New American

Written by **David Kelly** on March 14, 2023

Bank Bailouts Leading to Government-controlled Banking

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Federal regulators moved quickly on Friday to take over the insolvent Silicon Valley Bank (SVB), as customers withdrew billions from accounts in an apparent bank run. Then over the weekend regulators did the same with New York-based Signature Bank, potentially sending a ripple effect across the American financial industry.

Over the weekend, President Biden, Treasury Secretary Janet Yellen, and National Economic Council Director Lael Brainard began working with bank regulators to ease concern over a potential repeat to the 2008 banking crisis.

Biden praised the team working on the bank failures, saying in a statement on Sunday, “I am pleased that they reached a prompt solution that protects American workers and small businesses and keeps our financial system safe. The solution also ensures that taxpayer dollars are not put at risk.”

To help ease fears, Biden reassured the nation, stating, “The American people and American businesses can have confidence that their bank deposits will be there when they need them. I am firmly committed to holding those responsible for this mess fully accountable and to continuing our efforts to strengthen oversight and regulation of larger banks so that we are not in this position again.”

But by Monday, as more information came out as to what caused these banks to fail, confidence that all would be well began to wane. Americans from financial experts to the man on the street started to understand that government intervention would definitely lead to taxpayer dollars being used to shore up the billions lost.

SVB and Signature Bank accounts were covered by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. However, on Monday, Biden announced that the FDIC would cover *all* of the deposits, including uninsured deposits at the two banks.

Biden declared in a statement, “All customers who had deposits in these banks can rest assured — I want to — rest assured they’ll be protected, and they’ll have access to their money as of today.” He then reiterated, “No losses will be — and I want — this is an important point — no losses will be borne by the taxpayers. Let me repeat that: No losses will be borne by the taxpayers. Instead, the money will come from the fees that banks pay into the Deposit Insurance Fund.”

The *Washington Times* reported that the two banks combined had “$240 billion in uninsured deposits” that the government will cover with Deposit Insurance Fund (DIF) monies. Paying out coverage for these deposits will be the largest payout since the 2008 banking crisis. The DIF is funded by fees from banks and from government’s earnings on interest from bank investments in Treasury securities and bonds — and those fees are usually funded by depositors. Or, in other words, taxpayers.

“Joe Biden is pretending this isn’t a bailout. It is. Now depositors at healthy banks are forced to subsidize Silicon Valley Bank’s mismanagement. When the Deposit Insurance Fund runs dry, all bank customers are on the hook. That’s a public bailout,” said former South Carolina Governor Nikki Haley, now a Republican presidential hopeful, as reported by the *Washington Times*.

Senator Tim Scott (R-S.C.), ranking member of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, released a statement on Sunday seeking answers to the bailout. He said:

> Building a culture of government intervention does nothing to stop future institutions from relying on the government to swoop in after taking excessive risks. I remain committed to bringing accountability and answers to the American people, both from the banks and our regulators. We deserve to know what exactly happened and why.

Adding to the concern that Senator Scott and Nikki Hailey shared on this bailout, the *Washington Times* reported,

> Steve H. Hanke, a professor of applied economics at Johns Hopkins University who served on President Reagan’s Council of Economic Advisers, said it moves the banking sector closer to a public utility or government-backed entity.
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> “With the Biden bank bailout, and it is a bailout, banking is becoming a government-backed business — if that’s what you call a business,” he said.

The recent actions by Biden and the Treasury are designed to give Americans confidence that their federally insured deposits are safe and that banks are secure. But the truth is that this administration is willing to, as stated above, allow the banking sector to become a government–backed entity. And with that, the taxpayers know all too well that they will ultimately be paying the bill.

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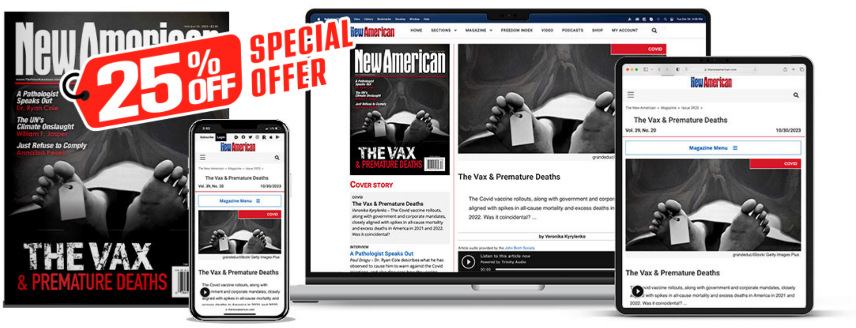

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