Episode 221: Are We Really Surprised We’re Having Another Banking Crisis?-Alex Pollock & Steve Dewey

Speaker 1 (00:04):

Welcome to the Bill Walton Show featuring conversations with leaders, entrepreneurs, artists, and thinkers. Fresh perspectives on money, culture, politics, and human flourishing. Interesting people, interesting things.

Bill Walton (00:24):

Alex was my second boss, Steve, at Continental Bank in Chicago.

Alex Pollock (00:29):

He hasn't recovered yet, Steve.

Bill Walton (00:32):

He taught me how to write though, which was pretty good. I'll never forget that. That was really good. We brought in the guy from University of Chicago and I learned about nominalization. Don't want to do that. Okay, so let's get this going. Some of this might end up in a pre-show. Okay.

(01:00):

Welcome to the Bill Walton Show. I'm Bill Walton.

(01:04):

Well, it looks like the bill has finally come due for decades of reckless monetary, fiscal, and regulatory policy. After 40 years of relatively stable prices, we now have raging inflation caused by reckless federal spending, interest rates have risen dramatically, and commercial banks are now sitting in more than $600 billion of unrealized bond losses. Silicon Valley signature and First Republic Banks looked to be canaries in the coal mine, potentially the first of many regional bank balance sheets to blow up.

(01:39):

Even the Federal Reserve is now losing money. Regulators have pulled out their default playbook declaring more institution systematically risky, voicing the [inaudible 00:01:50] taxpayers and giving regulators even more control. But there's also something new. The troubling problem of regulatory mission drift. The Fed's historical mandates are to promote price stability and full employment in a safe and sound banking system. But instead, the Fed and the Treasury have changed their priorities to promote the progressive policies of climate change and equity. Moreover, the scenario playing out here could be leading towards something much worse, which would be Central Bank digital currencies.

(02:28):

Joining me to talk all this through is Alex Pollock and Steve Dewey, both longtime grizzled veterans of the banking and regulatory world.

(02:39):

Alex is Senior Fellow at the Mises Institute and was Principal Deputy Director of the Office of Financial Research of the U.S. Treasury Department in 2019 and through 2021. He's an author of a couple great books, "Finance and Philosophy: Why We're Always Surprised" and co-authored "Surprised Again!—The COVID Crisis and the New Market Bubble" which is what we're going to talk about today.

(03:06):

Steve Dewey worked for several years in Asia during the Asian financial crisis with top U.S. Investment groups, including GE Capital and Goldman Sachs. Later he worked for the FDIC during and after the 2008 financial crisis where he was involved in the resolution of failed banks and helped create Dodd-Frank resolution plans for global financial institutions. Didn't we call those living wills, guys?

Alex Pollock (03:34):

Yes, living wills. Yes.

Bill Walton (03:37):

Well, Alex, I'm going to give you the first shot at this. Alex has seniority here because he was my second boss when I was in the commercial banking business. Gosh, Alex, almost 50 years ago? 45 years ago? It's been a long time. And then Alex later on was a member of my Board at Allied Capital Corporation and helped guide me through our own excitement during the 2008 financial meltdown. So, Alex and Steve, welcome.

(04:08):

Alex, thoughts?

Alex Pollock (04:10):

Thank you, Bill, and great to be with you on the show, Steve.

(04:14):

I think something you said there is really important, Bill, which is we are still living in the aftermath of the long manipulation of interest rates and financial markets by the Federal Reserve, but also by the club of central banks. The central banks operate together. They talk each other into the same ideas. They display cognitive hurting and behavioral hurting, and the vast expansion of money and suppression of interest rates to have normally low level was done as a cooperative venture by all the central banks, and now we're seeing the results.

(04:57):

In our book "Surprised Again," we call that central banking to the max and like to point out that although creation of money may seem free in the beginning as the proponents of the so-called modern monetary theory, which is actually the least modern of any monetary theory, namely if you need money printed up. That has a long history in spite of the fact they feel like that's free, it's not free. Nothing in economics is free and you pay the price. We're now paying the price in high inflation in the deflation of the asset price bubbles, which the central banks together, and the Fed in particular, inflated. And now the stresses that you pointed out, Bill, in the banking system.

(05:51):

I'll just mention one last thing, which is as somebody has correctly written, the Federal Reserve's own balance sheet looks just like the balance sheet of Silicon Valley Bank. That is to say a huge number of long-term fixed rate assets [inaudible 00:06:08] liabilities.

Bill Walton (06:08):

Well, I'll let Steve jump in but let me interject this. The treasury issue of almost $8 trillion of bonds, and the Fed bought half and the commercial banks bought the other half. I may have the numbers. I think it may be a little bit less, but that's ballpark.

Alex Pollock (06:28):

Yes.

Bill Walton (06:29):

That meant when the commercial banks; they bought these bonds that they were yielding 1%, 1.5%, 2%. Now, that interest rates are 4%, 4.5%, 5%; that's where the unrealized losses come $600 million. The Fed has the same...

Alex Pollock (06:42):

Billions, excuse me, billion.

Bill Walton (06:44):

Billions, yeah. Who's keeping track? Everett Dirksen, where are you? But the Fed has the same problem with its balance sheet. They were buying these bonds at the same low interest rates, and they've got the same unrealized losses.

