Funding the Future

Banking is welfare for the wealthy, and there are no li...

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Are Silicon Valley Bank and Credit Suisse the start of a new banking crisis?

First there was a run on Silicon Valley Bank in the US, and it could not find the cash to prevent a run on the bank.

Then other US banks began to totter until it became clear that the Fed would guarantee depositors.

And days later the shareholders of Credit Suisse took flight and effectively abandoned one of the bastions of world banking, which has long been troubled by a failing business model. Only the Swiss government's offer of a €50bn cash lifeline is keeping it afloat now.

There has been further fallout. Many smaller US banks have seen their share prices fall, dramatically. Most French banks did likewise yesterday, presumably because they have exposure to Credit Suisse. And UK banks have seen share price falls of 10% or so. This is contagion of a sort: it is markets saying they don't trust this sector, and I would say rightly so.

There was a time, 50 years ago, when this would not matter, much. Banks were at the time relatively small businesses. They did not appear high in the FTSE. Their business modeis were sober, safe and by and large secure. Runs on banks did not happen. (The '73 banking crisis was in secondary, property backed, banking).

But then everything changed. Thatcher did the Big Bang. Capital market liberalisation moved the big banks into speculation, dealing, tax havens and money laundering. Risk, and what appeared like rewards, followed.

But it was all a myth. 2008 revealed that. Loan was piled on loan, which was then financialsed and then appeared again in the balance sheet. And the actual worth was? Well, who knew? And who still does?

This is the problem. Silicon Valley Bank may have been solvent, but under stress it did not look like it. Credit Suisse would not require a €50bn lifeline if it was solvent. And who the counterparties to Credit Suisse risk are is not known, but we do not want to go near Lehman again.

So, government lifelines are the order of the day. Credit Suisse may be the last required, but I doubt it: the banking system is so interconnected it is impossible for that to be the case, and the Swiss government will not pick up the tab for all the risk a Swiss resident Bank has created.

And so, we are back to the fact that, as I often argue, banks are just government licenced franchise operations, as are their money creation processes. There is no such thing as an independent bank. They function as a system and at the heart of that system is the ability of a country with a fiat currency to create money at will.

So three questions. First, will this get worse? I suspect so, simply because of the speed with which it is developing.

Second, will it be like 2008? No, because banks are much better capitalised and this time we know what to do.

Third, why do we let banks continue to get away with exploiting the implicit guarantee they are given by the state? I wish I knew the answer to that, because if I did I would also know why, incomprehensibly, it is planned that interest rates stay high for years when that can only help banks and the wealthy.

But in those last words I do, of course, find my answer. Banking is welfare for the wealthy, and there are no limits.