

Funding the Future

Article URL

Published: January 12, 2026, 5:52 pm

Groupthink is immensely powerful. As I noted yesterday:

<https://twitter.com/richardjmurphy/status/1635224358984769538?s=61&t=fQEnD35XLiGihXLT1M1wyA>

KPMG were obviously unable to see the risk inherent in Silicon Valley Bank's balance sheet only days before it collapsed.

I could describe that as incompetence. In fact, I will describe that as incompetent. It was. Their only defence is that they were far from alone.

As the [FT has reported](#) thus morning, the markets were harsh on smaller US banks yesterday. Many lost more than 10% of their value, and that is despite an assumption that they will be bailed out if in trouble: the Fed cannot afford a systemic banking failure on the US.

Not that the Fed is free from blame here. Its interest rate policy created this crisis. That policy has been unnecessary. It cannot and will not stop US inflation. It can and still might wreck US finances. That was a trade off never worth making, just as that trade off is also not worth making in the UK.

Now the markets are sending messages to the Fed by down-pricing interest rate expectations. Last week it was thought the Fed might be imminently raising interest rates in the US by another 0.5%. That expectation has almost disappeared now. Anticipated rates have fallen by that sum. The feeling is that rates might now have peaked: the risk of market turmoil has imposed an effective cap that the Fed cannot ignore.

Groupthink has changed. SVB changed it. An auditor could not see that. Like everyone else in the mainstream they believed the Fed could raise rates without consequence. Now they realise that they can raise rates, for sure, but the consequence is destructive.

Danny Blanchflower and I discussed this yesterday. We agreed that the Fed has no choice but guarantee all depositors of all smaller banks in the US right now: unless they do there will be a flood of money to JP Morgan and a collapse in US banking. To pretend

there is no crisis in US banking, created by the Fed, would be absurd in that case at this moment. Only state guarantees can prevent that crisis unfolding.

But the question is, what then? What price should be extracted for saving US banks, yet again?

Is it more tax?

Or the reversal of Trump's regulatory relaxation?

Or more regulation?

And better audit?

Or a levy for the cost of capital that the state supplies to these banks?

All should be on the agenda. Any pretence that the US banking system is in good order today is false.

So what here in the UK? We might need all those things too, especially in the light of recent cuts in tax on the banks, the promise of deregulation Sunak has made and the massive windfall gains the banks have made here as a result of rising rates. Our system is not at major risk from SVB, although there will be some contagion. But to pretend that our banking system is in good order is as absurd as it was to claim that in the US was last week.

Our system is also totally and utterly dependent on state support to survive. All bankers know that, just as Northern Rock proved, they are underpinned by an implicit state guarantee that transfers all downside risk to society, leaving them with the gains. This is moral hazard writ large.

I do not know why we accept that. I am clueless as to why Labour is happy about it.

Banking needs reform. We do not need central bank crypto currencies, which is the groupthink solution. What we need is a public interest banking platform at low cost that ensures that transaction processing can take place without being put at risk by corporate failure. And we need the reseparation of this public service from the rest of banking, whilst mortgages move to a US model of state backed certainty with rates fixed for the life of the mortgage so that the threat to so many in this country, now being seen as rates rise, is removed forever.

Could this be done? Of course it could. But groupthink denies it because groupthink likes things the way they are.

There is no point noting KPMG suffered from groupthink unless we are willing to break away from it.

Will we? I doubt it. There's too much money in the status quo. Until, that is, we gave to bail it out again.