Alex Pollock (06:59):

Correct. They have vast unrealized losses. Their last published numbers are an unrealized loss of 1.1 trillion, that now we are up to the 'T', the trillion. That was as of the end of September. And since September, interestingly, the Fed itself has lost $42 billion in the last six months, which just happens to be the amount of their capital $42 billion. So they've run through their whole capital in losses over the last six months. It's very interesting, we have the same pattern, which you would have thought of... I'm sure, Steve, going back to your FDIC days... as the most fundamental financial mistake you could make. Mistakes made by, let's say, the savings and loans around 1980 or so. It was made both by the commercial banking system, led by the Federal Reserve, and as I said before, all the other central banks as well. So they all have this same problem.

(08:01):

Just a last note, Bill, it's not only bonds and mortgage backed securities that caused the problem in the banking system. It's also fixed rate loans because a lot of banks loaded up, again, just like in S&L in the 1970s on 30-year fixed rate mortgages at the top of the market created by the Fed, which is the bottom of yields, and they have huge losses on their loan portfolio, interest rate risk losses on their loan portfolio, as well as on their bond portfolios. One recent estimate of the total losses of including both loans and bonds is about $2 trillion. Some place between $1.7 trillion and $2 trillion.

Bill Walton (08:55):

So Steve, I want you to jump in here. We've given you a lot to work with.

Alex Pollock (08:59):

Thank you, Bill. We're playing. Thoughts, reflections, where are we?

Steve Dewey (09:06):

Well, regarding the two recent big bank failures, Silicon Valley Bank and Signature Bank, I'd like to get into macro causes.

Bill Walton (09:22):

You wrote about that in what? The Federalist or where? The American Spectator?

Steve Dewey (09:28):

The American Spectator.

Bill Walton (09:29):

Okay. Yeah.

Steve Dewey (09:30):

Yeah. It's also republished in FEE, Foundation for Economic Education. It's also appears there. But anyway, I broke it down from a macro perspective as well as a micro perspective with the specific banks. So, looking first from a macro perspective, as Alex was just talking about, the Federal Reserve definitely is a huge factor in what happened with having this zero rate or near zero interest rate policy for so long. I mean, it had Fed funds rate near zero for really since about 2008.

Bill Walton (10:22):

Wasn't it almost 14 years we've had it?

Steve Dewey (10:24):

Yes, it's from 2008 to about two thousand what?

Alex Pollock (10:28):

'22?

Bill Walton (10:30):

'22. Yeah, just last year. Yeah, so...

Steve Dewey (10:33):

Yeah, it kind of jumped up a little bit in the latter part of the Trump administration. Then it came right back down to zero. So for most of the last 15 years, it's been near zero.

(10:45):

And then in addition to that, there's been an enormous increase in the money supply, especially from March of 2020 to March 2022. That two year period, the M2 money supply increased 41%. So when you combine that explosive growth in the M2 money supply with the near 0% interest rate policy, obviously you're going to have inflation. It's got to result in inflation. So that is sort of, I would say, a macro cost that's causing the problems with the entire banking sector.

Bill Walton (11:33):

Well, it seems like bankers... There's the narcotic effect of having the luxury of paying zero interest on your deposits for 14 years, and bankers forgot how to be bankers. And they forgot risk management, duration, all the sort of fundamental stuff that...

Steve Dewey (11:55):

Yeah, it causes more speculative behavior by the banks and it kind of lulls them into a false sense of security. But there's another interesting...

Alex Pollock (12:06):

May I just interrupt there to remind of the definition of a prudent banker? This is paraphrasing John Maynard Keynes: "A prudent banker is a banker who goes broke when everybody else goes broke."

Bill Walton (12:19):

Well, I like the Walter Bagehot one, Alex, that you used in your article, it says, "A banker dealing with the money of others and money payable on demand must always, as it were looking behind him and seeing that he has reserve enough in store of payment, should be asked for. That venture is the life of commerce, but caution is the life of banking."

Alex Pollock (12:48):

Indeed, or it should be.

Bill Walton (12:51):

Steve, Alex and I have been interrupting you [inaudible 00:12:55] for five decades, so you just jump in.

Steve Dewey (12:58):

Yeah. And actually, I find a really interesting macro perspective that I think could be a cause behind the banking problems we're seeing now. And this was brought up by Tom Hoenig. I'm sure you know Tom Hoenig, the former head of the Kansas City Fed, and he was also vice chair of FDIC for five years, and he's now at the Mercatus Center. He brought up a really interesting point, which I haven't really seen anyone else talk about. He was talking about how the regulatory regimes, and I think this came from the Basel... That talking about this sort of regulatory devised capital ratios, and he mentions about the Tier 1 capital ratio as...

Bill Walton (13:59):

No longer measured with real money,

Steve Dewey (14:01):

Yeah. Is something that was devised by Basel and by the central banks around the world. And he was saying that this is a kind of really misleading capital ratio that regulators are really focused on. And he said that if you really focus on real market, realistic tangible capital to asset ratio, it paints a much different picture.

(14:25):

So in the case of Silicon Valley Bank, for example, he was saying the regulatory capital ratio that the regulators look at had Silicon Valley Bank at 16%. But if you look at the more realistic tangible capital to asset ratio, it was only about 5%. And I thought that was a really interesting point.

Bill Walton (14:46):

Yeah. Alex, you know a lot about that.

Alex Pollock (14:48):

Well, if in addition to that you mark the assets to market, it's zero, as they found out.

Steve Dewey (14:55):

Yeah.

