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Banks Are Cutting Out Lending, and Failing: We Need Productive Credit Fast

by Paul Gallagher

March 18—The Ghost of Financial Collapse Past is knocking. The sin of Wall Street and London in 2008—refusing the late Lyndon LaRouche's measures of a renewed Glass-Steagall Act and a New Bretton Woods, insisting on floating exchange rates, and subsidizing all forms of financial speculation—has come back to haunt them as it did in September 2019, and will again soon.

The current banking system crisis in the United States and Europe directly results from the policies adopted by the United States and Europe in response to the global financial crisis of 2007-08, and implemented in the decade-and-a-half since. Those policies were one part monetarist insanity—a speculative-debt orgy of zero interest rates and money-printing by the trans-Atlantic and Japanese central banks, one part Green New Deal insanity—the attempt to collapse investment and write off debt in all the fossil fuel and chemical industries and build up a new "green finance" bubble in their place, and one part NATO insanity—sanctions and wars attempting to destroy and break up Russia and stop China's rise.

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The failed Silicon Valley Bank and First Republic Bank—consumed in the speculative-debt orgy of zero interest-rates and money-printing.

Lyndon LaRouche put this succinctly a couple of years after that "Great Financial Crash," in a webcast speech in December 2011, in which he said *why* the NATO "regime-change" wars (at that moment, in Libya, Syria, Iraq and Afghanistan) were aimed at Russia, intended to lead to war with Russia:

> Most of this bailout debt, the Wall Street debt, the London debt ... is absolutely worthless! *It can never be repaid.* And the only solution for this thing was to have this war. And if the British Empire came out as the victor in such a war, with the support of the United States, then they would cancel their debts, and they would go about their business. But the population of the world would be reduced, greatly, through hunger, disease...

Today, with Russia and China very far indeed from being destroyed, the debts are nonetheless being written off. The United States economy is sinking into recession, and the European economies are already in deep. The monster sanctions and embargos against Russia, which is a champion producer of fossil fuels, nuclear power technologies and industrial commodities, are deindustrializing and impoverishing European nations while saddling them with greatly increased military spending demands.

Banks That No Longer Lend

But just to look at the United States economy: Industrial production and manufacturing output were both lower, as of February, than they had been a year earlier, and in fact slightly lower than they had been

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four and one-half years earlier, in mid-2018. The "manufacturing index" surveys of the regional Federal Reserve banks in February and thus far in March indicate still deeper contraction underway.

In the IT or "tech" sector—for which the just-failed Silicon Valley Bank (SVB) of Santa Clara and the now-failing First Republic Bank in San Francisco were the two biggest institutions—some 125,000 layoffs have been carried out/announced just since Nov. 1. Facebook, having just announced 10,000 more on March 7, will have laid off a full 25% of its workforce, with Google, Amazon, HP, Dell, and others on its heels.

The tremendous new advantages that 14 years of zero-interest and accelerating money-printing policies have given to speculative over productive investment, have hit every major sector of production. During that time period the entire U.S. commercial banking system has thrown more than 40% of its $18 trillion deposit base into speculation in securities and financial derivatives. And during that time period, the global "everything bubble" of total debt (business, household, government debt at all levels) swelled from less than $200 trillion to over $300 trillion. In the "advanced economies," it grew as a multiple of GDP from 320% to 365%; in the United States from 335% to 375% of GDP.

The banks that are failing now are exemplary of this new rule. SVB, for one, having about $170 billion in deposits when it failed, had less than 40% of that amount in loans out to the swooning "tech" sector. It had instead bought a lot of mortgage-backed securities and U.S. Treasuries, and took a lot of derivatives bets that interest rates would remain very low. For the past year, the suddenly snarling Federal Reserve has raised those near-zero rates so fast that it tore up the value of those assets, giving SVB large "unrealized losses" of $16 billion in its capital, and probably more than that in its derivatives bets. There are, according to the FDIC, roughly $700 billion in "unrealized losses" now in the U.S. banking system—banks' capital assets losing their market value because interest rates are rising so fast.

The reason the U.S. FDIC (Federal Deposit Insurance Corporation) "bailed out" depositors by reimbursing both insured and uninsured deposits, is that no bigger bank wanted the SVB's (or Signature Bank's) diminished assets enough to take its liabilities, the deposits. The FDIC could have sold the assets piecemeal to private equity funds, taken a serious haircut on them, and still reimbursed the lion's share of the uninsured deposits; but it wanted a complete bank takeover. No big bank was willing.

Most media coverage of the SVB failure drama attributed this to the big Wall Street and regional banks' confidence that the depositors of the smaller regional and community banks will come to Wall Street anyway, out of panic at the real prospect of a wave of smaller bank failures.

