A Systemic or Fleeting Crisis?

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The month of March 2023 has come out to be yet another nightmarish experience for the world of global finance, after the collapse of Washington Mutual and Lehman Brothers in September 2008. This started when on March 10, the world financial market saw the collapse of Silicon Valley Bank (SVB), followed by the collapse/near collapse of two other banks in the US, named as Signature Bank and First Republic Bank. Incidentally, the last one was rescued by 11 other US Banks by contributing $30 billion as deposit, over and above more than $100 billion being contributed by Federal Reserve (the US Central Bank) and Federal Home Loan Bank. It once again substantiates that the world of global finance, now calling shot over every aspect of real economy, to spin money through creation of bubbles and speculation, is not omnipotent and it can never be free from crisis. A careful reading of the latest *Economic Report of the (US) President to the Congress*, as published in March, 2023 exposes (despite exuding confidence about rebounding of the US economy post pandemic), serious limitations now being experienced by the US economy to touch the real GDP growth figures of 2021 at 5.7% in the next ten years up to 2033, when the real GDP growth is barely 0.9% in 2022 and expected growth rate slowing down to only 0.4% in 2023. This may see an upward shift to 2.2% in 2033, never be able to match the impressive figure of 2021(all Q4 to Q4 estimates).

Silicon Valley Bank (SVB) –heralding the current financial crisis

Created in 1983, SVB, that showcased itself as a partner in innovation economy by financing tech start-ups along with venture capital funds, fuelling the boom (read ‘bubble’) in the sector to a great extent, that sustains the operation of circuit of generation of profit of global finance, offered higher interest rates on deposits than its larger peers, to attract huge deposits from venture capital funds and start-ups. But the avenues of its investments started to slowly drop-off, as the start-ups began losing steam, due to economic crisis, germane to capitalism, of over-production failing to find adequate consumers to stomach such production. Then SVB, sensing dangers, started to invest in fixed earning long-dated American Treasury Bonds and mortgage bonds with handsome returns. The system worked well in the short term, especially in the post-Covid scenario, when the Central Banks, especially in the advanced economies like the US Federal Reserve, began to pump huge liquidity into the system, to tide over the economic crisis. In the process, the bond interest (a function of Fed Policy Fund rates) started to ease, with the Fed reducing interest in subsequent tranches. This resulted in huge profit for banks like SVB whose massive holding of US bonds of over $90 billion (mostly “Held to Maturity” or HTM category bonds), earned *super notional* *profits*, as the price of bonds is inversely proportional to interest rates. Interestingly, this strange accounting norm (read, shenanigan) also contributed to huge bonuses to the top executives of SVB. Sensing this, start-ups, including some *Indian varieties* too, began to park enormous deposits in banks like SVB, to earn super profits on their temporary idle funds, in the time gap between actual accretion of money from venture capital funds, even from SVB, and final investment, through the inter mediation of higher interest rates on deposits offered by SVB. As a result, SVB's deposits doubled to $102 billion at the end of 2020 from $49 billion in 2018. This leap-frogged to $189.2 billion in 2021.

However, everything has turned on its head when the Fed began to raise interest rates from 2022 (which is 4.75% - 5.00% now), to tame inflationary pressure, arising out of previously followed easy money policy. In this whole process, SVB started to sell their bonds, finding no other avenues to raise money and boost liquidity, as the depositors, sensing trouble, began to withdraw their deposits from the bank. In this, bubble bursting exercise, SVB had to incur a significant loss of $1.8 billion. Due to this loss, SVB had needed to raise additional capital of $2.25 billion, by issuing new common and convertible preferred shares. This decision caused further panic and a run on the bank, as SVB had vast amount of uninsured deposits over and above $2,50,000 that is insured by the Federal Deposit Insurance Corporation (FDIC). Finally, SVB, facing imminent collapse, was closed on 10 March, 2023 by the California Department of Financial Protection and Innovation.

The problem with Signature Bank:

To some extent, Signature is a victim of the panic around Silicon Valley Bank, a contagion, whom the regulators seized on Friday, 10 March, 2023. Interestingly, the Signature Bank became one of the few banks to welcome cryptocurrency deposits, a new bubble of created 'virtual/digital private currency' just before the speculative, overheated industry got blustered last year.

Announcing the closure of Signature Bank on Sunday, 12 March, 2023, regulators, however, said that customers of both banks would be made whole regardless of how much they held in their accounts. This raised the question of 'moral hazard', which, in essence, means ***"Privatisation of profit, and socialisation of loss"*** with huge tax-payers money being pumped in to save private banks.

The problem with First Republic Bank :

Shares of First Republic have been in free fall — in the week beginning on 13 March 2023 alone, in which the lender lost about 70 percent of its market value.

The problem of depositors' run on First Republic Bank clearly indicates, despite best of efforts at window dressing by the big US Banks and the Fed, the world of global finance is in tatters now.

