

# Economics Briefs

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## Bank Crisis Grows Amid Calls for Glass-Steagall

Over the April 29–30 weekend, First Republic Bank, headquartered in San Francisco, with approximately \$230 billion in assets, became the fourth mid-sized U.S.-based bank to fail in two months, and the largest, at least reckoning by its statement as of the end of 2023's first quarter on March 31. During that quarter, however, First Republic had suffered more than \$100 billion in deposit withdrawals, and had had to borrow liquidity loans of \$138 billion from the Fed's Bank Term Finance Program, the Federal Home Loan Bank, and JPMorgan Chase. First Republic's remains are likely to be taken over, or more likely cherry-picked, by Wall Street megabanks after the Federal Deposit Insurance Corporation has resolved it.

According to data from the Federal Reserve Bank's weekly Form H8, "Assets and Liabilities of Commercial Banks in the U.S.," the rate of loss of deposits by the 25 largest U.S.-based banks—which have lost approximately 9% of deposits since March 1, 2022—exceeds that of the other 4,000 commercial banks, which have lost about 7% of their deposits in that time, with most of the loss occurring since Dec. 1, 2022.

What is happening repeats then Federal Reserve Chair Paul Volcker's annihilation of the savings-and-loan banks in the period 1981–87. After Volcker pushed interest rates sky-high, the Garn-St. Germain Act allowed these small to mid-sized banks to offer all kinds of new "savings products" with high interest rates and FDIC insurance.

This drove them into risky securities to make their cost of capital, and mass bankruptcy of those banks followed.

*The Glass-Steagall Act prohibited this but was simply not applied,* as Federal Home Loan Bank Board regulator Prof. Bill Black explained a decade ago.

Now the smaller and mid-size banks are frantically hiking the rates they offer on their savings accounts, while their lending shrinks. The big banks are *not* significantly raising their CD rates. This is because deposits are flowing into "savings products" marketed by shadow banks which are usually units of, or controlled by, the same 25 biggest banks!

*The Glass-Steagall Act will prohibit these bank interconnections.*

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## Fed's 'Beige Book' Reports Finance, Manufacturing, Transport Deteriorating

The Federal Reserve's latest "Summary of Commentary on Economic Conditions," its April [Beige Book](#), describes lending and loan demand, manufacturing activity, and freight transport contracting in the U.S. economy. The "commentary" is that of economics staff in each Federal Reserve District Bank.

What is most striking is the *Beige Book's* summary of commentary across the 12 Districts, on data collected by the Fed banks through April 10:

"Conditions in the broad finance sector deteriorated sharply, coinciding with recent stress in the banking sector. Small to medium-sized banks in the Districts reported widespread declines in loan demand across all loan segments. Credit standards tightened

noticeably for all loan types, and loan spreads [spreads between interest rates charged for loans and interest paid on deposits—ed.] continued to narrow. Deposit rates moved higher. Finally, delinquency rates edged up on residential and commercial mortgages.

"Lending volumes and loan demand generally declined across consumer and business loan types. Several Districts noted that banks tightened lending standards amid increased uncertainty and concerns about liquidity."

The *Beige Book* otherwise reported that both manufacturing activity and "transportation and freight volumes" were "flat to down" in most Districts.

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## U.S. Trade Volumes Down, Orders Way Down in 'Freight Recession'

CNBC [reported](#) April 24 that export and import volumes (not dollar values) at the six largest U.S. ports are down from one year ago by between 13% (Savannah) and 38% (Los Angeles), with the only exception being the Port of Houston, where trade volume handled is flat from April 2022.

Worse, "ocean bookings" measured in 20-foot equivalent units (TEU, the standard container size)—that is, goods designated at a foreign port for shipment to a U.S. port—have steadily declined since last July, and the *FreightWaves* 7-day index of booked TEUs for all U.S. ports is now nearly 60% lower than in July 2022.

Regarding U.S. trade with China, manufacturers' orders from China are down 40% from a year ago (April 2022) according to a linked CNBC report, despite the fact that China's manufacturing orders worldwide and domestically

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had risen 3.1% year-on-year in its quarterly data just released April 11.

Commenting on these physical trade indices, the CEO of the large national trucking company, J.B. Hunt, said that the industry is “in a freight recession.”

