

Macro Roundup Article

Headline: [In Today's Banking Crisis, Echoes of the '80s](#)

Article Link: https://www.wsj.com/articles/in-todays-banking-crisis-echoes-of-the-80s-thrift-delayed-recognition-risk-taking-deposit-insurance-svb-signature-cfdd2b37?mod=opinion_lead_pos5

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Publication	Wall Street Journal
Publication Date	March 28, 2023

Tweet: Phil Gramm and @cwcalomiris draw a parallel btw the current instability in the banking system and the Savings and Loans crisis which also played out against a hiking cycle.

Summary: The 1980s offer a better perspective on our current banking instability. Losses on securities at Silicon Valley Bank, Signature Bank and many others still waiting to be addressed reflect the risk from borrowing short and lending long—reminiscent of thrift strategies of the 1970s and the government's decision to ignore losses from pursuing those strategies in the early 1980s. Between 1980 and 1994, 1,617 banks and 1,295 thrifts either were closed or received government assistance. For thrifts, the story began with a government mandate forcing them to specialize in long-term mortgage loans funded with deposits. As the Federal Reserve raised rates, funding costs rose and many thrifts became insolvent. The difference today, in contrast with the 1980s, is that SVB and Signature Bank relied largely on uninsured deposits, whereas thrifts and banks then had relatively few such deposits. As their risk of failure grew, uninsured depositors (who were slow to respond) still responded fast enough to prevent the banks from becoming deeply insolvent. If those deposits had been insured ex ante, we might now be quietly experiencing resurrection risk-taking from SVB and Signature Bank, with much larger losses to come in those banks and throughout the banking system. The failures of SVB and Signature illustrate the usefulness of what remains of market discipline, which comes from limiting deposit insurance. Regulation failed, but the market didn't.

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Topics: Banking, Business Cycle, Op-Ed/Blog Post

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