

77% of JP Morgan's Net Income Comes from Government Subsidies

By [Washington's Blog](#)

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JP Morgan Sucks at the Government Teat

JP Morgan's credit rating would be much lower without government backing.

As Bloomberg [noted](#) last week:

JPMorgan benefited from the assumption that there's a "very high likelihood" the U.S. government would back the bank's bondholders and creditors if it defaulted on its debt, according to the statement. Without the implied federal backing, JPMorgan's long-term deposit rating would have been three levels lower and its senior debt would have dropped two more steps, Moody's said.

And as the editors of Bloomberg [pointed out](#) a couple of weeks ago:

JPMorgan receives a government subsidy worth about \$14 billion a year, according to research published by the International Monetary Fund and our own analysis of bank balance sheets. The money helps the bank pay big salaries and bonuses. More important, it distorts markets, fueling crises such as the recent subprime-lending disaster and the sovereign-debt debacle that is now threatening to destroy the euro and sink the global economy.

With each new banking crisis, the value of the implicit subsidy grows. In a recent paper, two economists — Kenichi Ueda of the IMF and Beatrice Weder Di Mauro of the University of Mainz — estimated that as of 2009 the expectation of government support was shaving about 0.8 percentage point off large banks' borrowing costs. That's up from 0.6 percentage point in 2007, before the financial crisis prompted a global round of bank bailouts.

To estimate the dollar value of the subsidy in the U.S., we multiplied it by the debt and deposits of 18 of the country's largest banks, including JPMorgan, Bank of America Corp. and Citigroup Inc. The result: about \$76 billion a year. The number is roughly equivalent to the banks' total profits over the past 12 months, or more than the federal government spends every year on education.

JPMorgan's share of the subsidy is \$14 billion a year, or about 77 percent of its net income for the past four quarters. In other words, U.S. taxpayers helped foot the bill for the multibillion-dollar trading loss that is the focus of today's hearing. They've also provided more direct support: Dimon noted in a recent conference call that the Home Affordable Refinancing Program, which allows banks to generate income by modifying government-guaranteed mortgages,

made a significant contribution to JPMorgan's earnings in the first three months of 2012.

Waty to [suck at the government teat](#), Mr. self-proclaimed

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