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Silicon Valley Bank collapse reveals the power of Trump-style populism

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The collapse of Silicon Valley Bank has put an ideological rift between establishment Republicans and the populist right on full display.

On one side are Republicans who preach the benefits of government deregulation but, in this case, argue the bailout is justified.

The administration has the “tools to handle the current situation,” House Speaker Kevin McCarthy told Fox News, reinforcing a view held by many Republicans in Washington that regulators did the right thing by stepping in to prevent shock waves from going through the broader economy.

On the other side are Republicans like Sen. Tim Scott of South Carolina, the party’s top member of the Senate Banking Committee and a likely 2024 presidential candidate. Appearing on the same program as McCarthy on Sunday, he sounded like he was reading from a different playbook.

“This is the greatest form of corporate cronyism that we’ve seen in a very long time,” Scott said. “We have failure at the Fed, failure at the regulators, and failure at that bank. And the American taxpayer should not be on the hook for this failure.”

Republicans on the right have long argued for a free market approach to banking. Just 10 days ago, Scott sent a letter to Federal Reserve Chairman Jerome Powell warning against raising capital requirements for banks, which Scott said could “have a chilling effect on market making activities and availability of financial services.”

Now agitators and conservative thinkers on Capitol Hill are using SVB's collapse as a reason to rally against Big Tech and the rich, the type of populist themes that animated Donald Trump's rise.

"Biden is bailing out these banks to help his donor friends in Silicon Valley & Wall Street," Donald Trump Jr. tweeted Monday. "We all know that if a small community bank failed in a place like East Palestine, they would never get a bailout!!!"

Presidential hopefuls like Nikki Haley and Vivek Ramaswamy echoed Scott's ideas.

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The Wall Street Journal's editorial board weighed in with a widely read piece posted Sunday evening, repeatedly calling the Fed's actions a "bailout" and pinning the root cause on the Biden administration's economic policies.

"You can't run the most reckless monetary and fiscal experiment in history without the bill eventually coming due. The first invoice arrived as inflation. The second has come as a financial panic, with economic damage that may not end with Silicon Valley Bank," The Wall Street Journal wrote.

Republican leaders are grappling with how to respond to a high-stakes situation during which many believe bailing out the bank is the best option — but a base of voters on the right may not agree.

Echoes of the 2008 financial crisis are lurking around every corner. Critics point out that the bank's executives received their annual bonuses just hours before the FDIC seized their company.

"The experience with Lehman Brothers and Bear Stearns, and debating what the proper course of action was in those instances, have never been resolved," said Jonathan Bydlak, director of the governance program at the right-leaning R Street Institute. "There are very real ideological divides on these issues. And with Republicans specifically, I think it gets more complicated by the rise of the nationalist, Trumpian right."

Biden and Treasury Secretary Janet Yellen have emphasized that Silicon Valley Bank won't get a bailout from taxpayers. Currently, the FDIC will use an insurance fund that is bankrolled by banks in order to cover the funds of both Silicon Valley Bank depositors and those in the cryptocurrency-focused Signature Bank. Shareholders in the banks will not receive compensation.

Populists on the left sound similar to populists on the right, but their argument is different. Democrats are blaming Trump-era changes to the Dodd-Frank Act that reduced regulations, particularly for smaller banks.

“Let us have the courage to stand up to Wall Street, repeal the disastrous 2018 bank deregulation law, break up too big to fail banks and address the needs of working families, not the risky bets of vulture capitalists,” Sen. Bernie Sanders (I-Vt.) said in a statement Sunday. Sanders made the statement before Yellen announced the Fed’s latest actions; he emphasized that “now is not the time for U.S. taxpayers to bail out Silicon Valley Bank.”

Conservatives in leading think tanks don’t all agree with the Republican Party line or the left’s.

“We’ve created this whole world where it’s weird to talk about a bank failure,” said Norbert Michel, vice president at the libertarian Cato Institute. “In a healthy economy, you’re going to see banks fail.”

Michel and other financial experts interviewed by Grid agreed that the root causes of the failure at Silicon Valley Bank were likely more local, and specific, than the broad strokes being painted by either political party. While Democrats are blaming a 2018 rollback of Dodd-Frank, and Republicans are taking aim at the Biden administration, it’s more likely the causes of failure at SVB are with the bank’s management.