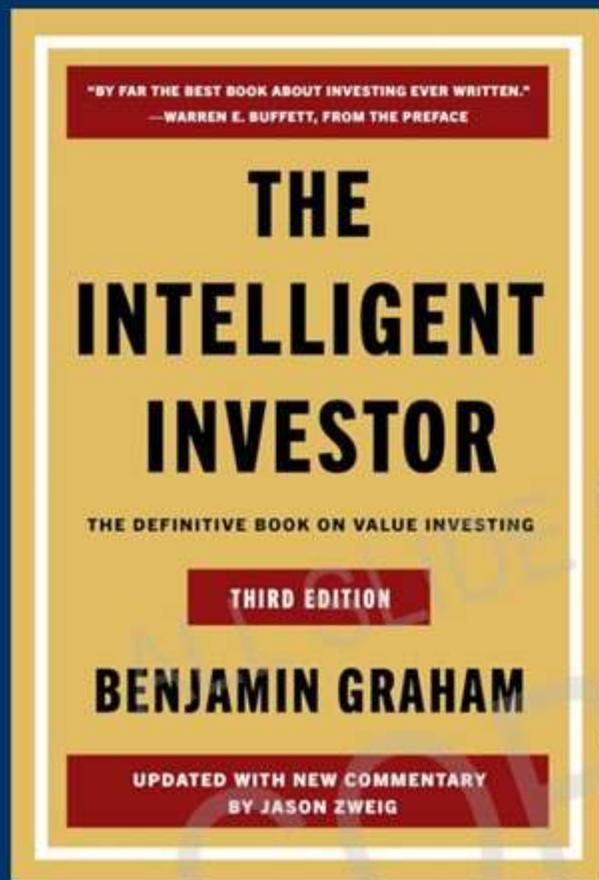
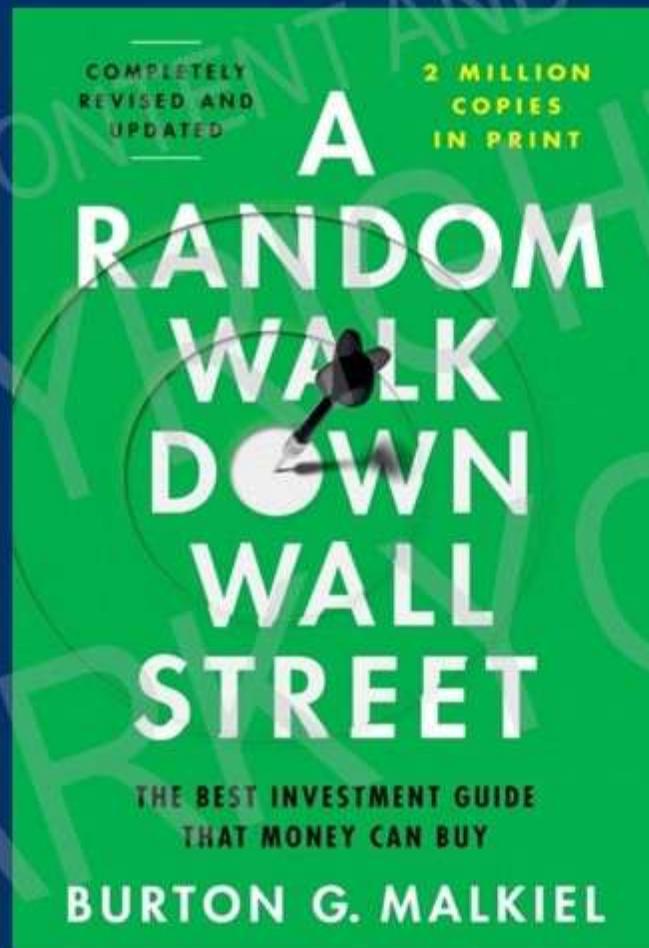