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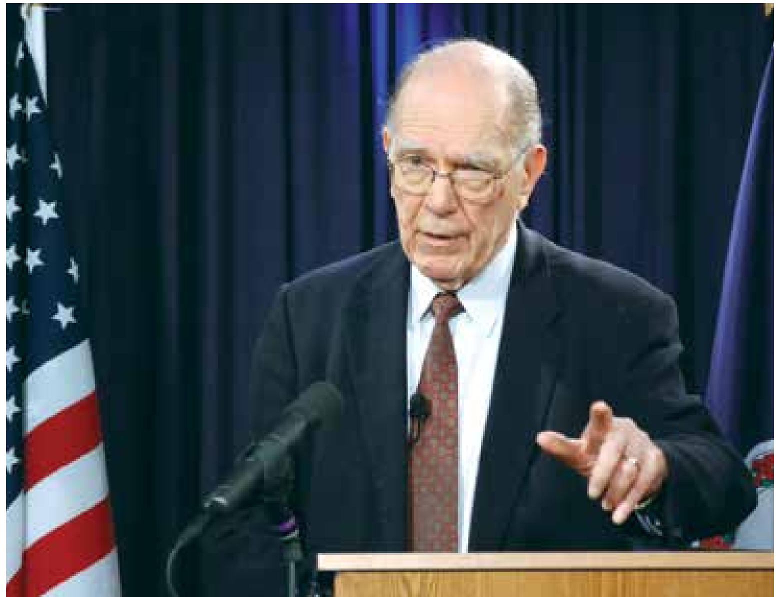
The failed Credit Suisse bank, taken over by UBS, under the direction of the National Bank of Switzerland, March 19, 2023.

But recall that even in September 2008, at the center of the "Lehman" banking crisis, the failed Washington Mutual Bank—bigger than SVB—was quickly taken over by JPMorgan Chase. The unwillingness of any major bank to absorb SVB highlighted what Reuters, in an article March 14, called increased "interbank market stress"—the unwillingness of large banks to lend to each other as a financial crisis develops.

This interbank breakdown appeared in September 2019, triggering the unbelievable mass of Federal Reserve liquidity interventions and money printing for the big banks in the two-and-a-half years that followed; and it has appeared again. It is a sign of how serious the developing financial crisis is.

In Europe there is Credit Suisse, a "major" bank so drowned in failed speculations—from funding the big Archegos hedge fund for fraudulent stock trading, to funding Sam Bankman-Fried's FTX "crypto exchange" scam—that Credit Suisse has been a hospice patient for two years without managing to die. Now it is finally failing and, unless taken over by the Swiss banking giant UBS, will spread serious "contagion," through its derivatives exposure, to big banks in Paris, London, Frankfurt and on Wall Street.



EIRNS/Stuart Lewis

The late Lyndon LaRouche prescribed measures to regenerate the physical economy: a renewed Glass-Steagall Act, a New Bretton Woods, the drying out of all forms of speculation, and a national bank and an international development bank, to issue credit.

More Than Global Glass-Steagall Needed

The absolutely destructive and senseless policies of the biggest central banks from 2007 to the present, led by the U.S. Federal Reserve, have put us into a long economic stagnation and now, helped by NATO's war, into a deepening recession. They threaten now a global financial crisis worse than the one that exploded in 2008. Even China's *Global Times* and the *Wall Street Journal* agree. *Global Times'* March 11 comment included:

> "SVB's bankruptcy shows that U.S. monetary policy is a total failure. The U.S. Fed's faster-than-expected tightening created turmoil in the global financial system and eventually harmed its own banking system," Li Yong, Deputy Chairman of the Expert Committee of the China Association of International Trade, told the *Global Times* on Sunday.

And the *Journal* editorial the same day:

> This is a de facto bailout of the banking system.... The unpleasant truth—which Washington will never admit—is that SVB's failure is the bill coming due for years of monetary and regulatory mistakes.

Had the 1933 Glass-Steagall Act of President Franklin Roosevelt been in effect in major nations around the world, the trans-Atlantic banking system could not have been thrown into this disastrous condition, even by the Federal Reserve. Glass-Steagall re-enactment and enforcement is needed around the world in this crisis; this is included in the essential actions of Schiller Institute founder Helga Zepp-LaRouche's call, published in this issue of *EIR*.

But more than that is obviously needed. The Federal Reserve's interest rate spikes are bankrupting banks, following nearly a decade-and-a-half of zero-interest which pushed them into speculation and stopped them lending to the real economy. It has eliminated productivity growth: Technological productivity ("total factor productivity") has been below 1% annual growth since 2007 and below zero growth since 2018. Labor productivity growth has been below zero in six of the last eight quarters in the U.S. economy. Without higher productivity through introduction of more energy-dense technologies into infrastructure and industry, neither inflation nor deepening recession can be combated.

An international conference to create a new source of credit for new infrastructure, productive employment and productivity is called for by Helga Zepp-LaRouche, as it was by Lyndon LaRouche in the form of his International Development Bank and New Bretton Woods policy proposals.

And if President Joe Biden is as intent as he claims on "holding accountable" and punishing those responsible for banks collapsing now, their names are clear. Former Federal Reserve chair "Helicopter Ben" Bernanke, former Federal Reserve chair and now Biden Treasury Secretary Janet Yellen, and current Fed chair Jerome Powell will do for starters.