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## U.S. Glass-Steagall Fight Covered in Swiss Media

Several newspapers of the CH Media group of Switzerland, including *Luzerner Zeitung*, *St. Galler Tagblatt* and *Aargauer Zeitung*, ran an article April 10 by Washington correspondent Renzo Ruf on the battle for the Glass-Steagall Act starting again in the United States. This was on the eve of the three-day joint Parliament session on the banking crisis in Switzerland, and had certainly an impact on the debate there, where “bank separation” was voted up in the lower house but not the upper.

The article headline announces: “Back to the Future: Is the U.S. Again Facing a Debate on Breaking Up the Banks?” It adds: “New impetus for an old idea: After the recent turmoil, some Democrats and Republicans in Washington are again calling for the introduction of a bank separation system. Could the split of commercial banks and investment houses prevent the next crisis?”

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## Payment Delay on Arms Sales Shows Fixed Exchange Needed

According to a Bloomberg *Business Insider* item which came to the news service from sources not named, deliveries of Russian weapons to India have been on hold for nearly a year. India does not want to pay in dollars for fear of secondary sanctions by the U.S. Treasury. It does not want to pay in rubles because it thinks

it will have to pay more for rubles on international markets (i.e., the ruble is in very limited circulation outside Russia). And Russia is rejecting payment in rupees because of “exchange rate volatility.”

If the source reports are correct, India is proposing an alternative, that it pay in rupees and that Russian arms suppliers invest the rupees back into India’s capital market, to earn interest on credit rather than just holding the rupees in reserves—but this was not, or has so far not been accepted on the Russian side.

The *Insider* notes a separate but related development, that Bangladesh has just made payments in China’s currency on a nuclear power plant loan from the Russian company Rosatom, allegedly despite the Russian Central Bank’s concern, again, over “volatility.”

Currency rate volatility is dealt with, of course, either by currency speculation and derivatives or by agreement on fixed exchange rates—the latter bearing the potential for growth in hard-commodity and capital goods trade, the former for capital flight and devaluations. Agreement to fixed rates is a step the BRICS nations must take if they are going to trade in national currencies on a large scale, rather than in “niches.”

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## Malaysian, Chinese Co-Authors Offer Proposal for New Reserve Currency

Malaysia has been active among Southeast Asian nations in advancing “de-dollarized” trade with China using the Malaysian ringgit and China’s yuan instead of the dollar or euro. At the same time, economists discussing the prospect of new international reserve currencies have consistently assumed that China’s capital controls—allowing the Chinese currency to be exported only under strict conditions—mean that the yuan cannot be a

new reserve currency among BRICS nations, for example. This idea obtains even though during the 1945–65 period of effective operation of the post-War Bretton Woods monetary system, the United States exercised capital controls on the dollar while it, with its gold-reserve basis, was the international reserve currency.

On April 24, Malaysian and Chinese economists Dr. Rais Hussin and Jason Loh Seong Wei of the Emir Research think-tank wrote a long [column](#) in *The Sun Daily* of Malaysia arguing that a currency under capital controls can still sustain fixed exchange rates with other major trading currencies, allowing it to have reserve functions. Moreover, the authors argue that Malaysia itself demonstrated this during the 1997–98 so-called “Asia Crisis,” when it placed capital controls on the ringgit but at the same time kept it in a fixed exchange rate at RM3.80 to the dollar (while other Southeast Asian currencies collapsed or fell significantly in value); it allowed Malaysians to make long-term investments abroad with the ringgit, while keeping “monetary sovereignty,” i.e., keeping the currency non-convertible offshore. Their article offers a scholarly paper proving that this was not luck, but a provable principle.

The authors also raise the interesting idea, that the Federal Reserve’s sudden interest-rate hikes beginning March–April 2022 were not inflation-fighting, but “due to the need to shore up the USD, following the move to de-dollarization,” that is, following the Global South’s reaction against the U.S. Treasury’s seizure of Afghan and then Russian foreign exchange reserves.

The authors do not raise the vital issue of national economic productivity, however, and that was the fundamental basis for the dollar’s successful international reserve role during the 1945–65 Bretton Woods system—as Lyndon LaRouche showed in his crucial 2000 [study](#), “On a Basket of Hard Commodities: Trade Without Currency.”