Funding the Future

The banking system is just a charade as the failure of ...

Published: January 13, 2026, 9:46 am

This weekend saw the second-biggest bank failure in US history. As the FT reported yesterday, US bank, First Republic was closed with the active involvement of US banking regulators and its $93.5bn deposits and most of its assets were sold to JPMorgan Chase. They got a $50 billion Federal loan to assist the deal.

The deal meant all depositors, including those above the $250,000 insurance limit, retained access to their money. That cost the Federal Deposit Insurance Corporation in the USA an estimated $13bn in support for this deal.

The third and largest bank failure in the USA in just over a month will likely have consequences.

The first is that JP Morgan is even bigger than ever. Under US competition law, this deal should not have been allowed. It makes JP Morgan far too big. But pragmatism overruled that. Too high to fail is now a fact. JP Morgan is never going to be allowed to go out of business.

Nor, in effect, was First Republic. Its shareholders might be wiped out, but the reality was that as far as its customers are concerned, the bank still functions. The pretence that continues that there is a private sector banking operation in the USA, and in countries like the UK, is now a farce. When depositors know that there is no risk to placing funds anywhere in financial markets because the state guarantees that they will not lose however bad the bank that they choose might be, the idea that there is a competitive market is well and truly over.

Another myth that is also finally shattered is the idea that banks are dependent on the capital markets for their funding. What is clear are two things. First, JP Morgan relied on a government loan to fund this deal. Second, First Republic (and now JP Morgan) relied on the explicit financial support of the government to run its despite taking operations, which support has now cost the US government $13 billion. Banks in the UK do exactly the same thing. Here the deposit guarantee is £85,000, but in reality (as we know from the experience of Northern Rock's failure), it is actually unlimited. To pretend that banks are anything more than an extension of the state now is quite ludicrous.

In that case, the question has to be asked as to why they are permitted to make so much money at cost to us all?

But, perhaps most important of all, the impact of this failure on US fiscal and monetary policy has to be considered. US inflation is falling, and the signs of recession are growing. For example, it has been noted that petrol and diesel consumption is now declining in the US, and not due to electric cars.

The Fed could react to a bank failure by increasing interest rates to supposedly supply banks with more margin.

They might also do this to make deposits more attractive when real interest rates are still negative.

And they may also do this to dampen demand, although doing so will undoubtedly reduce the amount of credit made available because that is exactly what the policy intention would be. Such a move would also increase the risk of debt default by bank borrowers and also reduce the income of banks as loan portfolios fall. Both increase the risk of further bank failures.

My suspicion is that the Fed will go for another slight rate rise despite the risks. I think that would be a big mistake, but the US generally requires the Fed to make a big mistake before its economic course is changed.

What would be better would be an acknowledgement of the fact that US banking is not what it claims to be. It is not a private sector activity. It does not behave as the private sector should. It uses public capital and the commodity it has to sell is provided costlessly to it by the state, as the $50 billion loan to JP Morgan was. Until these facts are acknowledged, the charade goes on, and decisions are taken on the wrong basis, threatening us all.

There needs to be a new awareness. That is that the government is ultimately responsible for all money creation. The banks are simply their agents. The wiring of the system has to reflect that fact. That is not how it is right now. And those who are profiting from the pretence are going to hold on to it for as long as possible. It's down to heterodox economists and those who really understand money to make clear that there are better choices to be made. Then one day those better choices might happen.