Big banks grow more powerful under Obama

Andre Damon
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The *Washington Post* carried an article last week outlining the immense consolidation that has taken place in the US banking system as a result of the policies of the Bush and Obama administrations in response to the financial crisis.

The article, entitled "Banks 'Too Big to Fail' Have Grown Even Bigger," reports how the largest banks have consolidated control over a greater share of financial markets and are using their monopolistic position to increase their profits by raising fees and interest on consumers and small businesses.

"The oligopoly has tightened," said Mark Zandi of Moody's Economy.com, who is quoted in the *Post* article. "There's been a significant consolidation among the big banks, and it's kind of hollowing out the banking system," he added.

The newspaper reports that JPMorgan Chase, Wells Fargo and Bank of America now each hold more than 10 percent of all deposits in the country. These banks, plus Citigroup, issue half of all mortgages and two-thirds of all credit card loans. In the past year alone, the ten largest banks have increased their share of bank deposits from 40.6 percent in 2007 to 48.2 percent today.

The large banks are taking advantage of their increased control over the market to drive up fees. The *Post* noted that in the last quarter these banks raised their deposit fees by an average of 8 percent, while the smaller banks lowered their fees by 12 percent.

In promoting and subsidizing the takeover of failing banks by the biggest banks and investment houses, the *Post* notes, the government violated federal antitrust regulations, which prohibit any single bank from controlling more than 10 percent of deposits nationwide. They also violate Justice Department antitrust advisories on the degree of control over regional financial markets by individual banks.

Major milestones in the consolidation of the banking system over the past 18 months include:

• March 14, 2008: JPMorgan Chase acquired the investment bank Bear Stearns. The Federal Reserve Board provided a $29 billion subsidy to JPMorgan for the purchase.

• June 5, 2008: The Federal Reserve approved Bank of America's takeover of Countrywide Financial, the nation's largest mortgage company.

• September 15, 2008: Bank of America purchased Merrill Lynch on the basis of a promise by the Fed and the Treasury to give Bank of America $30 billion in guarantees on Merrill Lynch assets.

• September 15, 2008: The Federal Reserve and the Treasury allowed the investment bank Lehman Brothers to collapse.

• September 21, 2008: The Fed and the Bush administration allowed the investment banks Goldman Sachs and Morgan Stanley to become bank holding companies, so that they would be legally entitled to cheap Fed loans and other subsidies.

• September 25, 2008: JPMorgan Chase acquired Washington Mutual, the largest savings and loan bank in the US. The transaction was subsidized by the Federal Deposit Insurance Corporation (FDIC).

• October 12, 2008: Wells Fargo acquired Wachovia, in another deal subsidized by the FDIC.

In addition to these major acquisitions, more than 80 smaller banks have been seized by the FDIC this year and many have been incorporated into larger banks, with the aid of government subsidies.

As a result of this process, three major competitors of the largest Wall Street firms—Bear Stearns, Lehman Brothers and Merrill Lynch—have disappeared, and major commercial banks such as Wachovia and Washington Mutual have vanished, leaving such giants as JPMorgan Chase and Goldman Sachs in a position to dictate market conditions.

The growth of the remaining big banks has been staggering. Bank of America grew by more than 138 percent after acquiring Merrill Lynch and Countrywide Financial, according to the *Washington Post* report. JPMorgan Chase grew by 50 percent after appropriating Bear Stearns and Washington Mutual, and Wells Fargo expanded by 43 percent after snapping up Wachovia.

Prior to the crisis, Wells Fargo, JPMorgan Chase and Bank of America controlled 4.4, 7.0 and 9.6 percent of bank deposits, respectively. Now, they control 11 percent, 10 percent, and 12.9 percent.

This consolidation, together with the Obama administration's pledge to spend whatever public funds are required to prevent the failure of the remaining mega-banks, has enabled these banks to borrow funds at significantly lower rates than their smaller rivals, creating the conditions for a further concentration of financial power in the hands of a few super-banks. Banks with $100 billion or more in assets are borrowing money at interest rates on average 0.34 percentage points lower than their smaller rivals, according to the *Washington Post*. That advantage was only 0.08 percent in 2007.

The process of government-mediated consolidation continues. The *Wall Street Journal* reported Monday that the FDIC has been subsidizing the purchase of distressed banks by larger institutions by guaranteeing virtually all of the potential losses of the bigger banks.

The article reports that the FDIC has assumed up to 95 percent of the risk on $80 billion in assets of failed banks bought by other banks. The FDIC's total potential losses are close to $80 billion, compared to the $10.4 billion it currently holds to guarantee the deposits of millions of consumers.

The FDIC's deposit insurance fund has fallen from more than $50 billion a year ago and is being further depleted by new bank failures. Officials say they expect over 300 more bank failures in the coming months. The agency expects to cover $14 billion in losses on the takeover subsidies it has already extended. It is widely expected that the FDIC will tap billions of dollars in public Treasury funds to shore up its deposit insurance system.

As the *Wall Street Journal* notes, the FDIC's policy of engineering bank takeovers at public expense "amounts to a subsidy for dozens of hand-picked banks."

The vast concentration of financial power is the result of a deliberate policy of both the Bush and Obama administrations. It is one component of a program to utilize the financial crisis precipitated by the speculation and profiteering of the major banks to carry out a massive restructuring of the US economy in the interests of the most powerful sections of the financial elite.

It goes hand in hand with an unprecedented attack on the jobs and wages of the working class, Obama's proposals to slash health care for millions of workers, and preparations for an historic assault on core entitlement programs such as Medicare, Medicaid and Social Security. The aim is to place the full burden for the capitalist crisis on the working class and permanently lower working class living standards.

Obama's forced bankruptcy of General Motors and Chrysler was a milestone in this process. Just as with his health care proposals, it was dictated by Wall Street veterans in the Obama administration and corporate lobbyists. The destruction of health benefits for hundreds of thousands of retired auto workers and their families is a preview of the health care cost-cutting plans that are currently being debated in Congress.

Under these conditions, the bank regulatory overhaul being touted by the Obama administration can be nothing other than a travesty. The Obama administration is an instrument of the most powerful Wall Street interests, and neither can nor will impose any real limits on either the speculative and profit-gouging practices of the banks or the colossal compensation packages which the bankers award themselves.

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