Bill Walton (14:56):

I'm sorry, my screen froze up here a second. What'd you say, Alex?

Alex Pollock (15:00):

I said in addition, if you marked Silicon Valley's assets to market, then the capital became zero. That's actually just marking the bonds to market now. So, what is capital? Is something of a political question, I think it's fair to say.

Steve Dewey (15:21):

Yeah. And that's a point that Tom Hoenig was making in an article he wrote about that. That these capital ratios that have been devised by the regulators are really driven more by politics than by the market.

Bill Walton (15:38):

Well, that's something that we ought to talk about because the regulatory regime is not the regulatory regime it was 50 years ago. There's a whole new breed of people occupying those jobs. And if you look at the rest of federal government, I think most of the employees in federal government voted for Joe Biden overwhelmingly, and they've weaponized the whole of government focused on a climate agenda and an equity agenda to just boil it down to the essential, and it's infected all the agencies. If you look at the Treasury's strategic plan, that Janet Yellen has up there, I think there are five objectives for the Treasury and three of them involve climate [inaudible 00:16:25] and equity. And I don't think they've even got a single of the top five objectives that has much to do about the stability of the dollar or the dollars reserve currency status in the world. They just sort of assume that'll always be there and they can play diversity agendas, I guess while Rome burns.

Alex Pollock (16:49):

You said equity, I'd call it so-called equity.

Bill Walton (16:52):

Well, yeah. I wrote something, diversity, equity, and inclusion are three words that mean in their hands exactly the opposite of what they mean that are exactly the opposite.

Alex Pollock (17:07):

Orwellian news [inaudible 00:17:09]

Bill Walton (17:09):

Let me jump in here for a promo.

(17:10):

This is the Bill Walton show, and I remember with Alex Pollock and Steve Dewey, veterans of the Banking and Regulatory World, and we're talking about where we are right now with Silicon Valley and the other banks and the Federal Reserve. I guess the question I have here is the core issue for the banks that failed was poor [inaudible 00:17:31] management, management of duration, which is they had long maturities and short duration liabilities... Or long assets, short duration liabilities. And it seems like that problem exists not just in those banks, but most of the regional banks in the country.

Alex Pollock (17:53):

I think that's right. In the banking system in general, obviously, with the distribution of various ratios. But if you would look at, say, they're about something over 4,000 banks. I guess if you would look at the lower one quarter, or let's say thousand banks, that have the biggest mismatch that way, it would be pretty sobering, I guess.

Bill Walton (18:31):

You've been close [inaudible 00:18:32].

Alex Pollock (18:31):

You got to count loans as well as securities.

Bill Walton (18:34):

Yeah. Steve, what do you think?

Steve Dewey (18:35):

Yeah, I think there's definitely a duration risk throughout the entire banking sector, just simply because of how quickly the Fed has raised the Fed funds rate. There's got to be, I don't know what, well, the figure that Alex mentioned about unrealized losses points to that problem with the duration risk, because a lot of banks have these longer term bonds, even supposedly credit risk-free U.S. Treasuries or mortgage-backed securities that are 10 years in term, and they're being affected by these sudden increases in the interest rates. So, I'm sure that that's a problem throughout the entire banking sector.

Bill Walton (19:24):

So, what about the issues of the uninsured deposits versus security?

Alex Pollock (19:28):

Bill, could I just jump in with one more thought there?

Bill Walton (19:30):

Sure.

Alex Pollock (19:34):

On the interest rate mismatch, in the compendium of favorite sayings in finance and philosophy, you find risk is the price you never thought you would have to pay. I think this applies quite well. This interest rate mismatch risk is one that management surely knew they had, but they never thought they'd have to pay such a price. You could imagine how high and how fast can short-term interest rates increase. You could imagine running a lot of scenarios where they increase some, but nowhere near the 450 basis points. They have gone up 4.5%.

(20:19):

So if you look at the Federal Reserve itself, for example, in March 2021, so just a year before the big interest rate run-up started. The Federal Reserve itself, the Open Market Committee, projected that at the end of 2022, short-term interest rates would be 0.1%. So they were off by 4.5%. And you can imagine a lot of people knowing they had a position, but not being able to bring themselves to take seriously enough to act on it, how much their position might move against them, 4.5%. Taking interest rates, I will say, not to a high level, only to a normal level, 4.5% To 5% short-term rates are historically normal level of interest rates in this country. So all you had to imagine was going back to normal [inaudible 00:21:22].

Bill Walton (21:22):

But Alex, you don't have a PhD from MIT.

Alex Pollock (21:26):

Thank goodness. Yes.

Bill Walton (21:27):

I mean, everybody that graduates from MIT's economic program, doctoral program goes to the Fed. And they all think the same thing, and they've got their models, and they've never worked in the private sector. They've never managed a balance sheet of their own. And there's never been a Fed model that predicted anything correctly, I think, in the last 100 years.

Alex Pollock (21:53):

That's right.

Bill Walton (21:53):

Am I being harsh here? I don't think I am.

Alex Pollock (21:56):

You're being realistic. The financial future, no matter how smart you are, is fundamentally unknowable. One of the themes of my books, no matter who you are, including the central bank, and so we get [inaudible 00:22:08]

Bill Walton (22:08):

But here's the problem, it's like a public... I don't know where the public choice is going to be. But here's the funny thing, if you did go to MIT and you did get a PhD in monetary economics and you did know how to predict interest rates, I don't think you'd go to work for the Fed. You'd set up a hedge fund.

