

## Bank commissions – and other charges

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Global capital has been chronically ill for ten years, starting from mid-2006. The patient passed through its first crisis in October 2008. Since then, it has suffered several relapses and undergone minor amputations. The professionals are split on how to restore their patient to vigour.

One body of opinion persists in its conviction that weekly blood transfusions, monthly dialysis and annual bone-marrow transplants will eventually achieve for global capital what Dr Frankenstein did to his monster with electricity.

On the other side, a vocal minority has always insisted that nothing short of the amputation of one or more limbs can save the patient's life. None of the advocates of radical surgery is game to wield the scalpel.

Last time, we encountered the Italian banking system as a walking corpse. This week, we'll turn to the Australian financial sector. Our focus means there won't be time to gather up the gloom and doom voiced by people far better placed than any of us to know what's going down. A summary of their alarms is at the start of the version of this programme that goes up on the 3CR website.

However, one piece of wisdom is too rich to leave out. Lord Rothschild told his shareholders that central bankers are engaged in 'the greatest experiment in monetary policy in the history of the world.' He fears that 'It is impossible to predict the unintended consequences,' adding that the patient 'remains anemic'.

[Meanwhile, an array of other specialists provide their opinions on the patient's condition, and hint at a medium-term prognosis. At the foot of capital's hospital bed, we find the following notes left by experts since our last consultation, four weeks ago. Diagnosis by Bank of America Merrill Lynch points to a collapse of vital signs. Interest rates in the advanced economies are at their lowest in 5,000 years. In June, 10-year German government bonds dipped below 0 percent for the first time in history. Confirming those symptoms, the U.S. investment firm, Janus Capital, reports that global yields on bonds are the lowest in 500 years. The ten trillion dollars in such bonds are like a gastric ulcer waiting to burst and poison the blood stream of credit. A cover-story in the *Economist* (20 August 2016) on U.S. housing reports that the banks have shifted the doubtful mortgages off their balance sheets across government bonds. However, almost a quarter of those mortgage bonds are held by the many of the same banks; meanwhile, the Federal Reserve has bought up a further quarter. The IMF warns about the risks from shadow banking in China. Against these dire concerns, it hardly seems worth mentioning that Portuguese banks are so bankrupt that no one wants to buy them even at bargain basement prices.]

So, in what condition are the Australian banks? The answer has to be pretty good. Of the Big Four, the ANZ has written off bad loans to the mining sector, while all banks have a rising number of unlikely loans to property owners, but nothing out of the ordinary.

Instead, discussion around the local banks is dominated by three matters:

1. the \$9 billion profit reported by the Commonwealth Bank;
2. The refusal of the big four to pass on the full 25 points in interest rates;
3. No surprise then cries continue to mount for a Royal Commission.

How should Marxists respond to each of these matters? As scientific socialists, our class duty is to dig behind the headlines and offer insights into how the capitalist financial system works.

### 1. Nine billion

The first point to make about that 9 billion is that the health of capitalism is measured by the **rate** of profit, not its size. (For the moment, we'll put to one side how these numbers are concocted by shonky accountants.) The fact that nine billion is a very big number is neither here nor there. If a bank earns 9 billion on a capital investment of nine billion, it makes a 100 per cent. But if it returns nine billion on 900-billion, it's making only one percent. In that case, it's gone broke. To repeat, the Commonwealth's nine billion proves nothing. That very big number is not evidence of bad behaviour or of the health of the Australian economy. So much for the easy bit.

### 2. Passing on the rate cut

Now, let's examine the banks' refusal to pass on the latest cut in interest rates.

At the risk of shocking some comrades, I'm going to show why this refusal is not entirely bad for working people.

To understand why the banks' refusal might have a good side, we have to understand what the Reserve Bank is trying to do by lowering its cash rate.

And to understand that aim, we have to pull our focus back from the official interest rate to the ALP's de-regulation of the financial sector in the 1980s.

One result of the Hawke-Keating de-forms is that the Commonwealth government has been left with only two means to influence the direction of the economy in the short-to-medium term. It can alter the budgetary settings, which means it can spend more, or spend less, raise more or fewer taxes.

Leaving aside how those methods should be applied, this arm of policy is crippled by two political facts and one economic one. First, governments have to get their budget cuts through the Senate. Say no more. Secondly, the rate of the GST and its allocation among the States might as well be set in concrete because all nine governments will never agree. The economic constraint on getting and spending is that the changes here take time to implement and longer to take effect.

