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16.04.2023

Interview with Michael Roberts. The origins, nature and trajectory of the crisis

Banks on the edge of the abyss?

Sources: South wind

The banking sector has been hit by a series of bankruptcies, government bailouts and takeovers. The crisis of these banks has turned stock markets around the world. What has caused all this? Is this a temporary crisis? What impact will it have on the real economy? Spectre's Ashley Smith interviews Michael Roberts, asking him these and other questions about finance capital and global capitalism today.

Ashley Smith: What were the immediate causes of this spate of bank failures?

Michael Roberts: The immediate cause of the recent bank failures, as always, was loss of liquidity. What do we mean by that? Depositors in the Silicon Valley Bank (SVB) and in the First Republic and also in the bank of cryptocurrencies, Signature, began withdrawing their cash in a big way, and these Banks did not have the liquid cash to meet the demands of the Depositors.

Why? Two key reasons. First of all, great Some of the cash that had been deposited in these banks had been reinvested in assets that, in the last year, have lost a lot of value. Secondly, many of the depositors in these banks, mainly small businesses, They had realized that they were no longer making a profit or funding. additional investors, but who still had to pay their bills and to staff. So, instead of accumulating money, they started withdrawing the money. effective.

Why did banks' assets lose value? The The cause is the general rise in interest rates in the sector financial driven by the measures of the Federal Reserve that raised The basic interest rate is abrupt and fast, supposedly to control the inflation. How does that work?

Let's see: to make money, banks offer to the depositors an interest of 2% per annum on their deposits. And to cover that interest, either they grant loans at a higher rate to customers, or invest depositors' cash in other assets that accrue a Higher interest rate. Banks can get that higher rate if They buy financial assets that pay more interest or that they can sell with benefits (but which could be riskier), such as corporate bonds, mortgages or shares.

Banks can buy bonds, which are safer Because banks get all their money back at maturity of the bond, say, at after five years. And every year the bank receives a higher fixed interest rate. than the 2% that its depositors receive. You get a higher rate because you don't You can get your money back instantly, but you have to wait, even during years.

The safest bonds to buy are the bonds of the State, because Uncle Sam is (probably) not going to stop repaying the bonus after five years. So the managers of the SVB thought they were being very cautious when buying government bonds. But therein lies the problem. If you buys a $1,000 government bond that *matures* in five years (it's That is, you get back all of your investment in five years), you pay a interest of, say, 4% per annum, then, if your deposit customers only They get 2% annually, you are making money.

But if the Federal Reserve raises its interest rate By 1 percent, banks must also raise their deposit accordingly or they will lose customers. The bank's profit is reduced. But what's worse, the price of his £1,000 bonus existing in the Secondary bond market (which is like the second-hand car market) Falls. Why? Because, although your government bond still pays 4 per One hundred each year, the spread between the interest on your bond and the interest In effect for cash or other short-term assets has been reduced.

If you need to sell your bond on the secondary market, Any potential buyer of your bond will not be willing to pay 1,000 dollars for him, but, say, only $900. That's because the buyer, by paying only 900 $ and getting 4% interest, can get now an interest income of 4/900 or 4.4%, which makes it more deserving of the It's worth buying. SVB had a portfolio of bonds that it bought *at par* ($1,000) but which were worth less on the secondary market ($900). Thus, he had *unrealized losses* on his books.

But what does that matter if you don't have to sell them? SVB You could wait for the bonds to mature and then get all the money back. invested plus interest over five years. But here's the second part of the problem for SVB. With the Fed raising rates and the economy slowing into recession, especially in the new tech sector creation in which SVB was specialized, its customers were losing benefits, so they were forced to spend more cash and reduce your deposits in SVB.

In the end, the SVB did not have enough cash. liquid to deal with withdrawals, but had many bonds that had not matured. When this became apparent to the depositors, those who were not covered by state deposit insurance (anything over $250,000) panic was generated and everyone He began to withdraw funds. This became evident when the SVB announced that It would have to sell much of its holdings of bonds at a loss to cover withdrawals. The losses seemed to be so great that no one would put new money in the bank and the SVB went bankrupt.

Thus, the lack of liquidity became Insolvency, as always. How many small businesses realize that, if they had gotten a little more money from their bank or an investor, Could they have circumvented the lack of liquidity to remain active? Instead Not getting more help, they have to close. That's basically what happened. at SVB, and at Signature, the cryptocurrency deposit bank, and now at First Republic, a bank for medium-sized businesses and wealthy people from New York.

Ashley Smith: What have the United States and other states done to stem the financial crisis? Will it work to prevent further bank failures and calm stock markets?

Michael Roberts: The government, the Federal Reserve and the big banks have made two stuff. First, they have offered funding to meet the demand for cash from depositors. Although in the United States deposits in Cash over $250,000 is not covered by the government, which has waived that threshold and said it will cover all deposits as emergency measure.