Alex Pollock (22:26):

Well, if you could do it.

Bill Walton (22:26):

And make a couple billion dollars.

Alex Pollock (22:28):

Yeah. If you really...

Steve Dewey (22:31):

Yeah. Bill, I wanted to mention the one thing about this duration risk that we've been talking about that was not apparently not even included in the Fed's stress tests, which is pretty remarkable. Their stress tests that the larger banks provide, they were testing for other things, but one of the things they did not even test at all is duration risk. And that's what brought down both the two regional banks.

Alex Pollock (23:04):

Financial crises are blindside hits on the financial quarterback. You're looking downfield someplace else, not at that 280-pound guy that's about to knock you down.

Steve Dewey (23:18):

And apparently these stress tests were factoring in the risk of climate change.

Alex Pollock (23:24):

Yes.

Steve Dewey (23:26):

Duration risk.

Alex Pollock (23:27):

But not interest rates.

Steve Dewey (23:28):

Right.

Bill Walton (23:30):

We've got to memorialize that. It was climate risk, but not duration. That's certainly not the banking I learned.

(23:38):

But let me ask a bigger... Something I wanted. Is the Fed really in charge here? I mean, we talk about the Fed suppressing interest rates and the other monetary authorities doing that, but how much of that was just the manipulation by the monetary authorities? And were there any market forces at work now? Or let me ask the question another way, the Fed, if it was successful in suppressing short-term rates for a long time and long-term rates, has the genie now come out of the bottle and they can't really control anything? Have they lost control of this at this point?

Steve Dewey (24:16):

Well, I think there is so much inertia built up over zero interest rate, or near-zero interest rate policy for the last 15 years, and the enormous increase in the money supply. I think there's so much inertia built in to what has occurred, that it's going to be difficult to sort of reverse that.

Bill Walton (24:41):

Well, put another way, the friend of mine, Robert Romano was on the show last week. He writes for Americans for Limited Government. Really brilliant on the financial scene. Title of one of his pieces was "Has the U.S. Banking system become too big to save?" And we've got, what, $17 trillion of deposits. And I think I heard Janet Yellen last week declare that those were all going to be de facto insured by the Treasury and the Fed and the FDIC. And what's the FDIC have in assets? About $270 billion? They're a little short of the $17 trillion.

Steve Dewey (25:28):

Their deposit insurance fund, I think it's currently about $128 billion.

Alex Pollock (25:36):

That's what I was going to say.

Bill Walton (25:37):

$128 billion. So not even as much as I thought.

Alex Pollock (25:40):

No, no. But they also have the ability to assess all of the banks to build up their fund. So the whole deposit insurance fund in the extreme case is a way of... Just as the original opponents of deposit insurance in the 1930s and before said, "It's a way to assess the careful prudent banks to pay for the mistakes of the uncareful imprudent ones." That's true. But that itself has limits. So you find out when we're in a real crisis, there are all kinds of other bailouts like the famous TARP bailout in 2008 and special bailout, say, for City Corp, every cycle. I think it's a fair speculation that without those other balance sheets, you would've broke the FDIC. Had it really tried to cover all the losses that there were, had those losses not been covered by lots of other special deals, by guarantees, by capital injections, so it's really the whole apparatus of the central bank and the government.

Bill Walton (27:04):

Well, listening to this, Alex, haven't we gone to this world where we had private sector actors managing their own risks, their own balance sheets? And if you had millions of them doing that, you had a fairly stable system. I mean, some failed, some succeeded wildly, but the risk kind of worked itself out among all the micro actors. Now, we've got a grandiose federal government led by Jenna Yellen, and I guess Jay Powell as well. They're saying basically they're going to underwrite and guarantee all the risks in the banking system and maybe they can find enough people to assess deposit guarantee insurance on, but I doubt it. I mean, if you look at what it would really take to do that, they wouldn't be doing anything except paying for deposit insurance. I mean, the grandiosity of what they're doing just seems so unmoored from the banking reality that all three of us grew up in.

Steve Dewey (28:04):

Yeah. The other thing that's interesting about what happened with Silicon Valley Bank, when the failure was announced on... I think the date was March the 10th. The initial announcement was that uninsured depositors would not be covered. And then the FDIC did 180-degree turnaround. A complete reversal just 48 hours later saying, "Oh, by the way, we're now going to cover all uninsured depositors." So they did a complete flip-flop on the issue of covering uninsured depositors. So, I think that raises an issue. Now, apparently there were conversations between the federal regulators, the FDIC and the Fed with the [inaudible 00:28:55]

Bill Walton (28:55):

Steve, let me just put a couple numbers on it. Of their deposits, only 10% were insured.

Steve Dewey (29:01):

Yes.

Bill Walton (29:02):

The other 90% were uninsured.

Steve Dewey (29:03):

Yes. Approximately,

Bill Walton (29:05):

Approximately 10%, 12% insured, something like that. But the vast majority were...

Steve Dewey (29:10):

Uninsured.

Bill Walton (29:12):

Deposits were uninsured, and they were held by very wealthy venture capital firms, where the venture capital firms had put into their investee companies.

Steve Dewey (29:22):

Right. The latest number that I have on the amount of the uninsured deposits was... And this is, I think, from year end 2022. It was $151 billion. I don't know what the final number was, but at year end it was $151 billion of uninsured deposits.

