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# Silicon Valley Bank Isn't Lehman

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If there is one thing almost all observers of the economic scene have agreed about, it is that the issues facing the U.S. economy in 2023 are very different from those it faced in its last crisis, in 2008.

Back then we were dealing with collapsing banks and plunging demand; these days banking has been a back-burner issue and the big problem has seemed to be inflation, driven by too much demand relative to the available supply.

Oh, there were some echoes of past follies, because there always are. Hype springs eternal; the crypto cult shares some obvious features with the rise and fall of subprime mortgages, with people lured into complex financial arrangements they don't understand. But nobody expected a repeat of those frightening weeks when the bottom seemed to be falling out of the world financial system.

Yet suddenly we seem to be replaying some of the same old scenes. Silicon Valley Bank wasn't among the nation's largest financial institutions, but then neither was Lehman Brothers in 2008. And nobody who paid attention in 2008 can help feeling the shivers while watching an old-fashioned bank run.

But S.V.B. isn't Lehman, and 2023 isn't 2008. We probably aren't looking at a systemic financial crisis. And while the government has stepped in to stabilize the situation, taxpayers probably won't be on the hook for large sums of money.

To make sense of what happened, you need to understand the reality of what S.V.B. was and what it did.

Silicon Valley Bank portrayed itself as “the bank of the global innovation economy,” which might lead you to think that it was mostly investing in highly speculative technology projects. In fact, however, while it did provide financial services to start-ups, it didn’t lend them a lot of money, since they were often flush with venture capital cash. Instead, the cash flow went in the opposite direction, with tech businesses depositing large sums with S.V.B. — sometimes as a quid pro quo but largely, I suspect, because people in the tech world thought of S.V.B. as their kind of bank.

The bank, in turn, parked much of that money in boring, extremely safe assets, mainly long-term bonds issued by the U.S. government and government-backed agencies. It made money, for a while, because in a low-interest-rate world long-term bonds normally pay higher interest rates than short-term assets, including bank deposits.

But S.V.B.’s strategy was subject to two huge risks.

First, what would happen if and when short-term interest rates rose? (They couldn’t fall significantly, because they were already extremely low.) The spread on which S.V.B.’s profits depended would disappear — and if long-term interest rates rose as well, the market value of S.V.B.’s bonds, which paid lower interest than new bonds, would fall, creating large capital losses. And that, of course, is exactly what has happened as the Fed has raised rates to fight inflation.

Second, while the value of bank deposits is federally insured, that insurance extends only up to \$250,000. S.V.B., however, got its deposits mainly from business clients with multimillion-dollar accounts — at least one client (a crypto firm, of course) had \$3.3 *billion* at S.V.B. Since S.V.B.’s clients were effectively uninsured, the bank was vulnerable to a bank run, in which everyone rushes to withdraw money while there’s still something left.

And the run came. Now what?

Even if the government had done nothing, the fall of S.V.B. probably wouldn’t have had huge economic repercussions. In 2008 there were fire sales of whole asset classes, especially mortgage-backed securities; since S.V.B.’s investments were so boring, similar fallout would be unlikely. The main damage would come from disruption of business as firms found themselves unable to get at their cash, which would be worse if S.V.B.’s fall led to runs on other medium-size banks.

That said, on precautionary grounds government officials felt — understandably — that they needed to find a way to guarantee all of S.V.B.’s deposits.

It’s important to note that this *doesn’t* mean bailing out stockholders: S.V.B. has been seized by the government, and its equity has been wiped out. It does mean saving

some businesses from the consequences of their own foolishness in putting so much money in a single bank, which is infuriating — especially because so many tech types were vocal libertarians until they themselves needed a bailout.

Indeed, probably none of this would have happened if S.V.B. and others in the industry hadn't successfully lobbied the Trump administration and Congress for a relaxation of bank regulations, a move rightly condemned at the time by Lael Brainard, who has just become the Biden administration's top economist.

The good news is that taxpayers probably won't be on the hook for much if any money. It's not at all clear that S.V.B. was actually insolvent; what it couldn't do was raise enough cash to deal with a sudden exodus of depositors. Once things have stabilized, its assets will probably be worth enough, or almost enough, to pay off depositors without an infusion of additional funds.

And then we'll be able to return to our regularly scheduled crisis programming.

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