Second, the Federal Reserve has created a special loan instrument called Bank Financing Programme a Term in which banks, using bonds as collateral, can obtain One-year loans to get cash and be able to cope with the withdrawals of depositors. Thus, they do not have to sell their bonds for below *par*. These measures are aimed at ending *the panic* against banks. But, of course, they do not solve the underlying problems in which they are Banks find due to rising interest rates and falling interest rates. the profits of the companies that use these banks.

Some argue that the SVB and the other banks are small-time and rather specialized and therefore do not reflect problems broader systemic. But it's not clear. First, the SVB was not a Small bank, it was not even specialized in the technology sector: it was the sixteenth largest in the United States and its fall was the second largest in the United States. American financial history. In addition, a recent report by the Federal Deposit Insurance Corporation shows SVB is not the only one that has huge *losses not made* in his books. The total of all banks it currently amounts to 620,000 million dollars, or 2.7% of GDP American. That's the potential cost to banks or the economy if These losses come true.

In fact, 10% of banks have the biggest losses not recognized than those of the SVB. The SVB was also not the worst-capitalized bank, since 10% of the banks had a capitalization lower than that of the SVB. One Recent study found that the market value of system assets Banking is $2 trillion lower than suggested by the book value of assets taking into account loan portfolios held up to their expiration.

Bank assets adjusted for market value have declined an average of 10% across all banks, and the bottom 5th percentile has experienced a decrease of 20%. Worse, if the Fed continues to raise the interest rates, bond prices will fall further, losses will not Realized will increase and more banks will face a lack of liquidity.

Thus, it is quite possible that emergency measures are not enough. The current claim is that additional liquidity can be financed by larger, stronger banks that take over the weak and restore financial stability without hitting workers and workers. This is the market solution in which the big vultures They cannibalize dead carrion: for example, the British branch of the SVB has been bought by HSBC for £1. In the case of Credit Suisse, Swiss authorities are trying to force a takeover by the bank largest UBS for a price equivalent to one-fifth of the value of current market of the CS.

However, if the current crisis becomes Systemic, as happened in 2008, that will not be enough. Instead, they will have Socialized the losses suffered by the banking elite through bailouts government, triggering public sector debts (already at maximums historical), which will be taken care of at the expense of the rest of us by means of a higher taxes and more austerity in public spending on welfare, and services.

Ashley Smith: Will the Federal Reserve and other central banks continue to raise interest rates to fight inflation or will they backtrack to avoid further banking crises?

Michael Roberts: It seems very likely that central banks will continue to raise interest rates. interest in their impossible quest to control inflation. They will only stop if a new series of bank failures occurs. So, you may are even forced to backtrack on their monetary policy restrictive to save the banking sector.

At the moment, they are putting on a brave face and stating that the banking system is very *resilient* and in much better shape than in 2008. Backtracking on tight monetary policy would be disastrous for the credibility of central banks, as it would expose that Central banks do not control the money supply or interest rates nor banking activity, but quite the opposite.

Ashley Smith: What are the root causes of today's inflation and financial instability?

Michael Roberts: Take financial instability first. Capitalism is a Monetary or money economy. Production is not for direct consumption. The Production of goods is intended for sale in a market to be exchanged for money. And money is needed to buy goods.

Money and commodities are not the same thing, so What the circulation of money and commodities is intrinsically subject to to rupture. At any time, money holders can decide not to buy goods at the prevailing prices and instead hoard it. Then Those who sell the goods must lower prices or even go bankrupt. Many Things can trigger this breakdown in the exchange of money and commodities, or money for financial assets such as bonds or stocks – equity fictitious, Marx called it. And that can happen suddenly.

But the main underlying cause will be overaccumulation of capital in the productive sectors of the economy or, in In other words, the fall in the profitability of investment and production. Customers of tech companies in the SVB had begun to lose profits and were suffering a loss of funding from the so-called venture capitalists (investors in start-ups), Because investors saw profits falling. That's why technology They had to reduce their cash deposits. This destroyed the liquidity of the SVB and forced him to announce a forced sale of his assets in bonds.

In the financial *crash* of 2008, the liquidity crisis was caused by the collapse of the housing market, not that of tech companies like now. It left many lenders with serious losses on mortgage bonds, and Derivatives of these bonds multiplied the effect across the sector financial and internationally. But the collapse of the housing market In itself it was due to a fall in the profitability of the productive sectors of the economy from 2005-2006 that ended up causing a total fall in benefits that encompassed the real estate sector.

This time the monetary rupture has been caused by the Global inflationary uptick since the pandemic ended Covid. Inflation driven mainly by huge cost rises of energy and food due to supply chains International were broken during Covid and did not recover.

The companies that reopened their doors found that they could not cope with the revival of demand; No They got ships, containers, ports and platforms oil companies will work properly again. Food supplies and energy dried up and prices rose, even before the war between Russia and Ukraine will intensify the collapse of the supply chain in Key raw materials. Beyond food and energy, inflation Underlying growth accelerated due to low overall productivity growth in The main economies: capitalist enterprises could not find enough qualified staff after covid and had not invested in new capacity, so labor productivity growth was insufficient to meet the revival of demand.

