Fed stress test results unleash “party time” for US banks

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Anyone looking for conclusive evidence that the US financial system and more broadly the entire economy is run of, by and for the ultra-wealthy need go no further than the Federal Reserve decision to give all the major banks a pass on its stress tests at the end of June.

In what one financial analyst characterised as “party time,” the major banks responded by handing out billions of dollars to their super-rich shareholders in the form of dividends and other benefits.

The head of Berkshire Hathaway, Warren Buffett, alone is expected to benefit to the tune of $1.6 billion as a result of bank share purchases he made following the global financial crisis in 2008–2009. With decades of experience in financial circles and knowledge of how government operates, he bet that the authorities would rescue the banks and payoff time would come.

As a result of the Fed decision, the market value of US banks is estimated to have risen by $40 billion, with the six largest banks increasing in value by $25 billion.

Stress tests were introduced in 2011 in the wake of the financial crisis. They are supposed to ensure that the banks have sufficient capital to meet adverse circumstances and do not again require a bailout from public funds.

According to the Fed’s calculations, the capital held by the largest American banks was nearly 14 percent of assets, weighted by risk at the end of 2016—deemed sufficient to meet any financial problems. But according to the *New York Times*, alternative definitions of capital, in line with international, rather than American, accounting standards, the capital ratio is only 6.3 percent.

“The passing grades on the Fed’s stress tests pave the way for banks to pay their largest dividends in almost a decade,” the newspaper reported. “The hands-down winners will be shareholders and bank executives, who could see their stock-based compensation packages advance even further.”

The amounts run into scores of billions of dollars, which are going to be handed out via dividends and stock buybacks to increase share valuations.

According to one estimate, the six largest US banks—Bank of America, Citigroup, Goldman Sachs, Morgan Stanley, JPMorgan Chase and Wells Fargo—are set to return to shareholders between $95 billion and $97 billion over the next year. This is 50 percent more than they returned last year.

The inclusion of Wells Fargo in the pass list is particularly striking. It was found guilty last year of schemes that set out to defraud customers by collecting fees on two million unauthorised accounts in order to boost its bottom line and balance sheet. Now it has lifted its dividend on shares and announced an $11.5 billion share buyback scheme.

Bank of America said it would increase its dividend by 60 percent on each share and unveiled a $12 billion share repurchase plan.

Goldman Sachs CEO Lloyd Blankfein offered a measured, but obviously satisfied, response to the Fed decision, saying his bank was “well positioned to continue to return capital to shareholders while expanding our client franchise.” Blankfein once famously remarked that in the finance industry he was doing “God’s work.”

At JPMorgan Chase, the payout to shareholders will be $27 billion over the next year. Citigroup, which almost went belly up in the financial crisis, will return $18.9 billion to shareholders, an 82 percent increase on the year before.

The stress tests, together with supposedly tighter regulations under the Dodd-Frank Act, were introduced to give the impression that the government and financial authorities were taking some action in response to the financial crisis, set off by the dubious and, in some cases, outright criminal activities of the banks.

But no one was charged, let alone jailed and the only penalties have been fines that the banks paid out of their profits as operating expenses. The Dodd-Frank measures have largely proved to be toothless, presenting only a minor inconvenience.

Even these measures are now set to be significantly watered down, if not scrapped outright. Last month, US Treasury Secretary Steve Mnuchin said stress tests should be performed only every second year and banks that maintained a sufficient level of capital should be exempted altogether.

Capital Alpha Partners analyst Ian Katz expressed the sentiments circulating in bank boardrooms and executive offices, but not usually voiced publicly. He said the Fed decision was “payout party time.” Katz forecast more to come, declaring: “The highly positive report card puts more wind at the backs of the Trump administration and others who want to soften Dodd-Frank era regulations.”

One slightly sour, but significant, note in the stress test assessment was the Fed’s decision to give the Capital One Financial Group only conditional approval to make payouts while it fixes “material weaknesses” in planning.

Capital One derives most of its revenue from credit card operations and the Fed referred to a “recent uptick in delinquency rates” in this financial area. This points to deep and growing problems in the US economy as working families and young people increasingly struggle to make ends meet under conditions of falling real wages and the replacement of full-time jobs with low-paying, part-time and casual positions.

Furthermore, there is a causal connection between the cash-rich banks and the deepening economic malaise of the working population.

In banking and finance, it appears as if profit comes almost out of thin air, as money begets still more money. But in the final analysis, all financial profits represent a claim on the surplus value extracted from wage workers.

Consequently, the period since the financial crisis has seen the development of two interconnected processes. While the banks and finance capital have been sustained and expanded by bailouts and the Fed’s provision of ultra-cheap money, workers, and especially young people, have been subjected to ever-lower wages and worsening working conditions.

At the same time, social facilities have been slashed on the grounds that there is no money.

The economy has thus come to resemble a giant vacuum cleaner in which the real wealth produced by millions of workers is siphoned off to the semi-criminal and criminal elements (so clearly established by their activities that led to the financial crisis) who occupy the heights of society.