Alex Pollock (29:47):

Some got out before the failure, but yes.

Steve Dewey (29:49):

Yeah, right.

Alex Pollock (29:49):

Go ahead.

Steve Dewey (29:53):

But what I wanted to touch on was in that 48 hour time period when they did a complete reversal on their policy of not covering and then covering uninsured deposits, apparently there were conversations with the Biden White House. So was there political pressure from the Biden White House put on the federal regulators to do a complete reversal on their policy on covering uninsured deposits?

Alex Pollock (30:21):

One can certainly speculate on the phone calls that they were getting from large contributors who were also large depositors in Silicon Valley Bank.

Steve Dewey (30:31):

Yeah. Now, another really important point about what happened, and this was reported, believe it or not, by a very left-wing news source, the Intercept. The Intercept reported that of all of that uninsured deposit money that was covered, at least five accounts were held by Gavin Newsom or associated with Gavin Newsom.

Bill Walton (31:06):

Governor of California. Yeah.

Steve Dewey (31:09):

Apparently three of those accounts were corporate accounts of Gavin Newsom's Winery companies owned by Gavin Newsom. Now, they did not know, or did not report... I guess they probably didn't know the amounts of those deposits. So the point is it kind of reeks of the sort of a [inaudible 00:31:30] political thing.

Bill Walton (31:29):

Well, but it does. I mean, it's clear the partisanship here is naked. I mean, first Republic and also in California's got a similar deposit base, and they're all Democrat donors, I'm thinking. And Silicon Valley [inaudible 00:31:46] maybe only Peter Thiel.

Alex Pollock (31:47):

I was going to say before...

Bill Walton (31:47):

What's that?

Alex Pollock (31:48):

I'm sorry, Bill, I was going to say before, when you said the Secretary of the Treasury did this and that with the Fed, and I was going to add that in political reality, secretaries of the Treasury don't do such things without conversations with the White House. So there's a White House connection for sure when there's this kind of...

Bill Walton (32:09):

I'm not so sure whether... Okay, well maybe, but we do have Joe Biden in there, so I'm not so sure how tuned he was into this one. But maybe. People in the White House, let's say.

Steve Dewey (32:22):

But just to finish my point on the apparent political connections with this uninsured deposit policy. I'm kind of surprised that the Republicans in the Congress have not brought this up as potential political corruption, because they just had two hearings. They just had...

Bill Walton (32:48):

Well, you attended the hearings. What happened in the hearings? You had the three regulators. You had the FDIC and you had the Fed and the controller of the currency?

Steve Dewey (33:00):

No, it was Deputy Secretary for Treasury Nellie Liang.

Bill Walton (33:06):

Okay. All right.

Steve Dewey (33:09):

And then there was Michael Barr, who's the Vice Chair for Regulation and Supervision for the Fed, and Martin Gruenberg, who's the chairman of the FDIC. So those are the three panelists being questioned. I think the hearings were, I would say, almost kind of predictable because the Democrats were putting all the blame on the banks, the bank management, and not really much blame on the regulators, because they were the Democrats. Of course, they're calling for even more regulation. And then on the Republican side, the Republicans were much, much tougher on the regulators that there was deficiencies in the regulatory oversight.

Bill Walton (33:57):

Well, the Federal Reserve, the San Francisco office was the, I guess the regulator of Silicon Valley. And they just gone through a regulatory review and they got outstanding marks from the San Francisco Fed for its climate and diversity initiatives. And there's no evidence that they looked at the balance sheet risks at all. And this is where I get back to the people in these regulatory agencies are not the above-the-fray dispassionate actors, they're right in there with a woke agenda, I fear, and I understand...

Alex Pollock (34:42):

There's no question that the regulatory agencies have been infiltrated with that. And it's also the case that no one, when it comes down to financial markets and their tendency to get themselves in trouble on average once every 10 years. Bill, you will remember Walter Bagehot, the great British writer on banking who also happened to be the partner of a very successful private bank himself, pointed out they were having financial crises once every 10 years. And we have since the 1970s, once every 10 years, those that we have all ourselves lived through.

(35:25):

But when that happens, no one is outside the fray, the Federal Reserve, all the regulators, all of the bankers, all of the commentators, all of the rating agencies who also don't look good in these recent failures. They're all inside the fray. No one is outside. Everyone is inside. And that's why no one really can know what's going to happen, and no one can control it, including all of the regulators. But I think it's fair to say that these mistakes were so basic that both the managements and the regulators should have clearly known, but they didn't. They were thinking about other things as you pointed out.

Steve Dewey (36:16):

Yeah. Bill, the other thing that's really amazing with respect to Silicon Valley Bank, the CEO of Silicon Valley Bank, his name was Greg Becker, I believe that's the name. Greg Becker. Not only was he CEO of Silicon Valley Bank, he was also sitting on the board of directors of the Federal Reserve Bank of San Francisco.

Bill Walton (36:42):

Yeah.

Steve Dewey (36:44):

I don't know how that happens.

Alex Pollock (36:49):

Well, your politically popular bankers and you let them be elected to the board of the reserve.

Bill Walton (36:55):

They brought him on for his banking skills. You know, they needed somebody.

Steve Dewey (37:03):

That's not a direct contradict.

Bill Walton (37:03):

Well, what's happened to the Silicon Valley bank assets? I understand they're going to sell those to another regional bank.

Alex Pollock (37:10):

At a big discount. At a big discount.

