up the economy the way the Internet and telecommunications and productivity enhancements from computers did.

As these new technologies fanned out across the world and America they created massive amounts of legal work here. Practice areas like intellectual property have thrived. Corporate transactional work thrived as companies grew and issued stock and often combined. All of what occurred with these companies generated by new technology, computers and the productivity enhancements served to create a massive amount of legal work.

The Ability of the Financial Markets to Stimulate the Economy Has Run its Course for Now.

After September 11, 2001, the Federal Reserve started slashing interest rates like crazy. This started making housing more affordable for everyone because of the fact that people could afford more "house" for less payment. This also stimulated a great deal of lending to corporations, private equity activity and more.

On a more sophisticated financial side, another thing happened at the same time. It was the boom of the securities market. What was happening was that mortgages that were being issued were being packaged up and sold as groups of mortgages. Because interest rates were going down so fast, people could afford more "house" and prices of real estate appreciated rapidly. Very few of these mortgages were being foreclosed upon because if someone was not able to make their payments they were simply selling their house because it was most often worth much more than they had paid. Because so few mortgages were defaulting, the demand for these securities became overwhelming and even the riskiest securities instruments were very valuable.

I was involved in this to some extent because I also ran a student loan business at the time. The loans that this company was doing were also packaged and made into securities. I remember last year travelling to London to meet with investors in these securities. Most of the people purchasing these securities were from overseas. Places like Luxembourg, for example. They all lost a lot of money as well. Now all of these people who lost so much money are unlikely to buy stuff from American financial institutions like they did before for some time into the future.

As everyone knows, this whole "house of cards" started crashing down when interest rates started to rise. Once this occurred, banks were left with toxic securities that lost massive amount of value. The financial crisis as we know it had begun.

The issue with this, and what has confused politicians so much, is that they do not have a tool to do this again. There is no tool that I am aware of (or that politicians are aware of) that can be used to prop up the economy again.

Real estate was a booming practice area for attorneys for many years during this time. No more. In addition, the work created in securities was also plentiful. This work has also gone away. The field has been literally leveled.

None of this takes into account all of the money that was coming into the financial system from people refinancing buildings and homes. In addition, because borrowing costs were so low for a long time private equity companies were putting incredible amounts of money into companies as well. All of the money coming into the financial system was also generating a great deal of work for attorneys.

The legal world always does fine and there are always bright spots even when things are collapsing. But what we saw this week was more of an example of what is coming due to all of this. In addition, on Friday of this week the government released new payroll numbers showing that the job market has lost more jobs than any time in the past 35 years. Things are getting really, really bad and the problem is, there's not much that can be done right now.