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Banks profit at our expense

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The recent results for the banks have been claimed as evidence of a recovery in the economy as a whole. But the simple fact is that the banks are profiting at our expense thanks to the government bailouts writes Keith Spencer

The ideologues of capitalism have been keen to point to every piece of good news about the world economy, with the aim of quietening down opposition to rising job losses by spreading hopes of a quick recovery. They reacted gleefully to the news that some banks have returned to profitability. But a closer look at the banks' figures tell a different story.

They show that the only real growth area is trading between the banks ? with the bailouts succeeding in restarting inter bank lending as the state has effectively underwritten this through the huge bail out programme - while credit to non-financial businesses has seized up. In the economy at large some sectors like real estate remain highly indebted and unemployment and job losses sky rocket.

Let?s look at some of the six-month figures for banks in the first half of this year (all figures are for the first six months of 2009 unless US banks, in which case they are second quarter April-June figures).

The outright losers include:
? Lloyds lost £4bn. It claims most of this loss is down to taking on the debts of HBOS when it bought it last autumn.
? Northern Rock lost £724m (up 25 per cent on this time last year).
? UBS lost £1.9bn (3.4bn Swiss francs) after losing £1.3bn in charges for bad debts, six times greater than the same period last year.
? Morgan Stanley lost £1.2bn in the second quarter but has repaid ten billion dollars to the US government.

Banks that made reduced profits include:
? HSBC £2.98bn (halved from last year). Though they had to write down nearly £14bn of losses.
? Bank of America?s net profit in the second quarter was down $2.42bn, a 44 per cent drop on the previous quarter.

Winners include:
? JP Morgan had profits in the second quarter of $2.72bn up from $2bn in the first quarter.
? Barclays profits were up in the first half of the year at £2.98bn (8per cent increase).

The outright winner is:
? Goldman Sachs made second quarter profits of $3.4bn up from $2.1bn in the first quarter. It also repaid the US government $10bn from the bail-out.

That some banks are making money has led to the return of bonuses. For the first six months of the year, Goldman Sachs has earmarked an average of $395,000 for each employee. Morgan Stanley earmarked a huge $3.9bn to its 60,000 employees (a third of which has just come from a joint venture with Citigroup), which is 78 per cent of its revenues in bonuses.

The high flyers at Barclays Capital maybe upset that they will be receiving only on average £100,000 in bonuses but some are getting better returns: ?Barclays alone is paying out an estimated £730m to some 410 of its employees this month after successfully selling its fund-management arm.?

Even the part-nationalised companies are faring well. RBS rewarded it new chief executive, Stephen Hester, with a £15m pay package. The 70per cent publicly owned bank just posted a £15m profit for the first six months.

All these banks except Barclays have been bailed out by the UK and US governments, and benefit from the very generous insurance scheme put in place by Chancellor Darling. Even the banks doing badly are being helped out ?75 per cent of Lloyds? losses come under the UK government?s Asset Protection Scheme. Remember that all this government money and insurance comes out of our pockets and will be paid for by increased taxation and cuts to our services.

But the world economy is still doing far worse than the profits would have us believe.

All the banks have declining profits or outright losses in their commercial and consumer arms. Real estate, mortgages, credit cards, personal and business loans are areas hit by losses.

? Morgan Stanley lost $700m on commercial property
? 39per cent of Northern Rock mortgages are in negative equity
? Barclays? retail arm saw profits halved to £268 million, while that at of Societe Generale halved to 122 million euros
? JP?s Morgan consumer banking division made only $15 million in the second quarter down from $500m in the first with the losses mainly in housing.
? Lloyds and HBOS?s losses in the commercial property sector accounted for 8per cent of all loans in the sector, sparking BBC?s Robert Peston to lament the lack of checks: ?This is an old fashioned failure to kick the tyres properly when lending to hotel groups, property developers and investors who in the 1950s would have been called spivs.?
? The New York Times described Bank of America?s losses. ?Bank of America's big consumer business saw second-quarter profit drop 66 percent, to $812 million. Credit card profit fell 55 percent to $402 million as income from card usage decreased and losses surged. Profit was also hurt by the sharp rise in losses tied to its mortgage and home equity portfolio.?
? The British Banking Association said that in the first six months of the year loans in the commercial sector declined by £600m. This was despite £2.7bn of loans to ?public administration and defence (i.e. the government) and £1.9bn in real estate.

Where are the profits?
The banks increased profits in their investment arms ? even those making overall losses. Barclays Capital (investment arm of Barclays) profits nearly doubled to £1bn while HSBC had record investment banking profits of £5.4bn. JP Morgan trebled its profits in its investment sector in the second quarter with ?record investment banking fees and fixed income trading?.

Goldman Sachs is an investment bank so made money without incurring any of the losses in real estate experienced by many other banks. The British Banking Association stated that in the first six months of the year ?Lending to financial companies in the first half of 2009 rose by some £33bn net.?

