ECONOMICS

# Drowning in Deposits – SVB collapse, Bidenomics and contemporary capitalism

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**The failure of the Silicon Valley Bank and its knock-on effects such as the bailout of Credit Suisse has elicited the usual flurry of social-psychologizing in the 'quality press'. On a recent New York Times podcast, the former Treasury official Morgan Ricks reached new heights of pseudo-profundity by claiming that the problem was 'panic itself' – and that it could be resolved simply by extending a blanket guarantee to all depositors.**

Such an account of the crisis provides no concrete explanation of what happened. The precise causes of the bank's collapse are, of course, debatable; yet the basic structural context and its main lessons seem clear. SVB, which is supposed to serve what is widely viewed as the most dynamic and innovative sector of the global economy, 'tech', had parked a huge quantity of its deposits in low-yield – but supposedly safe – government-backed securities and low-interest bonds. When the Federal Reserve began to raise interest rates, the value of these bonds declined, setting off a classic bank run as depositors scrambled to withdraw their money. Was the panic facilitated by social media or other means of digital communication that encouraged herd behaviour? Who knows, and who cares? The crucial point is that the bank was overwhelmed by the massive growth in deposits from its tech clients – and neither it nor they could find anything worthwhile to invest in.

In short, the SVB collapse is a beautiful, almost paradigmatic, demonstration of the fundamental structural problem of contemporary capitalism: a hyper-competitive system, clogged with excess capacity and savings, with no obvious outlets to soak them up. It must be emphasized that the current vogue for 'industrial policy' – quite pronounced in both the Biden and Macron governments inter alia – will do nothing to address this underlying issue. The immediate practical problem with a new round of investment in which the state seeks to incentivize capital is clear enough. The investors will want their quarterly returns. Why would they tie up capital in vastly ambitious projects, to promote the green transition or increase investment in health and education, which will have long time horizons and uncertain returns? More importantly, even if such a strategy were workable, would it be desirable?

Here we must speak clearly to the section of the left that might be described as 'neo-Kautskyite'. It is clear by now that the Biden Administration is in no way a rerun of the Clinton-Obama years. It has an anti-neoliberal wing that is more than willing to deploy the power of the state to shape the 'private sector' (that peculiar neologism that 'policymakers' use to refer to capital). Some of its members would like to go further and engage in direct government investment. Their sincere desire is to create well-paid jobs and green the economy. In response, many on the US left criticize Biden's programme for its political compromises and timidity. But how different is it, really, from the various notions of 'interstitial transition' so common among those who conceive of socialism's establishment as an updated New Deal? Not much, branding aside.

The problem is that neither the Biden administration, nor the neo-Kautskyites, have a credible answer to the structural logic of capital. Imagine, for the sake of argument, that Bidenomics in its most ambitious form were successful. What exactly would this mean? Above all it would lead to the onshoring of industrial capacity in both chip manufacturing and green tech. But that process would unfold in a global context in which all the other capitalist powers were vigorously attempting to do more or less the same thing. The consequence of this simultaneous industrialization drive would be a massive exacerbation of the problems of overcapacity on a world scale, putting sharp pressure on the returns of the same private capital that was 'crowded-in' by 'market-making' industrialization policies.

How might the US government react to this conjuncture? The response would likely be increased state support, which might take the form of monetary juicing leading to asset bubbles (what Robert Brenner has described as 'bubblenomics') or direct profitability guarantees. But this would only exacerbate the phenomenon of political capitalism. That is, directly political mechanisms would become increasingly necessary to generate returns.

What would be an adequate response to this dilemma from the standpoint of a humanized society? The main point is that no socialist should advocate an 'industrial policy' of any sort, nor have any truck with self-defeating New Deals, green or otherwise. What the planet and humanity need is massive investment in low-return, low-productivity activities: care, education and environmental restoration. Capital is incapable of doing this. It seeks 'value' which these sectors struggle to produce. The underlying reason is obvious: neither health, nor culture, nor the umwelt function very well as commodities. Thus, as Oskar Lange had already intuited in the 1930s, gradualism cannot work. The commanding heights of the economy – in this period, finance – must be seized at once. Any other strategy will lead either to the cul-de-sac described above or to massive capital flight. Under current conditions, half-measures are self-contradictory absurdities. Blather about New Deals and sepia-toned 'Rooseveltologia' should be exposed for what it is: a backward-facing obstacle to the establishment of socialism.

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• "Drowning in Deposits". Sidecar. NLR. 04 APRIL 2023:
https://newleftreview.org/sidecar/posts/drowning-in-deposits?pc=1506