Bill Walton (37:13):

Who'd they sell to? Who are they selling to?

Steve Dewey (37:19):

It's a bank by the name of First Citizens Bank, out of Raleigh, North Carolina. As I recall from what I read, I think they were the 30th largest bank in the nation in terms of assets. And with the acquisition of Silicon Valley Bank assets, they're now in the top 15, maybe, in terms of asset size. So they got a great deal, and they've greatly expanded their profile.

Alex Pollock (37:56):

They got a huge discount on the loans. These are just the loans now. Plus a lost sharing agreement from the FDIC plus a financing agreement from the FDIC.

Bill Walton (38:12):

That resolution surprises me. I was much more pessimistic that when the FDIC took over Silicon Valley Bank, it is one of the most strategic banks in terms of venture capital growth financing. And interestingly, Silicon Valley also does an awful lot of business in China, and they've financed a lot of Chinese operations. So the national security and strategic footprint that Silicon Valley had, I would've thought they would've wanted to tuck that into something that they could have had more control over. And I'm surprised that it ends up in a bank in North Carolina.

(38:57):

It's outside of my playbook. My playbook had them taking control of those assets. Of course, Alex, I guess over all those years, I've become a conspiracy theorist guy. But it's a theory that pays off so richly so often. I thought they'd want to keep control of Silicon Valley because of its strategic value or tuck it into someplace they could rely on like Bank of America, where Brian Moynihan has totally bought into the climate change agenda.

Steve Dewey (39:30):

One of the criticisms that the FDIC has had is that they could have sold the bank earlier, but they were rejecting bids from apparently very legitimate buyers. And that's a question that was being asked in these recent public congressional hearings at Gruenberg. Why were you just not considering previous bids, previous expressions of interest from very legitimate institutional buyers? And I don't think he really answered the questions. So there's some questions of why some initial expressions of interest were ignored, and there are speculation that they were ignored for ideological reasons. Those ideological reasons being that the current FDIC board is against the really...

Bill Walton (40:33):

Big banks.

Steve Dewey (40:34):

...becoming even bigger.

Bill Walton (40:37):

Well, I heard that too. But on the other hand, the big banks, Bank of America in particular, is totally aligned with their political agenda. So they were being a little fussy about this consolidation. Because I think the other thing I worry about, and I want to talk about central bank digital currencies. My impression is that a lot of people think those 5,000, 4,000 banks we have, well, it's all kind of messy. It'd be much better if we were just consolidated into one federal banking system and it'd be much easier to control. It'd be much easier to provide oversight and governance and that sort of thing.

(41:23):

I think one scenario is that we're going to see some more bank balance sheets below up, there'll be some more things come up, and so the next solution on the horizon is going to be, well, wouldn't it be simpler if everybody just banked with the Federal Reserve? And so instead of being the lender of last resort, it becomes the primary financial services provider. And when that happens, it means that our banking accounts are basically going to be an open book to the Federal Government.

Alex Pollock (41:58):

And any of its agencies. I agree, Bill, and I'm on record of saying that this idea of so-called central bank digital currencies or making the Fed the bank is the worst financial idea that we've seen in a long time.

(42:14):

But could I flip back? Since it's all about politics and all finances political. In fact, we know that there is no finance that's not political. But there's a great book, a few years old, by the principal author, my friend Charlie Calomiris and a co-author, called "Fragile by Design." And this book makes the argument that every banking system is a deal between politicians and bankers. And it discusses all different countries, but in discussing the United States, it makes the following highly interesting and relevant comment, I think, and that is that the old American political deal was an alliance between rural populists and small banks that kept in, which is unusual in the world, all the American emphasis on small banks, limitation on the geographical presence of banks and so on.

(43:22):

They argue that that deal has now been superseded and has been replaced by a deal between urban populists, say, left wing people and big banks. And the big banks on this theory are happy to play along with the urban populist in order that they get a better deal from their governmental sponsors. I think that's a really interesting idea and plays right into this discussion of what are we observing as we look at the evolution system. The big banks always being, I mean, the banking always being political, but the fundamental political deal has shifted. And that's quite consistent with what you were saying.

Bill Walton (44:10):

Picking up on that, the United States is highly unusual in having 5,000 banks. It used to be 14,000, and it used to be before that 35,000. And there's all these forces of consolidation at work. Long story about why that's happened. But still, that's an awful lot of banks. You go to France, what, they have three or four banks?

Alex Pollock (44:34):

Yeah, you don't have to go that far. Just go over the northern border to Canada. They have [inaudible 00:44:38]

Bill Walton (44:37):

Okay. Yeah.

Alex Pollock (44:41):

That matter. Five banks that matter.

Bill Walton (44:44):

Those community banks are sort of heart of the entrepreneurial small business economy. They provide something like 60%, 70% of the small commercial real estate loans in America and disproportionate financing to smaller businesses and things like that. And I think everybody's had the experience. If you go to the local bank where they know you. In the old days, you might have a chance to get a loan with, what did we call the guys, the three Cs of credit, collateral...

Alex Pollock (45:16):

Character.

Bill Walton (45:17):

The big one was character. Your character counted, and now you're not allowed to use character as a criteria. But if we consolidate the banking system into just a few banks, I think that's another blow at the heart of entrepreneurship and civil society in America.

Alex Pollock (45:37):

I agree. But think how much worse it is if you consolidate it into one bank. Namely, the Federal Reserve.

