Treasury secretary Yellen twists to the power of money

Nick Beams
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As if caught in an ever more powerful vortex, US treasury secretary Janet Yellen was this week wrenched this way and that over the issue of how much support the government and financial authorities should provide to wealthy uninsured bank depositors.

On Tuesday, she told a meeting of bankers the government was ready to extend the bailout of Silicon Valley Bank and Signature Bank depositors, some of them holding tens of millions of dollars in their accounts, to such depositors at other banks if necessary.

This was correctly recognized as an implicit guarantee by the government that it was backing all the money held in the US banking system, a total of more than $17 trillion, and there was "free market" based criticism, most notably from the *Wall Street Journal*.

The chief concern of the WSJ is not the handing out of money to the rich and super rich per se but what such a guarantee ultimately means for the stability of government finances and US capitalism as a whole if the market cannot do its work in carrying out necessary purges.

In response to this and other criticism, the next day Yellen told a Senate committee that financial authorities were not contemplating "blanket" coverage for deposits above the limit covered by legislation of $250,000.

Wall Street gave Yellen's remarks the thumbs down. It fell sharply in the last half hour of trading on Wednesday with the Dow dropping more than 500 points.

The treasury secretary, who, like all government officials, attempts to portray herself as a servant of the mass of the population, got the message from the real powers that be.

On Thursday, she reversed course in remarks to a House of Representatives hearing, going back to what she had told the assembled bankers two days before.

"We have used important tools to act quickly to prevent contagion," she said. "And they are tools we could use again. The strong actions we have taken ensure that Americans' deposits are safe. Certainly, we would be prepared to take addition actions if warranted." Following her remarks Wall Street steadied.

To get a grasp of what is involved in the issue of deposit guarantees it is worthwhile probing behind the immediate figures.

Deposits of up to $250,000 are automatically guaranteed by the Federal Deposit Insurance Corporation based on legislation.

The cut off point is well above the amount held by millions of American families who live from pay check to pay check, often having to resort to their credit cards just to make ends meet.

According to official figures, the median balance held by US citizens in their accounts is just $5,300.

Less than half of US households, around four in ten, said they would be able to cover an unexpected expense of $1,000 in January 2022, and that number has probably fallen since then under the impact of continued wage suppression and rising inflation, especially in basic items.

But the wealthy and super-wealthy occupy an entirely different world, and they are demanding it be protected at all costs.

The "Americans" whose deposits Yellen said she was acting to protect are not ordinary workers and their families who have nowhere near $250,000 in their accounts. They are figures such as the venture capitalist Peter Thiel, who disclosed that he had $50 million deposited with the failed SVB even after advocating that others not continue to use it. Perhaps he regarded the millions he left there as loose change.

The back and forth of Yellen on the issue of support for the ultra-wealthy and the financial elites is by no means an isolated incident.

Rather, it is a particular expression of the central policies of the Fed, regulatory authorities and the government. Whatever acknowledgements they may make on occasions about the need for sound public policy, they always return to their key mission—the protection of the financial oligarchy that dominates the economy.

That was seen in 2008 when the speculative, and at times outright criminal, activities of finance capital brought about a meltdown of the financial system. Banks and corporations were bailed out to the tune of hundreds of billions of dollars and the Fed made available trillions of dollars under its quantitative easing (QE) program, enabling the speculation to continue.

The working class was made to pay as the unemployment rate rose to double digits, homes were repossessed and exploitation in the factories intensified often through the widespread adoption of the two-tier wage system and temporary working.

The 2008 bailout, QE, and the rampant speculation which resulted meant that when the pandemic struck in early 2020, the administration refused to implement a policy of elimination, fearing the necessary public health measures would bring about a collapse of the financial house of cards.

Accordingly, the Trump administration, with the support of the Democrats under the leadership of House Speaker Nancy Pelosi, passed the CARES Act, handing out billions to the corporations while providing some minor concessions to the mass of the population to try to assuage social anger.

The Fed stepped up again and in response to the March 2020 market freeze pumped in another $4 trillion, acting as the guarantor for every section of the financial system.

But these measures had consequences.

The refusal to eliminate COVID created a supply chain crisis, sparking a jump in inflation. Price hikes were intensified by the flood of cheap money, profit gouging by food and energy companies, commodity market speculation financed by the essentially free money provided by the Fed and other central banks, and the consequences of the US-led NATO war against Russia in Ukraine.

The eruption of the highest inflation in four decades changed the landscape. Now the Fed was confronted with its greatest fear—the development of an upsurge of the working class and intensification of the class struggle artificially suppressed over the previous three decades and more.

The Fed then made a turn. It started interest rate hikes in March 2022, under the mantra of the need to fight inflation. It is vital to understand the class dynamic at work here for it is the key to understanding the present situation, what is in store, and what must be the response of the working class.

Its measures—the lifting of interest rates from near zero to more than 4.5 percent over a year—have nothing to do with bringing down prices but are directed to suppressing the wages movement of the working class.

This is to be achieved by ending what Fed chair Jerome Powell continually refers to as the “very tight” labour market, through the slowing of the economy, driving up unemployment and inducing a recession if that is considered necessary.

The interest rate hikes have now set in motion a financial crisis, which was exemplified in the collapse of SVB. Flush with money because of the Fed’s QE policies, it placed its funds in Treasury bonds, supposedly the safest financial asset. But as interest rates were hiked, the market value of those bonds fell below their book value.

As long as money kept flowing in this was not a problem. But when money started to flow out, as depositors drew down on their holdings, the bonds had to be sold and the losses realised.

Powell and others have referred to SVB as an “outlier.” But analysis has revealed that its structure is replicated widely. It has been calculated that the market value of bonds held by American banks is down by $1.7 trillion, not far below their capital base of around $2 trillion, essentially wiping it out if these losses had to be realised.

Moreover, small- and medium-sized banks, such as SVB, also hold a major portion of interest rate-sensitive commercial real estate and property development loans, which are being widely predicted as the next shoe to drop.

The development of this crisis has sent a wave of fear through the ultra-rich monied classes. When the problems of SVB surfaced, hedge fund operator Bill Ackman immediately jumped onto Twitter to call for a major intervention, without which the economy could not function properly.

Such reactions reveal that the fabulously wealthy and super-rich have caught a whiff of death as if rising from a grave opening before them.

But does not mean they will somehow advocate reforms—they have none in any case —or their toxic system will simply collapse of its own accord.

Rather, drawing on their long history of repression and violence, their growing fears mean they will implement ever greater attacks on the working class, just as they did after 2008, and demand the continued supply of money from the capitalist state to maintain their world of wealth and privilege at the expense of society.

For the working class, the developing crisis poses a direct challenge. It is confronted with the task of making a new world, one based on social equality. That can only be realised through a political struggle to end the capitalist profit system, thereby opening the way for the establishment of socialism, a challenge which must be met by building the revolutionary party to lead this fight.