DAILY BEAST

It's Still a Bank Bailout, Even if You Don't Want to Call It One

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March 13, 2023

As the world watches the collapse of Silicon Valley Bank, there has never been a better time for government officials to stay calm and stick to the rule of law. Unfortunately, just as during the 2008 banking crisis, many of them seem incapable of doing either.

As back then, government bureaucrats justify their ad hoc actions by appealing to a higher purpose. They're not bailing out investors, they're protecting depositors. They're not saving rich investors, they're preventing a domino effect from hurting small business owners.

Americans didn't fall for this nonsense in 2008, and they shouldn't now.

While there is still some confusion over exactly what happened at SVB, several things are quite clear.

First, the FDIC is more than capable of handling bank failures, even of this size. They have hundreds of people trained to resolve failed banks, and they do not have to make up a new

playbook as they go along. They should be allowed to do their jobs under the existing regulatory regime.

Next, as many times as federal officials repeat that they're not bailing anyone out, it still won't be true. Are there differences between these bailouts and those during the 2008 crisis? Certainly. But none of those differences change the fact that depositors with more than $250,000 are being bailed out.

Prior to this weekend, any account beyond $250,000 was not covered by FDIC deposit insurance. Now, the federal government will cover the full amount over the limit. It makes no difference whether the money comes from the FDIC fund, the Exchange Stabilization Fund, the Treasury's general fund, or the Federal Reserve.

In the end, the federal government *is* the taxpayers, so people will end up paying for this mess no matter what.

Regardless, the notion that this extra coverage is somehow saving the little guy is beyond absurd. The typical transaction account in U.S. banks is only about $5,000, and nobody with more than $250,000 in an account was a confused small business owner with no knowledge of the FDIC insurance limits.

This move sets a dangerous precedent and suggests that FDIC insurance limits are meaningless. Banks paid into the FDIC fund—with money which ultimately comes from depositors and taxpayers—based on those coverage limits. So they clearly subsidized all the uninsured depositors.

Finally, as in the wake of the 2008 crisis, federal officials are already talking about new regulations to prevent this from happening again. But we didn't need new regulations then and we don't need them now. (And it is not the case that the gutting of the Dodd-Frank law caused the SVB failure—Dodd-Frank was never gutted. It was barely tweaked.)

Prior to the 2010 Dodd-Frank law, the U.S. financial regulatory framework was a mess. It was an overly paternalistic system that included thousands of rules, including those for capital, liquidity, and lending limits.

Dodd-Frank merely doubled down on that system. Then, as now, what should be obvious is that such a system provides a false sense of security. It does so because the government confers an aura of safety on all firms that play by the rules. But it places unreasonable expectations on government supervisors, and it is bound to fail.

The system is only made worse by the expectation that the federal government will step in to pick up some of the pieces when there's a problem. It undermines stability and exposes taxpayers to more risk.

The Treasury and the Fed are now engaged in harmful ad hoc actions, and it is a major policy blunder. They arbitrarily decided that uninsured depositors would be made whole, the very definition of picking winners and losers.

It is incredibly difficult to see how the federal government's actions did not cause further confusion and panic, thus further imperiling financial and economic stability. The FDIC should have been left to its job.

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