But what exactly are these investments? As the British Banking Association suggests, they are loans and investments to other financial companies. This is exemplified by Goldman Sachs? profits of which 75per cent was earned through trades. A recent interview with the company?s President Gary Cohn indicates this: ?A vast majority of profits came from trading on behalf of clients like big mutual funds, pension funds and endowments, rather than from staking Goldman?s own money in the markets.?

Barclays Capital earned its strong showing from buying part of the defunct Lehman Brothers (about 40per cent of its business is now in the US) and also:

?Fixed income, currency and commodities produced excellent results which drove a strong increase in trading and interest income?The contribution from equities and prime services increased significantly?with a strong performance in equity cash and derivative products, and in prime services from the expanded client base and increased margins.?

Centralisation of capital

The credit crunch and ensuing worldwide recession is both a period of crisis for the world capitalist system and an opportunity for individual capitals to emerge stronger. Some firms will profit from the demise of other firms.

The collapse of Bear Sterns and Lehman Brothers has given Goldman Sachs a pre-eminent position with other investment banks also having opportunities for growth, even in the midst of a recession.
The New York Times interview with President Cohn of Goldman Sachs said: ?Goldman?is benefiting because old competitors like Bear Stearns and Lehman Brothers are no longer around?

The Daily Telegraph quoted one analyst commenting on JP Morgan?s increase profits: "We are in an increasing world of haves and have-nots, and we know where JP Morgan and Goldman fall."

What is occurring is what Marx called the centralisation of capital. In the UK, car firms such as Ford are being broken up and sold off to European or far Eastern conglomerates. In the case of finance capital we have already seen some firms go to the wall and other parts sold off, e.g. profit making parts of Lehman Brothers to Barclays capital. But there is also the competition for profit between the big companies remaining in the sector.

Profit in finance capital is being re-allocated among the powerful few by means of what finance capital always does: the trading of derivative products or what Marx calls ?inane forms of money? ?pieces of paper such as bonds, gilts, shares, and other complex deals.

So increased profits in investment banking are not in themselves proof of a recovering world economy ? rather it shows that finance capital is going through a period of centralisation.

The Bank of England and the quantitative easing programme
While finance capital is making profits from its own centralisation, banks continue to hoard money earmarked for other parts of the economy.

That is why the Bank of England has just announced, against all expectations, an extra £50bn in new money via its quantitative easing programme?

We have already noted that British banks are lending less in the first six month of this year. Banks are also reducing the ratio between loans and deposits. Barclays reduced deposits from £2 trillion to £1.5 trillion in the first six months of this year as well has reducing lending to businesses from £67.5 to 62.5bn.

Lloyds reduced the ratio of loans to deposits by increasing deposits by 20bn and reducing loans and advances by 25bn (about 9 per cent decline). RBS wants to reduce its ration of loans to deposits from 156 per cent to 100 per cent by 2013. The banks are loaning out less but attracting more deposits. The effect of this is that money is being withdrawn from the economy it is no longer being used to exchange commodities or invest in capital. The situation is so worrying that chancellor Darling called in all the major banks recently to encourage them to loan.

The situation in the US is no better. A Wall Street Journal survey of the US?s top 15 banks found that they had ?4.2 trillion dollars of loans on their balance sheets, down from 4.3 trillion dollars on March 31.? These 15 banks received $182.5bn from the US government in bail out money.

Even an increase in loan volume in the second quarter was because of acquisitions within banking sector itself such as ?J.P. Morgan's takeover of the banking operations of Washington Mutual and Wachovia's purchase by Wells Fargo Bank.?

Once these examples of the concentration of finance capital are excluded, volume of loans fell by 10 per cent. Part of the decline in loans is caused by a decline in demand ? witness the recent report that UK personal insolvencies are at an all time high.

However, much of the fall is down to banks and other financial institutions holding onto as much money as possible ?

including government money ? in order to insulate against losses and remain able to take advantage of new opportunities.

That is why Darling has had to increase by £50bn the amount of money created for quantitative easing ? an admission that the banks are holding onto the previous £125bn that the government has pumped into their coffers. As the government puts money into the banks to kick start the economy, the banks are withdrawing it.

The US housing market

In the US, the environment for loaning money appears to be very favourable. As one commentator said:

?The environment for net interest margin has rarely been better. Banks only have to pay depositors interest of around 1 per cent. Even better, they can borrow money from the Federal Reserve at a rate between 0 per cent and 0.25 per cent. The banks are lending it at rates of at least 5per cent all the way up to 30per cent.?

But, if this is so, why are banks? commercial dealings so badly hit? The Wall Street Journal recently found that: ?U.S. banks have been charging off soured commercial mortgages at the fastest pace in nearly 20 years?At that rate, losses on loans used to finance offices, shopping malls, hotels, apartments and other commercial property could reach about $30 billion by the end of 2009.?

Both Bank of America and Citigroup have faced $8bn losses in this area already with more to come as the hurricane of bad debt hits banks throughout the US.

It appears that the losses due to speculation could still far outweigh even the best help of governments.

For a more in depth look at the issues raised in this article see How the state serves finance capital[1] also by Keith Spencer

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