**SVB collapse**

Nick Beams

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The collapse of Silicon Valley Bank (SVB) – the second largest bank failure in nominal terms in US history – and the ongoing turbulence in the banking system, raising the prospect of more failures, is another expression of the historic crisis of US and global capitalism.

This deepening rot and decay constitute the underlying driving force of two interconnected developments in US and world politics: the rapid escalation towards a third world war and the ongoing and intensifying assault on the working class in the US and internationally, as the ruling classes seek to make it pay for the existential crisis of their outmoded and reactionary private profit system.

The commitment by the Biden administration to do “whatever is needed” to protect the money and wealth of financial investors, speculators and the wealthy has again laid bare the real nature of capitalist governments as the executive committee for managing the affairs of the ruling financial oligarchy.

There is no money for the vital health, education and other social needs of the working class now being battered by the worst inflation in more than four decades, but billions, trillions, can be found overnight to defend the wealth of the financial oligarchy.

At the same time, no expense is being spared in the development of the means necessary for the prosecution of war – the US-NATO war in Ukraine, the goal of which is the breakup and dismemberment of Russia and the war drive against China, which the US regards as its chief global rival.

There is a deep-seated and organic connection between the SVB debacle and the possibility of an implosion of the financial system and the war drive.

The continuous eruption of financial crises, despite all the claims of the regulators and financial authorities that lessons have been learned and safety measures put in place, is an expression of the historic decline of the economic power of US imperialism, which it seeks to resolve through military means.

The prescient analysis of Leon Trotsky made in 1928 springs to mind. He noted that the aggressive character of US imperialism would emerge more openly, more nakedly and more viciously under conditions of its historic decline than under the conditions of its rise, bloody and violent as that was.

The demise of SVB and the shock waves it is sending through the financial system, the full consequences of which have yet to be seen, is another expression of the essential dynamic, one could say law of motion, of US capitalism now in operation.

Tracing out the developments of the past 50 years, this dynamic comes clearly into view: Measures taken by the ruling class and its state to try to stave off or alleviate a crisis at one point only create the conditions for its eruption, in even more violent form, at another.

In August 1971, in response to the decline of the position of American capitalism vis-à-vis its rivals, US president Nixon withdrew the gold backing from the US dollar, ending the postwar monetary system.

One of the consequences of this decision, taken to shore up the position of the US, was to fuel the growth of financial speculation that increasingly characterised the modus operandi of US capitalism throughout the 1980s, as whole swaths of industry that had formed the foundation of the postwar boom were laid to waste.

In October 1987, the developing crisis these measures produced erupted in the form of a Wall Street crash, still the largest single one-day fall in history, at more than 22 percent.

The guarantee by the US Federal Reserve Chairman Alan Greenspan in response to this crisis – what became known as the Greenspan put – that the Fed would prop up the financial markets fueled an expanding orgy of speculation over the next two decades, leading to the eruption of the US and global financial crisis of 2008.

The Fed and the US government then organized a bailout of the banks running into hundreds of billions of dollars, as the unemployment rate rose to double digits, working class families lost their homes, and workplace conditions worsened, not least through the spread of two-tier wage systems organised by the Obama administration with the collaboration of the trade unions.

In the wake of the crisis, the Fed began its program of quantitative easing, the pumping of trillions of dollars into the financial system via the purchase of Treasury bonds and mortgage-backed securities. Instead of ending the rampant speculation that precipitated the 2008 crash, the central bank, the chief financial arm of the capitalist state, further fueled it.

This meant that when the COVID-19 pandemic struck in early 2020, the Trump administration, supported by the Democrats, refused to institute the necessary public health measures, fearing they would collapse the speculative bubble.

Instead, the Fed pumped in still more money after the financial freeze of March 2020, when, for a number of days, there was no market for US government debt, supposedly the safest financial asset in the world, thus fueling even more speculation and financial parasitism.

But this operation had consequences in the real economy. The refusal to eliminate COVID, the injection of $4 trillion into the financial system, rampant speculation and profit gouging by major commodity traders and giant food corporations, together with the military offensive against Russia in Ukraine, combined to set off the highest rate of inflation in four decades.

Fearing the consequences of a wages upsurge by the working class – the nemesis of the financial system – the Fed then changed course and started the steepest rate hikes since the early 1980s to try to crush it.

Now these measures have created the conditions for a new financial crisis, as can be seen in the collapse of SVB. Like so many other banks and financial corporations, SVB, which has been closely involved with the high-tech sector in California, gorged on the cheap money provided by the Fed in 2020 and 2021.

It had so much cash on hand that it had to place large portions of it in Treasury bonds and mortgage-backed securities, supposedly ultra-safe assets.

With the turn by the Fed to a higher interest rate regime, supposedly to fight inflation but in reality aimed at suppressing the working class, if necessary through recession, the situation shifted sharply.

The market value of the bonds held by SVB fell as interest rates rose, such that it has been estimated its bonds lost $1 billion for every 25-basis point (0.25 percentage point) rise in the Federal funds rate, which has now been lifted by around 450 basis points.

This collapse in its asset base led to the $42 billion run on the bank, resulting in its collapse. The circumstances of SVB are not replicated everywhere. But all areas of the financial system, the dominant force in the capitalist economy, have become so dependent on the inflow of cheap money that they are now being heavily impacted by interest rate hikes, the effects of which have only started to make themselves felt.

What are the consequences? They flow from the very nature of finance capital itself.

At first sight it appears to be able to conjure up ever greater amounts of money out of money itself.

But this appearance-form masks a deeper reality. Finance capital does not create additional or new value. In the final analysis, it is a claim on the surplus value extracted from the working class in the process of capitalist production.

Thus, while it continually seeks to escape to a realm where money begets more money, finance capital always strives to intensify the exploitation of the working class, above all in time of crisis, as the experience of 2008 so graphically demonstrated.

At the same time, driven by the deepening economic and social crisis at home, the government and the capitalist state must make the working class pay for war by massive cuts in social spending.

Excerpted: ‘The bailout of Silicon Valley Bank and the historic crisis of capitalism’. Courtesy: wsws.org