Bill Walton (45:43):

The Reserve, yeah.

Alex Pollock (45:43):

As you were saying before. And surprised again, Howard [inaudible 00:45:49], look at this incredible irony. The cryptocurrencies, Bitcoin and so on, started off as an attempt to have money that was outside the government, that was independent of the government and the central banks, and now it's evolved in its own way. Now, you have the central bank saying, well, I sort of like this digital currency idea. And the result of this attempt to have an independent money, not part of central banks and not part of the government, is to put the government itself, namely the Central Bank as part of the government, into being the issuer of the digital currency. If that should happen, there are two terrible results, in my opinion. One is the one you mentioned, the Central bank knows everything about you. They're in a perfect position to run a Chinese social score on you. "Bill, we don't like the political donations you're giving, so we're just turning your account off."

Bill Walton (46:57):

Yeah.

Alex Pollock (47:01):

For me, that's easy to imagine in the hands of controlling bureaucrats. But the second is that if some large proportion of the deposits, as you could easily think would happen, become deposits of the Fed, those are liabilities. Well, they have to have matching assets. What are the assets going to be? The assets are going to be bonds and loans. So you now have the central bank also in charge of credit allocation and all the decisions. And we don't like your business so much, so no, you can't get a loan. It's really an appalling possibility to imagine.

Steve Dewey (47:39):

Yeah. Scary.

Alex Pollock (47:40):

Agree, Steve?

Steve Dewey (47:41):

Yeah. Yeah. But I wanted to bring up a point that Kevin O'Leary made recently. Kevin O'Leary... He is obviously a very smart guy, and I believe he's a conservative. I don't know for sure. I assume he is a conservative.

Bill Walton (47:58):

He's not the one on Shark Tank, is he?

Steve Dewey (48:00):

Yeah, the same guy.

Bill Walton (48:02):

He's not a conservative.

Steve Dewey (48:03):

Okay. The reason I thought he might be a conservative is he's been appearing on Maria Bartiromo's show recently.

Bill Walton (48:12):

Well, he might be. I don't know. His politics are hard to discern. But anyway, I'm sorry.

Steve Dewey (48:17):

Okay. Anyway, the point he was making recently is that there's no reason why the United States needs 4,000 some banks.

Bill Walton (48:25):

Well, I saw that.

Steve Dewey (48:27):

Pardon me?

Bill Walton (48:28):

Yeah, continue. I'm sorry.

Steve Dewey (48:30):

And that there's nothing wrong with just letting market forces work and have a lot of consolidation. And if we ended up with six or seven or eight or nine really large banks, there's nothing wrong with that because of technology. And he was saying that the newer generation, they don't even really use bank branches anymore. He said he gets questions from young people, what are these bank branches for? They don't even see a need for bank branches. So he was making the point that with the advance of technology and people really increasingly doing all their financial transactions online, that you don't need 4,000 some banks, and there's nothing wrong with having seven or eight or nine [inaudible 00:49:21].

Bill Walton (49:21):

Well, I heard him say the same thing. And my reaction, well, I don't know if he's conservative, but he is no friend of freedom, because that's really sort of a Silicon Valley master of the universe view where why do we need all these other players there? This is just my personal philosophy, radical decentralization, where lots of things, different things happen, and there's no central governing authority for all our economic and political activity. And I think what he's talking about leads to the thing Alex was saying is that once you get this consolidated, it's a whole lot easier to watch what people are doing. So, I heard that, and I wanted to throw something at the TV.

Steve Dewey (50:09):

I'm curious, Alex, what do you think about what Kevin O'Leary...

Bill Walton (50:15):

Yeah, let's kick it. I'm happy to have a different point of view.

Alex Pollock (50:21):

All finance is political, as I said, so that will be a be a heavy political force in whatever the outcome is, unless you had a truly radical revamping of the financial system, which we won't get. What would a true market outcome be? My guess there would be more consolidation as we've already had in big banks. But there would also be a whole lot of small, geographically specialized banks that actually care about your character, as we were saying a minute ago, and who you are. So, I agree with Bill that only a few big banks sitting together, palsy-walsy in Washington with the politicians is the vision that I would not support. And I guess that if you had something like a real market outcome, it would have a lot of smaller organizations in it as well.

Bill Walton (51:32):

Well, remember when we thought the internet was going to bring this incredible rich ability to communicate with all sorts of different people, and it would be just sort of the greatest friend intellectual liberty ever. And instead, it evolved because of the monopoly of Google and some others. It evolved into this thing we're fighting now where you've got all this viewpoint and discrimination. And instead of becoming the wild west of ideas, they've all been attempted to shut down. And they can do it because of AI and other algorithms to shadow-ban and keep people off. I worry about the same thing in banking, which is where if you got it centralized in the wrong hands, that could be a real weapon.

Alex Pollock (52:20):

And the wrong hands are bound to occur. There was a wonderful hearing by the Treasury Committee, I think they call it, the Finance Committee of the House of Lords in England with the governor of the Bank of England. And the Bank of England was pushing a kind of central bank digital currency. The House of Lords has in it a couple of retired governors, I guess, in the Bank of England who've now become Lord somebody. So it was a highly knowledgeable panel.