What is clear is that the acceleration of the inflation was not caused by rising labour costs (i.e. wage increases); On the contrary, the workers were (and are) very Behind the inflationary spiral when it comes to getting wages compensate them. Instead, rising raw material costs and The shortages allowed firms with pricing power, is That is, the big multinationals, raise prices and increase margins of profits to all-time highs, especially in the case of energy and food companies. It is a spiral of profits and prices.

Despite this, monetary authorities throughout the The world has ignored or denied that accelerating inflation was a Supply-side problem (as is often the case in the mode of production) capitalist). Instead, they claimed that it was due to excess demand that It induced a spiral of wage-prices. So, his response was to raise the interest rates, reversing their previous quantitative easing policies (QE) by quantitative easing (QT) policies and reducing liquidity (cash and cheap credits). Thus, the cost of borrowing for companies invest or households pay mortgages, etc., has risen sharply And now it has fractured the banking system.

The irony is that raising rates will still have little direct effect on inflation rates; on the contrary, this policy It squeezes benefits and wages and thus accelerates the slowdown in economies towards recession; as was the case under the Fed's regime of Volcker in the late '70s and early '80s, which led to a recession very deep between 1980 and 2002.

Ashley Smith: How is this crisis different from the 2008 crisis and the Great Recession? What restored growth then? Are these means available today to the capitalists and their states?

Michael Roberts: Capitalist production and investment suffer regular and recurrent declines. They are a necessary corrective to the tendency to fall profitability with the

Passage of time. Depressions eliminate non-productive sectors and they allow the stronger to take over the markets of the weak, reducing labour costs through higher unemployment and thus settling down the foundations of greater profitability and economic recovery. This process is has called *destruction creative*.

The Great Recession of 2008-2009 did it until A certain point, but only up to a point. The return on capital in the Major economies remained below levels seen at the end of the 1990s. This has kept investment in sectors weak. Productive. Companies relied on cheap or almost no credit to keep going. Ahead: The proportion of *zombie companies* that survive simply borrowing more has already reached around 20%. The pandemic collapse of 2020 showed that this depressed and stagnant capitalism has not recovered still; There has not yet been creative *destruction*.

Ashley Smith: What solutions does the capitalist establishment offer today? Work?

Michael Roberts: The mainstream solution to bank failures is always The same: better regulation. Even the most radical economists of the mainstream, like Joseph Stiglitz, or politicians like Bernie Sanders or Elizabeth Warren, push this solution. And yet, the regulation of a Inherently unstable and speculative financial sector does not work, without more.

The history of regulation is a history of ignorance, evasion and lies. Take the case of the SVB: regulators are not They realized the interest rate risk that the management of the SVB by buying so many bonds, despite warnings from various sources. And Time and time again, banking scandals have surfaced that regulators have passed through. overlooked.

Instead of regulation, what is needed is for Major banking and financial institutions become owned public, to be democratically managed and supervised by the workers in these institutions and in the economy in general. We need to close speculative investment banks like Goldman Sachs or investment megaliths like Black Rock. We have to put an end to the grotesques Salaries and bonuses of bank executives and bank operators Investment banking.

Banking should be a public service like the Education or garbage collection, not a place to gamble in casino financial with our money. Some people say that, even if banks State will simply accept deposits and then lend to companies. to invest and households to buy items of great value, Panic could still occur against them on the part of depositors.

Yes, maybe. But that is very unlikely if the depositors know that their money is safe because the state is behind the bank, and the banks no longer speculate and are run democratically and transparent. If interest rates go up and that causes state-owned banks suffer losses in their holdings of government bonds, those losses would be shared by the whole society equally and not by the workers to save to depositors and wealthy companies at the expense of the rest of us. But the Public ownership of banking is taboo in all currents of opinion, even in the socialist.

Ashley Smith: What is the likely trajectory of world capitalism?

Michael Roberts: The first two decades of this century have shown that capitalism It has already passed its expiry date. Economic growth has slowed until it becomes a trickle; Economies have suffered two major collapses (2008-2009 and 2020), including the biggest financial crash in history. The investment in value-creating sectors that could increase revenues, and Reducing working hours has not occurred.

Global warming and climate change are not They have slowed down, and we are heading towards an existential disaster. Poverty in the The so-called Global South is getting worse and income and wealth inequality is increasing everywhere. Capitalism is locked in a long stagnation or depression.

It will only be exceeded (and only temporarily) if the capital destroys workers' living standards enough to increase profitability and restore investment growth. But Any attempt to do so could provoke a class conflict without Precedents. Thus, for the moment, the strategists of capital have chosen for crawling and not grabbing the nettle of liquidation and destruction creative. But there are more and more forces that want to do it.

Original text: https://spectrejournal.com/banks-on-the-brink-the-origins-nature-and-trajectory-of-the-crisis/

Translation**: south *wind***

Source: https://vientosur.info/bancos-al-borde-del-abismo-los-origenes-la-naturaleza-y-la-trayectoria-de-la-crisis/

Rebelion 15.04.2023