https://www.internationalviewpoint.org/spip.php?article8029

USA

American Bank Failures Once Again Threaten Everyone

- IV Online magazine - 2023 - IV578 - March 2023 -

Publication date: Monday 20 March 2023

Copyright © International Viewpoint - online socialist magazine - All rights reserved

The failure of Silicon Valley Bank (SVB) in California on March 10 set off a chain reaction as depositors withdrew funds causing it and other small banks to fail or face serious problems, among them Signature Bank in New York, and First Republic Bank in San Francisco. Stock markets worldwide began to tumble. The almost simultaneous near collapse of the problematic Credit Suisse, a major Swiss bank known for illegal and dubious practices, made it appear for a moment as if this were another global financial crisis like that which caused the devastating Great Recession of 2008. But in this case neither the developments nor the causes of the crisis are the same.

The 2008 bank crisis was caused by bankers who made bad housing loans, then bundled and traded them and engaged in various other risky practices. The bankers built a house of cards that fell when housing prices declined at the end of 2007. This time, however, the fault for the crisis lies not with the bankers, but with the Federal Reserve Bank (the Fed), the U.S. central bank, which raised interest rates—now at 4.5%â€"eight times this year. Consequently, older U.S. Treasury bonds with lower rates in which SVB had invested $90 billion, fell in value as new higher rate bonds came on the market. When tech companies in a slowing market withdrew funds, SVB became insolvent.

Why had the Fed raised interest rates? The Fed argued that raising interest rates would fight inflation caused largely by the government having spent billions to deal with the COVID pandemic. The vast expansion in hiring when the pandemic ended, accompanied by a tight labor market and higher wages, also led to inflation. That recent economic expansion particularly benefitted the working poor, low wage workers who found it easier to get and keep jobs and who in a tight labor market received higher wages. It also benefitted debtors who could pay back loans with money of less value. Eventually, though, inflation can be devastating to the entire economy. So, the Fed raised interest rates to slow the expansion, to increase unemployment, to dampen wage gains, and to benefit creditors.

The Federal Deposit Insurance Corporation, created after the Crash of 1929, insures all depositors with accounts up to $250,000, but many tech companies had millions in SVB. So, President Joe Biden, Secretary of the Treasure Janet Yellen, the Fed, and the Federal Insurance Deposit Corporation announced that in the case of SVB all deposits would be insured in order to protect the many high-tech companies with money in SVB and some 100,000 jobs that they provide. Biden has also demanded accountability and promised that the government will not save the banks executive and shareholders. No one, however is likely to be held accountable. In 2008, while 46 bankers in other countries were jailed (Iceland, 25; Spain, 11; Ireland 7; Cyprus 1; Germany, 1; and Italy 1), in the United States only one banker was convicted and he worked for a foreign bank, Credit Suisse. No American bankers went to prison.

In this case, those responsible for the crisis are to be found in the Federal Reserve Bank system and its executives who regulate banks such as SVB. Some responsibility for this failure also goes to former president Donald Trump. After the 2008 crisis, the U.S. Congress passed the Dodd-Frank Act to more carefully regulate the banks. Bankers, including SVB's, lobbied to weaken the act, and Trump complied. Bankers were permitted to do more self-regulating, which they didn't.

Both the banking crisis of 2008 and the current one reveal the irrationality of the capitalist economic system based on private property in both the means of production and finance. The banks' stockholders and executives who become driven by the need to make profits greater than their competitors, not only compete, they also cheat, and both their competition and their malfeasance drive the system into crisis, for which we always pay. And they seldom do.

Copyright © International Viewpoint - online socialist magazine

20 March 2023

PS:

If you like this article or have found it useful, please consider donating towards the work of International Viewpoint. Simply follow this link: Donate then enter an amount of your choice. One-off donations are very welcome. But regular donations by standing order are also vital to our continuing functioning. See the last paragraph of this article for our bank account details and take out a standing order. Thanks.