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Analysis of today
Assessment of tomorrow

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Bank Collapses: What Do They Foreshadow?

Karl Marx, who warned the world by the mid-19th Century of the Wall Street Crash of 1929 preceding the Great Depression, considered the positions taken by US banking to be quite risky. Indeed, US banking system went through a severe crisis at the beginning of the last century. The first US banking crisis happened in 1857-58. In fact, in some aspects, this crisis was interestingly similar to today's crisis.

The bankruptcy of the Ohio Life Insurance and Trust Company and the subsequent events show surprising similarities to the collapse of Lehman Brothers, one of the protagonists of the 2008 crisis, as well as the bankruptcy of the SVB today and what took place afterwards. The economic developments after August 1857 and the spread of the financial crisis from the United States to Europe engaged Marx's attention. As soon as the first symptoms of the crisis appeared, he devoted his articles in the New York Tribune almost entirely to the crisis. Throughout a year, he wrote to warn the world leaders of an approaching economic storm. Back then, Karl Marx was today's Roubini, so to speak.

Although, he quite successfully foresaw the arrival of the first crisis, he passed before he could see it with his own eyes. The failures of several banks at the beginning of the 20th century foreshadowed the Great Depression of 1929. The powerful and wealthy figures of the times tried to subdue the crisis by supporting the country's financial institutions in trouble or by acquiring them, however, inevitably, the Great Depression came knocking on the US economy's door in 1929.

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But, has the US learned anything from this crisis? The answer is sadly „no." The Glass-Steagall Act was passed in 1933 in response to bank collapses following the Great Depression. The US banks adhered to it for a long time, but when, in the 1990s, they started to breach the Act in many ways, they brought upon the country a new financial crisis in 2008. The fact that the private banks started to supply more and more money than the central banks did, over-reliance on the audit firms and the greed of the postmodern world. All combined led to global economy getting hit by a heavy blow.

Big Claims Require Big Evidence

Could the 2008 crisis be a harbinger of another great depression? Just like the Wall Street Crash augured an economic disaster. Or could we consider the recent events as the aftershocks of the 2008 crisis? According to some experts, what is happening right now is the indication of a terrible crisis. It is not easy to answer these questions. We cannot expect every past event to repeat itself in the exact same way it once did. Even though we acknowledge that there is something wrong with today's banking system, we need strong evidence to claim that it foretells a coming global crisis. After all, science says that big claims require big evidence.

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The financial institutions' efforts to solve today's banking crisis either through funding or acquisition offers is quite similar to the efforts at the beginning of the 20th century. Without ignoring the fact that the current banking system is deformed, it is necessary to closely monitor the upcoming developments in the US economy, with a special focus on economic activities and profits. Because these two will be the harbinger of a colossal crisis.

The US banks invest the money they receive from individuals and corporations in a variety of instruments, while EU banks try to look after the money they have entrusted with through some complex transactions. Another difference between the US and the EU banks is that the former are not a safe haven for those

who want to move money from their own country but the latter have met this particular need so far, therefore, prioritizing 'winning their customers' trust' rather than making profit as opposed to the US banking, a chaser of high profits. The EU banks, on the other hand, said, "Don't you worry, your money is in reliable hands".

This situation has mitigated the profit pressure on European bankers, but their sharp decision-making skills about asset profitability have weakened over time. So, the Fed and the ECB, maintaining combat against inflation, are giving the following message to the banks „Do not give out unnecessary loans and fix your liquidity situation". Sadly, the markets will remain unstable for a while as the EU and the United States are trying to overcome another banking crisis. Neither the ECB not the Fed do not want to get comfortable when fighting inflation. But they will also need to be alert to risks to financial system as well while implementing their interest rate policy.