(52:51):

But at one point, they got on the issue of whether the Central Bank digital currency would interfere with personal freedom and with privacy. And the Governor of the Bank of England said to the Lords assembled, "I have no interest in knowing what anybody's personal payments are." And the Chairman of the Committee said, "I believe you when you say you don't, but how about your successor? Or one of your successors?" That seems to me inevitable political outcome that someday someone will be there who will have a very high interest in controlling your personal transactions. Just like Bill said, we have a high interest in controlling whatever you're posting on the internet or what not.

Bill Walton (53:46):

Speech.

Alex Pollock (53:48):

I thought that was a wonderful response in the House of Lords.

Bill Walton (53:54):

I'm just checking my timer here. I lost track. This is so interesting. We got to wrap it up though in the interest of keeping it under an hour. How do we head off a central bank digital currency? And I think Alex and I, Steve, sort of feel... How do you feel about CBDC?

Steve Dewey (54:17):

Oh, me?

Bill Walton (54:18):

Yeah.

Steve Dewey (54:19):

Oh, I'm totally 100% opposed.

Bill Walton (54:21):

Then how do we stop it? How do we head this evil thing off at the pass?

Steve Dewey (54:27):

Well, I think it leads to politics. I think we just have to... Politics. How you vote determines it.

Bill Walton (54:37):

Well, what I'm doing is I'm using my show and every other form I've got to bring this up as an issue. And when people starting to talk about the financial crisis, that's one of the reasons I wanted you guys on today. They have to understand the political dimensions of this. And this is not just, oh, money. No, it's about politics and it's about freedom. And I think if we raise awareness about central bank digital currency, we got some chance of stopping it. That's my strategy at this point. Nothing more sophisticated than that. Alex, what do you think?

Alex Pollock (55:14):

I agree. That's what you have to do as in any political situation. And it clearly is deeply political as we're all saying.

Steve Dewey (55:23):

Yeah. Yeah. I was trying to actually advance the public attention to opposition to CBDCs myself with one of my Bastiat Society events last year. I had Norbert Michel as a featured speaker. Norbert spoke...

Bill Walton (55:42):

Oh, good. Norbert; he's coming on here in two weeks, or maybe next week. Anyway, keep going. Sorry.

Steve Dewey (55:48):

Yeah. So I had Norbert Michel on as a featured speaker, specifically to talk about the dangers of CBDCs... about them taking away our freedoms.

Bill Walton (55:59):

Look, this is a good time for ads, for promotion. You're running the Bastiat Society of D.C. And what are your other affiliations, Steve?

Steve Dewey (56:10):

Well, I've started becoming active as a writer on Substack and more recently with the American Spectator and Foundation for Economic Education.

Bill Walton (56:23):

Where can we find you? Are you on Twitter?

Steve Dewey (56:27):

Yeah. Well, yeah. I actually have it under a entity named Geo Financial Trends. Geo Financial Trends.

Bill Walton (56:36):

You can do better than that.

Steve Dewey (56:37):

I actually developed a website, Geo Financial Trends, but I just have haven't launched it yet.

Bill Walton (56:45):

That'd be a good name for a firm, but maybe not the Twitter handle. I don't know. Who knows? Could be.

Steve Dewey (56:49):

Yeah. But to answer your question, I think the easiest way, you can find me on Substack. Just do a search for Steve Dewey on Substack.

Bill Walton (56:57):

Okay. And Alex, my forever... Alex, I've still got articles you've written and given me for the years. And my file cabinet of articles from Alex Pollock, or at least the pile of them, is about three or four feet tall now because we've been doing this back and forth forever. You're now writing with Mises Institute.

Alex Pollock (57:20):

Yeah, it's the Ludwig von Mises.

Bill Walton (57:21):

Ludwig von...

Alex Pollock (57:24):

Ludwig von Mises, who is a great one of the founders of the Austrian School of Economics. Marked by love of freedom and a suspicion of central banks. That institute, I'm very active with The Federalist Society as well, which has [inaudible 00:57:42] events. And you can find my work, should anyone wish to, at alexjpollock.com.

Bill Walton (57:50):

Okay. Well, we're set for our next show, and lots of dangling things here and lots of follow up to come.

(57:58):

This has been the Bill Walton show, and I've been here with Alex Pollock and Steve Dewey. We've been talking about what led us up to the Silicon Valley situation and where this is going to go from here. In particular, we're asking all of you to get knowledgeable about Central Bank digital currencies and do everything you can to prevent the politicians from bringing those about. A.

(58:22):

Anyway, thanks for joining. As always, you can find our show on YouTube, Rumble, Substack. We're on all the major podcast platforms. We're on CPAC now on Monday nights and a lot of other platforms. Please send us your comments about shows and topics you'd like us to be covering and guests you'd like to have on. We pay a lot of attention and your thoughts matter a lot, and we like to think of this as a collaboration of kindred spirits.

(58:53):

Anyway, thanks for joining. And thanks Alex and thanks Steve, and we'll talk with you all next time.

Steve Dewey (59:00):

All right. Thanks, Bill.

Alex Pollock (59:01):

Thank you, Bill. That was great.

Bill Walton (59:03):

That was fun.

Speaker 5 (59:04):

I hope you enjoyed the conversation. Want more? Click the subscribe button or head over to thebillwaltonshow.com to choose from over a hundred episodes. You can also learn more about our guests on our Interesting People page, and send us your comments. We read everyone and your thoughts help us guide the show. If it's easier for you to listen, check out our podcast page and subscribe there. In return, we'll keep you informed about what's true, what's right, and what's next. Thanks for joining.