**Capitalism,  
Government,  
Money,  
and the  
Future of  
the World**

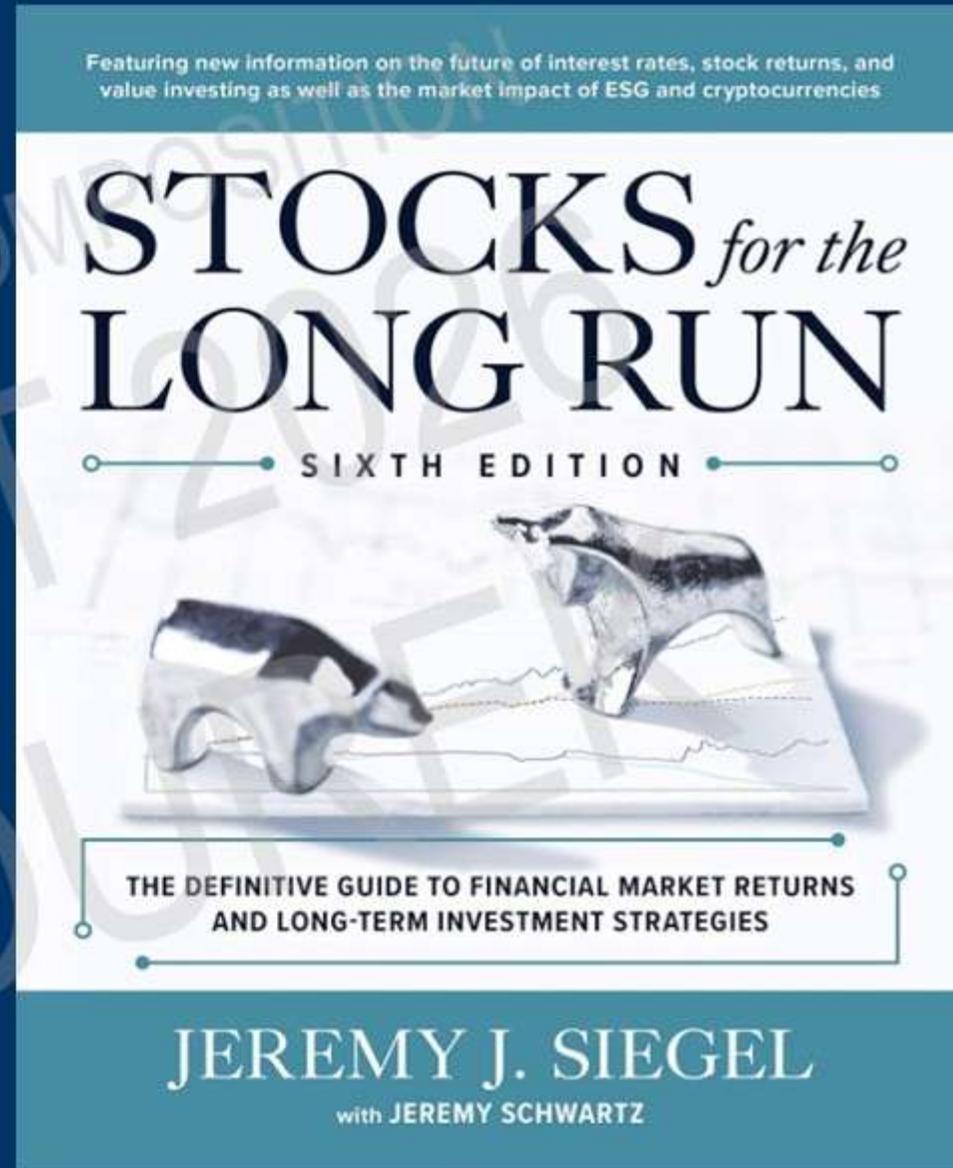