These obstacles to affecting the economy through the budget put ever more pressure on the only other policy arm, namely, the interest rate as set by the Reserve Bank.

Thirty years ago, the government could tell the Bank what to do. Nowadays, its Board is supposed to be independent. On paper, it has to meet two economic objectives. It is supposed to keep inflation under 3 percent and unemployment under 5 percent. How difficult it is to achieve both at once was clear during the recession we had to have in the early 1990s.

The Reserve Bank has to grapple with a third economic force, namely the exchange rate for the Aussie dollar. Once upon a time, that rate was also subject to government regulation. Then, in December 1983, the ALP floated the currency. That de-form opened the windows and doors to the vultures. The Reserve Bank's cash rate is now bound hand and foot to the foreign exchange rate.

So much for the local context to the latest cut in interest rates. We now need to link the local to the failure by other central banks to revive the global economy.

Interest rates in most of the world are lower than they are here. Overseas, many are below zero. That makes Australia's currency attractive to financial speculators. When they buy into the Aussie dollar, they drive up the exchange rate. Imports become cheaper and exports harder to sell. A higher dollar thereby hurts manufacturers and farmers.

The Reserve is pushing down on the cash rate to make the Aussie dollar less attractive to speculators. That seems like pretty much of a good deal for most working people.

However, nothing is so simple. Because deregulation has helped to kill off so much manufacturing here, more of us depend on imported food and clothing and gadgets. The lower the exchange rate, the higher our cost of living.

But a lower interest rate has other economic consequences. First, it has underwritten a boom in rental properties for negative gearing. Although mortgage repayments are low, that benefit applies only after you have a foot in the door. The lower interest rates have driven up the cost of buying in the first place.

The banks lend for mortgages. If they cut their interest charges they earn less. If they earn less, they will pay lower dividends to their shareholders. If they pay lower dividends, they will attract less capital as investments.

But the pressure is on them to boost the reserves they hold. The 2015 inquiry into the financial sector called upon the banks to hold more capital in order to withstand the next financial storm.

In 2008-9, Australian workers were protected from the worst of the economic implosion by three factors:

Number one: government debt was so low that the Commonwealth could spend up on stimulus packages, including helicopter drops of cash into almost everyone's bank accounts.

Number two: the construction phase of the mining boom was still underway and tax returns to government were also high. The tax takes was not as high as it should have been, but high nonetheless.

Number three: the local banking sector had not been allowed to engage in the 'irrational exuberance' that brought ruin elsewhere in the world.

Today, the first two of those protections have gone. The main barrier left between us and the coming tsunami is a strong banking sector. Therefore, the banks need to hold more capital in reserve. If they can pay higher dividends, they can attract even more capital to hoard in those reserves. That's why it's not entirely a bad thing for the banks not to pass on the full rate cut. When banks crash, it's not only their shareholders who suffer.

### 3. The Royal Commission

Demands for a Royal Commission are getting stronger. So much so that the government and the big banks are making concessions about closer scrutiny. Hence, Marxists need not direct our limited resources towards that demand. Still less should we fall into line with the parliamentary pretense that a Royal Commission will improve life for working people.

If a Royal Commission into the banks is established its membership will be of free-market foxes. No way there will be another Chifley to deliver a dissenting report calling for nationalisation of credit as he did for the 1937 Royal Commission into Banking. There's no one left in the Federal caucus who would advocate that. Chifley wanted to nationalise the banks to strengthen the other sectors of capitalism – not as a first step towards a socialist Australia.

Instead, we must lead the debate beyond the particular scandals.

Of course, bank managers and directors should be in prison for their appalling treatment of customers. Even better, take back all the multi-million dollar bonuses they've given themselves over the past twenty years.

There is a huge gap between how banks swindle individual customers and how the entire pack of financial institutions raid the entire economy.

Therefore, the searchlights need to be turned not just onto the banks, but onto their accountants, auditors and ratings agencies, as well as into the Stock Exchange, and the Foreign Exchange market.

Marxists could call for a Peoples' Commission into the whole Financial Sector, with terms of reference to examine the effects on our lives from the ALP's continuing commitment to financial de-regulation. The anti-labour party (aka the ALP) won't support even the re-establishment of a people's bank. A Peoples' Commission, in effect, means a public exposure of the capitalist system.

Humphrey McQueen