Takeover of Credit Suisse by UBS: A shot-gun wedding

The daily headlines about trouble befalling on one bank or another continue to foment uncertainty around the banking industry at large in the Northern hemisphere. The latest in the list being Credit Suisse, a Swiss financial behemoth that could weather even 2008 crisis.

Here are the short points:

- The plethora of troubles that felled Credit Suisse in the week ending on 17 March 2023 finally culminated in a $3.25 billion takeover of the Swiss bank by its bigger rival UBS on Sunday, 19 March 2023. This added an extra dark cloud about the future of global finance.
- The announcement of a loan of 50 billion Swiss francs from the Swiss National Bank (the Swiss Central Bank) failed to mollify investors' concerns and eventually necessitated the 167-year-old institution's "emergency rescue" by UBS.
- Years of financial swindling, scandals, skullduggery have all contributed to the collapse of this financial giant like that of SVB, Signature et al.

Is it a Domino now?

Close on the heels of Credit Suisse Crisis that gutted the confidence of global depositors/investors on the stability of the Northern Banks, the Dutch Central Bank declared losses for the first time since 1931. As if this is not enough, they have anticipated loss-making years to extend till 2028 fearing that the central bank might lose its entire equity capital in the process. On 24 March 2023, Deutsche Bank (NYSE:DB) stock made a 6.7% nosedive bringing its one-month share price loss to over 20%. Reason for the nosedive: A spike in the credit default swaps or CDS, which is a financial derivative allowing investors to offset their credit risk. Simply put, it is an insurance against default, and hence a 'marker' that the Bank may default in repaying their bond-holders. Shares of other big European banks also fell on the same day, including a 5.5 percent drop for Germany's Commerzbank, a 5.3 percent fall for France's BNP Paribas and a 3.5 percent loss for UBS. Savers in the US are making a beeline to withdraw their deposits from smaller banks due to falling morale and the news that another 186 banks in the US may fail. Despite all assuring statements by the US and European leaders that their financial system is sound and robust, the flappable investors and savers seemed not fully assured apprehending a Domino Effect like in 2008.

Are there Lessons for India?

In this situation, we have important lessons to learn for India:

- The question of ownership in the hands of the State of all principal productive, basic industries including important financial institutions like Banks, Insurance, and Development Financial Institutions is too important now to be brushed aside with boorish logic that market can take care of everything. The state ownership and strict regulatory oversight by the time tested institutions like RBI are not burdens but assets to insulate India from global financial crisis like what happened largely in 2008.
- Trade Unions in general and Bank and Insurance Employees' Trade Union movement in particular, did play a historic role in fighting back the Neo Liberal Policy of Privatisation. They, especially Bank employees, participated in no less than 72 days' of strike actions apart from many other united TU actions. The working class, peasantry in general, and again, bank, insurance employees in particular, have participated in these struggles, many a time, by suffering wage cuts, deferment of due increments and other losses.
- Hence, there is an urgent need to deeply introspect the policy drive towards privatisation and blindly following the Neo-Liberal prescription of outright privatisation of public assets, mostly through cronyism, including dismantling, or weakening of the DFIs like NABARD that cater to the essential long term financial needs of industry and agriculture. In this, the Asset-Liability Management (ALM) for banks, insurance and financial institutions is too important to be left to the sole discretion of few in the Board/Dealing Rooms of financial institutions outside the democratic public scrutiny and oversight (including deep Parliamentary examination). Any mismatch in ALM should be immediately addressed and fixed, without waiting for an infantile logic that the market will take care of everything.
- A special focus and regular in-depth scrutiny by the regulators on the functioning of Banks, Insurance Companies, large systemically important institutions in particular, are necessary. This should be especially in respect of their investments/loans against shares of corporates that suffered huge losses recently in stock markets.

Annus Horribilis for global finance capital

At this yet another critical juncture of global capitalism, whom can we turn back other than Marx to help us to wade through the muddle now? As, for Marx, it is the failure of collective agency that prevents capitalists from changing their 'fate'.

He also explained why he thought the "internal contradictions" of the system inescapably would mount into a generalized, system-wide breakdown.

Building on this same argument, famous British historian, Late Eric Hobsbawm in his ground-breaking work "Fractured Times: Culture And Society in the Twentieth Century"(2013) noted in the Preface, "…the logic of both capitalist development and bourgeoisie civilisation itself were bound to destroy its foundation, a society and institutions run by a progressive elite minority, tolerated, perhaps even approved of, by the majority, *at least so long as the system guaranteed stability, peace and public order and the modest expectations of the poor*…". Nothing could be more prophetic than the above few lines to fathom the political economy underlying the current systemic crisis of global (finance) capitalism, manifested now through yet another banking crisis in the North, likely to have deep contagion effect on others. As the unfolding events from 2008 signify, this is already shaking the system in its foundations, stubbornly refusing it to be transient in nature.

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