International banks exploit the crisis to reap massive profits

By Stefan Steinberg
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At the start of this week, German-based Deutsche Bank announced a huge increase in its profits. The bank reported a net profit of €1.1 billion in the second quarter of this year, nearly doubling its earnings over the same period last year (€645 million).

The massive increase in Deutsche Bank's profits follows record earnings for US-based Goldman Sachs. Two weeks ago, the US investment bank posted profits of $3.44 billion (€2.44 billion) in the three months to June.

Less than a year after the eruption of a financial crisis that has devastated economies across the globe and wiped out an estimated 40 percent of the world's wealth, a number of major banks and investment houses are posting record profits and setting aside sharply higher—in some cases, record—sums for salaries and bonuses to their employees.

In 2008, Deutsche Bank recorded the biggest losses in its history—€3.9 billion ($5.5 billion). How is this turn-around to be explained?

A recent article in Der Spiegel magazine entitled "The Return of Greed—Banks Reopen Global Casino" provides some insight. The article cites a former leading financier, who declares, "A few years ago, the investment banks got rich on their customers' money. When that resource became too small, they fell back on their shareholders' money. Now they've got hold of the biggest pool the world can offer: taxpayers' money."

The article quotes the head of German operations of an international investment bank, who declares, "The taxpayer is paying for the chips at the casino. It doesn't get any better."

Following the collapse of Lehmann Brothers in September 2008, the American government intervened with a massive bailout package. Since then, the US government has initiated programs that could potentially allocate up to $23.7 trillion to support the financial system—a sum equal to 1.7 times America's gross domestic product.

The measures adopted by Washington were copied by governments around the world.

At the behest of bankers, in particular, Josef Ackermann, CEO of Deutsche Bank, the German government drew up a €500 billion rescue program for German banks at the end of last year. Since then, it has pledged additional hundreds of billions to the financial community as part of its "bad banks" scheme.

It is estimated that since the outbreak of the financial crisis in September 2008, governments have committed a total of $18 trillion in public funds to recapitalise the banking system—an amount equivalent to nearly 30 percent of world GDP. In virtually all major industrial countries, major banks and financial institutions deemed to be “systemically relevant institutions” have been given blank cheques by their respective state treasuries.

The bailout measures adopted by national governments represent a huge safety net for the banks, enabling them to once again engage in highly speculative forms of financial trading. The levels of debt resulting from the bank bailout packages and other forms of economic stimulus have assumed gigantic dimensions and will be paid for by generations to come.

At the same time, the rapid accumulation of debt by governments opens up vast and lucrative opportunities for the banks. Trading in government loans bound up with financial rescue packages is emerging as a central activity of the big banks.

Average government debt in the European Union is expected to rise to 80 percent of GDP this year and even higher in 2010. In Britain, government debt is expected to reach 100 percent of GDP in 2009. Japan’s government debt is headed for 200 percent by 2011, and government debt in the US is expected to reach 100 percent of GDP by the same time.

As the levels of debt rise across the globe, rating agencies are downgrading the lending status of individual countries, which then have to pay increased interest rates to the banks in order to service their loans. For the banks, it is a classic “win-win” situation.

At the same time, banks are refraining from investing in businesses because, as they note euphemistically, “in the current financial climate” the prospects for ordinary companies and industrial enterprises are “too risky.” Confronted with the refusal of the banks to extend credit, industrial and commercial companies are forced to sell corporate bonds at much higher levels of interest. The banks make further profits by speculating in the trading of these bonds.

The article in Der Spiegel comments, “It is a deep irony that the current crisis, which began in the capital markets, is now strengthening the capital markets once again. The volume of bond issues has exploded. In continental Europe alone, companies—not including banks—have borrowed $318 billion [through the sale of bonds] in the first six months of this year…a roughly 50 percent increase over the average of the last three years.”

Concomitant with the huge increase in bank profits is an explosion in salaries for bank personnel. According to an estimate by the consulting firm Johnson Associates, salaries throughout the banking industry are expected to rise by an average of 20 to 30 percent this year.

Reimbursement for employees at Goldman Sachs is on track to reach an average of $770,000 this year, the highest annual compensation in the bank’s history.

Citigroup, which has received $45 billion in cash from the US government on top of more than $300 billion in government guarantees on its assets—and which is now 34 percent owned by the government—plans to increase salaries by 50 percent this year to offset lower bonuses. Other banks, including UBS and Morgan Stanley, are also giving their employees hefty pay raises of between 30 and 60 percent.

In Germany, Michael Kemmer, the head of the Bavarian State Bank (BayernLB), which has received tens of billions in state aid to avoid bankruptcy, has defended his plans to pay out huge “motivation” bonuses to his bank’s employees.

These staggering compensation packages go disproportionately to top executives and traders, who stand to get salaries and bonuses in the millions and tens of millions of dollars.

Presented with unprecedented possibilities for making money, the biggest banks, such as Goldman Sachs, JPMorgan Chase and Deutsche Bank, are going on the offensive and carrying out a deliberate strategy to eliminate their competitors.

In Wednesday’s Financial Times, Deutsche Bank head Ackermann pays tribute to the measures taken by governments around the world on behalf of the banks and calls upon them to intensify their efforts to secure the interests of the world’s major financial players.

Ackermann sweeps aside the charge that the banking community bears responsibility for the present crisis and declares that any moves toward creating smaller banks would be unproductive. Instead, he calls for new measures to protect the interests of “complex global financial institutions,” i.e., major banks such as Deutsche Bank.

A leading investment banker with Deutsche Bank, Anshu Jain, told the British magazine Euromoney in May that in future, “What we will see is five to six formidable global players in investment banking.”

This elite of investment banking giants will constitute, according to Der Spiegel, a new financial “oligopoly,” with unprecedented access to state treasuries and the taxpayers’ purse. The banks, more than ever, dictate state policy, regardless the particular political coloration of the government. It is the bankers and their lobbyists who call the tune in Washington, Berlin and London.

The CEOs of Goldman Sachs, JPMorgan Chase and Deutsche Bank regard the current crisis, for which they are largely responsible, as an opportunity, and they are ruthlessly exploiting it. For the working class, this means an immense intensification in the exploitation of labour and the destruction of all that remains of social gains won in more than a century of struggle.

In capitals across the world, governments are preparing a social counterrevolution. This is the significance of the Obama health care scheme and the White House’s intervention to restructure the auto industry in accordance with the profit interests of Wall Street.

Confronted with a federal election in a few months, the German government is forced to be more circumspect. Nevertheless, it is already clear that the grand coalition of conservative parties and the Social Democratic Party is quite prepared to allow major industrial companies, such as Opel, to go bankrupt, while plans are already being drawn up for a massive onslaught on the country’s welfare and pensions systems—to be implemented as soon as the election date is passed.

The global financial casino poses the danger of even more catastrophic economic and social shocks. If control of the world economy is left in the hands of Ackermann and company, mankind confronts a disaster. Never has there been a more pressing case for the democratic ownership and control of the major financial institutions by the international working class as an integral component of a planned socialist economy.

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