A Certain Form of Thieving: The US Banksters Strike Again

By Dr. Binoy Kampmark
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It looks like 2008 all over again. Economic and financial mismanagement feature in scorching, consuming brilliance. The culpable, bungling banksters, have returned with their customary, venal incompetence. In the customary script, they habitually seek the role of the public purse to socialise their losses. Along the way, they will avoid richly deserved prison sentences, lie low, and return to repeat their sins.

A number of big ships in the banking industry have already sunk into oblivion, sold off and made footnotes in financial folklore. Silicon Valley Bank, Signature Bank and most recently, First Republic Bank, have begotten their own tombstones. These big three held, in total, $532 billion. When adjusted for inflation, it edges out the total of $526 billion held by the 25 banks that collapsed in 2008.

First Republic Bank was particularly execrable in its practices, offering non-guaranteed mortgages at fixed rates for vast sums of money. When chills started running down the spines of depositors in the first quarter of this year, bleeding withdrawals totalling $102 billion made.

The US Federal Reserve's review of SVB's collapse picked up on a number of issues specific to the bank's actions, while also offering a *mea culpa* for not only its own failings, but for those of the Federal Deposit Insurance Corporate and the Consumer Financial Protection Bureau. After all, what were these supposedly eagle-eyed supervisors, the stewards tasked with overseeing the system, doing during all this time?

As the Reserve found, there had been a conspicuous failure on the part of the board of directors and management to manage the risks at SVB. There is also an admission by the Federal Reserve that they "did not fully appreciate the extent of the vulnerabilities as Silicon Valley Bank grew in size and complexity." Even when these were identified, insufficient steps were taken to ensure that the defects were corrected "quickly enough."

SVB, it turns out, was something of a poster boy of bad behaviour. It was cited for not complying with a number of requirements: the Bank Secrecy Act, Current Expected Credit Losses measurements, stringent data protection, having a sufficient internal auditing framework, and the Volcker Rule. The latter's aim is to prevent banks from dabbling in that most risky of ventures: securities and derivatives. For the bankster, lessons are there to be unlearned.

Most telling of all was that great gremlin of the banking sector: deregulation. During the Trump administration, a number of checks and controls were wound back, notably regarding the middle ranking, smaller banks. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which set $50 billion and above as the line which would demand greater regulation on capital and mergers, came in for particular punishment. The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 raised the asset threshold to $250 billion. Those below could engage in conduct becoming the most profligate wastrels.

As the Board found, the "tailoring approach in response to the Economic, Growth, Regulatory Relief, and Consumer Protection Act and a shift in the stance of supervisory policy impeded effective supervision by reducing standards, increasing complexity, and promoting a less assertive supervisory approach."

The Federal Reserve's Vice Chair for Supervision, Michael Barr, drew a number of conclusions that looked awfully like those reached in the aftermath of the 2008 financial crisis. "[W]e must strengthen the Federal Reserve's supervision and regulation based on what we have learned." The SVB review represented "the first step in that process – a self-assessment that takes an unflinching look at the conditions that led to the bank's failure, including the role of Federal Reserve supervision and regulation."

These are fine admissions, but they all seem to have come a bit late. The US banking system is teetering, notably those in the middle rung. And they tend to have banksters of such cheek as former Silicon Valley Bank CEO Greg Becker, who will be testifying before the Senate Banking Committee on May 16.

Becker, it should not be forgotten, was thrilled by the Trump administration's policy adjustments, realising his own efforts in 2015 to convince the Senate Banking, Housing, and Urban Affairs Committee to reduce safety standards. In his statement to the committee, Becker claimed that SVB did "not present systemic risks" and was adequately policed by an adequate number of "highly skilled risk professionals" and "a stand-alone, independent Risk Committee of our Board of Directors". There were also a "range of different stress tests designed to measure and predict the risks associated" with the "business in different economic scenarios." The proverbial pigs sought, at this point, to fly.

The sparring members of Congress are also not at one as to what brought on the rot. The Republicans, in characteristic fashion, refuse to accept deregulation as the culprit, preferring to focus on egregious human error and mismanagement. Rep. Andy Barr of Kentucky offers another thesis: that a flush of funds and government overspending, fuelling inflation, coupled with low interest rates, were the causal factors. Democrats such as Sen. Elizabeth Warren of Massachusetts and US Rep. Katie Porter of California underlined the winding back of regulations as the problem, requiring muscular legislative correction.

The Oracle of Omaha, Warren Buffet, suggests that US banking directors should put their heads on the metaphorical chopping block. At the very least, they "should suffer" some form of retribution, though what form this takes is not entirely clear. Not making them do so "teaches the lesson that if you run a bank and screw it up, you're still a rich guy, the world goes on … That is not a good lesson to teach the people who are holding the behaviour of the economy in their hands."

Charlie Munger, who also serves as vice-chairman of Buffet's investment firm Berkshire Hathaway, does not disagree. "I don't think having a bunch of bankers, all of whom are trying to get rich, leads to good things. I think bankers should be more like an engineer, avoiding trouble rather than trying to get rich … It's a contradiction in values."

Such a contradiction continues to exist with vengeance, fed by an unspoken conspiracy between the banking sector and government officials who regard regulation as unbecoming to the buccaneering spirit. A certain form of thieving is always to be encouraged, and it might even be subsidised too.

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Dr. Binoy Kampmark was a Commonwealth Scholar at Selwyn College, Cambridge. He currently lectures at RMIT University. He is a regular contributor to Global Research and Asia-Pacific Research. Email: bkampmark@gmail.com

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