US treasury secretary Yellen pledges more money for the ultra-wealthy if needed

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US treasury secretary Janet Yellen has given an assurance to wealthy individuals and investors that the government will step in to ensure their holdings of uninsured deposits, sometimes running into tens of millions of dollars, are guaranteed.

Her remarks, in a speech to the American Bankers Association yesterday, were the most explicit to date that the bailout of uninsured depositors with the failed Silicon Valley Bank and Signature Bank were not a one off but would be extended if that were considered necessary.

"The steps we took were not focused on aiding specific banks or classes of banks," Yellen said. "Our intervention was to protect the broader US banking system. And similar actions could be warranted if smaller institutions suffer deposit runs that pose the risk of contagion."

The remarks were welcomed on Wall Street as bank stocks rose, with analysts commenting they had reassured investors.

Yellen said the situation was stabilising, the US banking system remained sound and told the bankers at the meeting "you should rest assured that we will remain vigilant."

She passed over in silence the question of why "vigilant" authorities completely failed to see the SVB crisis coming or, before that, the Ponzi scheme operation, largely carried out in plain sight, of Sam Bankman-Fried's failed crypto firm FTX, the demise of which led to the failure of the crypto-connected Silvergate bank just two weeks ago.

Turning to the broader implications of the SVB failure and the growing concerns that nothing has been resolved since the global financial crisis of 2008, Yellen said the current turmoil was very different.

"Back then many financial institutions came under stress due to their holdings of subprime assets. We do not see that situation in the banking system today," she said.

But that is precisely what makes this crisis far more serious in its implications than that of 2008. It has arisen from the holdings by banks of vast quantities of Treasury bonds and mortgage-backed securities, supposedly the safest assets in the world, and is a product of the response of the government and the Federal Reserve to the meltdown of 15 years ago.

Quantitative easing, under which around $9 trillion was pumped into the financial system by the Fed, resulted in the build-up on the balance sheets of banks of large amounts of supposedly "safe" securities.

But the Fed's interest rate hikes, initiated in the past year in an effort to crush the wages upsurge of the working class, have now produced a sharp fall in the market value of these assets to below their book value, leading to the realisation of significant losses when they have to be sold to meet the cash demand of depositors.

However, according to Yellen: "Our financial system is … significantly stronger than it was 15 years ago. This is in large part due to post-crisis reforms that provided stronger capital standards, among other important improvements."

This only raises the question, if that is really the case, then why did the Fed and the Federal Deposit Insurance Corporation insist their actions in bailing out wealthy depositors at SVB and Signature were necessary to prevent a "systemic crisis," that is, one which hits the entire system, including the stronger major banks?

At first sight it may appear that there are two opposed explanations. Either the invocation of a "systemic crisis" was merely a cover for bailing out the wealthy, even though the banking system was strong or, there

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was the prospect of a genuine crisis which means that all the supposed "reforms" of the past 15 years have come to nothing.

Actually, both processes are involved. The authorities do face a "systemic crisis" but providing a stop gap solution means handing over still more money to the ultra-wealthy.

Such is the fragility of the financial system that the operations of the "free market" through which failed investments are purged cannot continue to function because any problem threatens to set off a collapse requiring the intervention of the state and its agencies using their capacity to create money.

The logic of this process is that money will continue to be poured in until it produces a crisis of state and central bank financing.

The conditions which led to the failure of SVB – the fall in the value of the Treasury bonds it held – are developing in other interest-rate sensitive areas of the economy.

Yesterday, the chief executive of JPMorgan Asset Management, Georg Gatch, warned that commercial real estate could be the next shoe to drop as a result of interest rate hikes by the Fed.

He said the failure of SVB and the emergency takeover of Credit Suisse highlighted "the stress of rising interest rates."

Investors were wondering "what is the next impact? Commercial real estate is an area of concern. We have higher interest rates for property developers, how does that impact the real estate markets and lenders in that space," he said in comments reported by the *Financial Times*.

The FT also reported on a note issued by Goldman Sachs which said the real estate sector was dealing with a "challenging" environment.

"The recent stress in the banking sector has fuelled growing concern about spillover effects on the commercial real estate industry. With over half of the $5.6 trillion of outstanding commercial loans sitting on bank balance sheets, bank lending remains the primary source of funding for this sector. This is particularly the case for small banks which capture the lion's share of lending."

Meanwhile there are deepening concerns about the flow-on effects of the takeover of Credit Suisse in which the Swiss government reduced the value of higher risk AT1 bonds overnight to zero.

It overturned the previous practice in which such bonds were placed higher than shares when it came to salvaging what remained of a failed entity. The $250 billion market in such bonds, which are widely used, is in turmoil as investors ponder what rules, if any, now apply.

Legal challenges may be mounted. Natasha Harrison of the law firm Pallas, which is preparing possible legal action, told the *Wall Street Journal*: "What investors look at when they are investing is certainty of process and the rule of law. That has just been swiped away in one fell swoop by Switzerland."

In a research note, analysts at JPMorgan said the Swiss decision could lead to "contagion for wholesale funding costs across the sector" with the interest rates being demanded on AT1 bonds possibly running into double digits.

Summing up the interaction between the deepening crisis and actions of financial authorities, another article in the WSJ noted: "Officials the world over justify such ad-hoc interventions by citing the need to stabilise, reassure or calm markets. But they often do the opposite. The SVB and Signature actions set in motion the jitters that brought down Credit Suisse, and now the emergency Credit Suisse fix is roiling the bond market."

This observation could be extended. The emergency actions taken by the Fed in 2008 and again in March 2020 to prop up the banks, speculators, the stock market and the financial system have now created the conditions for an even deeper crisis, which, like that of 2008, will bring ever deeper attacks on workers and their families as the ruling elites, bailed out by the state, seek to make them pay for it.

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