Chapter Three

On the Content of Banking in Contemporary Capitalism

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1. Introduction

By many historical measures, the current financial crisis is without precedent. It originated from neither an industrial crisis nor an equity-market crash. It was precipitated by the simple fact that increasing numbers of largely black, Latino and working-class white families in the US have been defaulting on their mortgages. That this caused Bear Sterns and Lehman Brothers to collapse, bringing the entire financial system to the brink, and continues to generate losses for banking giants like Citibank and UBS, underscores the fundamental changes to the practices, class- and social content of banking that have taken place over the past twenty-five years.

Banking has become heavily dependent on lending to individuals, and the direct extraction of revenues from ordinary wage-earners. It has also become enmeshed with capital-markets, where banks mediate financial-market transactions involving bonds,

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equity, and derivative-assets, and where they increasingly obtain funding. And it increasingly relies on inference-based techniques for the estimation of risk of capital-market instruments and banks’ own financial position.

The current financial crisis is, in many ways, a crisis of banking as it has emerged through these dramatic changes. Identifying the origins, content and contradictions of contemporary banking is, consequently, an important part of understanding the current crisis, as well as the broader character of contemporary capitalism.

Contemporary banking is very different from the traditional business of taking deposits from corporations and the general public, making loans to enterprises, and making profits from the difference in interest rates between them. It is also different from the ‘finance-capital’ described within the Marxist tradition by Hilferding in 1910. Nevertheless, Marxist political economy has a unique and important contribution to make to the analysis of the social and historical significance of contemporary banking and its relationship to accumulation. This chapter seeks to make empirical and analytical contributions to this task.

Empirically, it considers macro-level data, centrally from the US, on banking and capital-markets. It also considers in detail the operations of nine of the largest international commercial banks, based on their annual corporate disclosures. These are leading US, European and Japanese banks which, by the end of 2007 collectively controlled more than US$16 trillion in assets across every region of the globe. Even in 2007, when most of them took considerable losses, their average return on equity was still a relatively high 14.87 per cent.

Firm-level inquiry reveals how central lending to individuals has become for the world’s largest banking organisations. It also reveals the relative importance of different financial-market mediation-activities, each of which

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2. The banks examined are Citigroup, HSBC, Bank of America, RBS, Barclays, Santander, BNP Paribas, Dresdner Bank, and Sumitomo Mitsui Financial Group. The first two banks have the most prominent and extensive international operations. The list includes the top two US and top three British commercial banks. Santander is the top bank from Spain, with extensive international operations, notably in Latin America. Dresdner bank was chosen over Deutsche as a representative German bank as the latter is principally an investment bank. BNP Paribas and SMFG are leading French and Japanese banks. See appendix for details on extraction of data from corporate reports.