Spring  
2026



1949



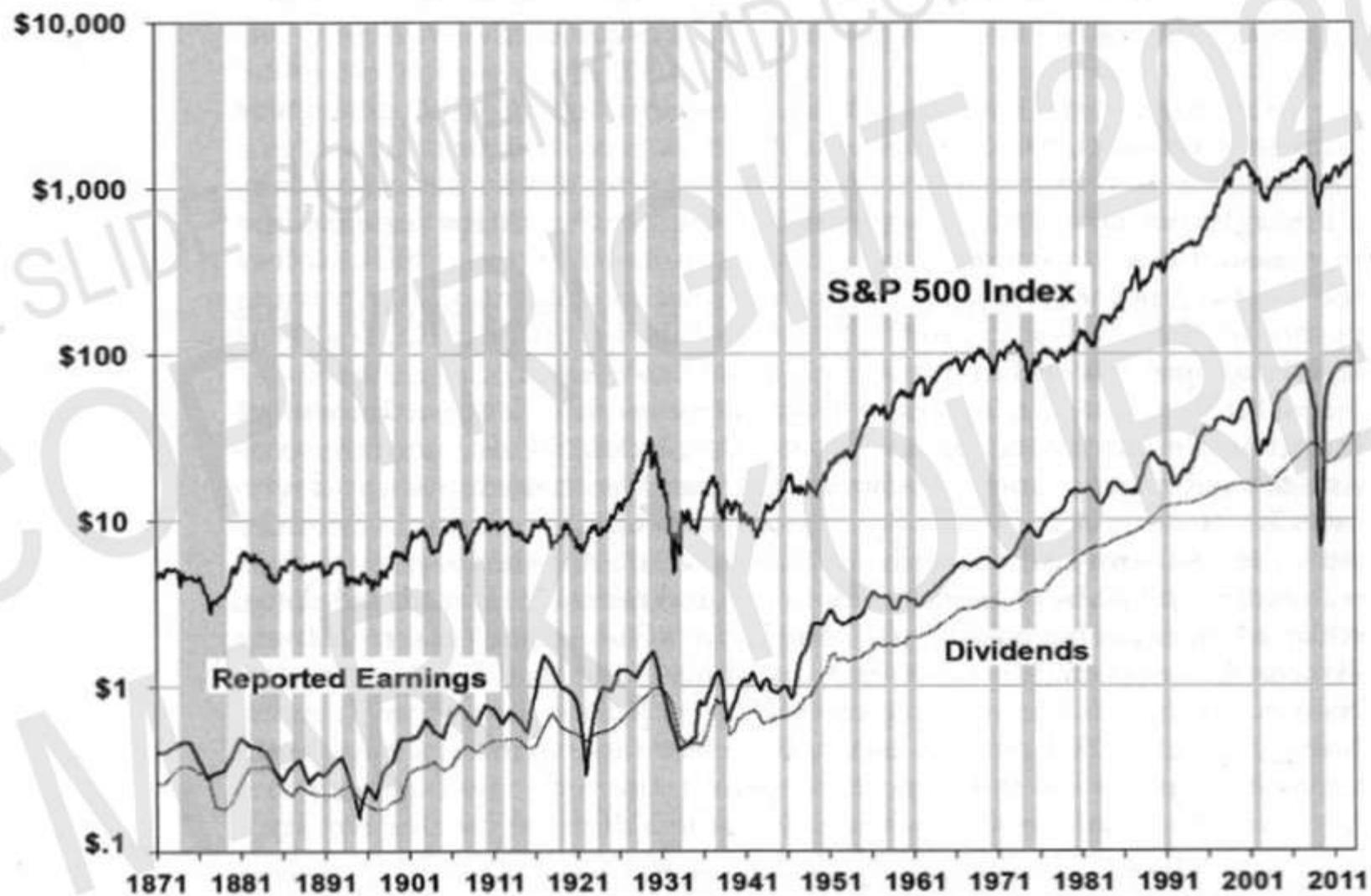
1973



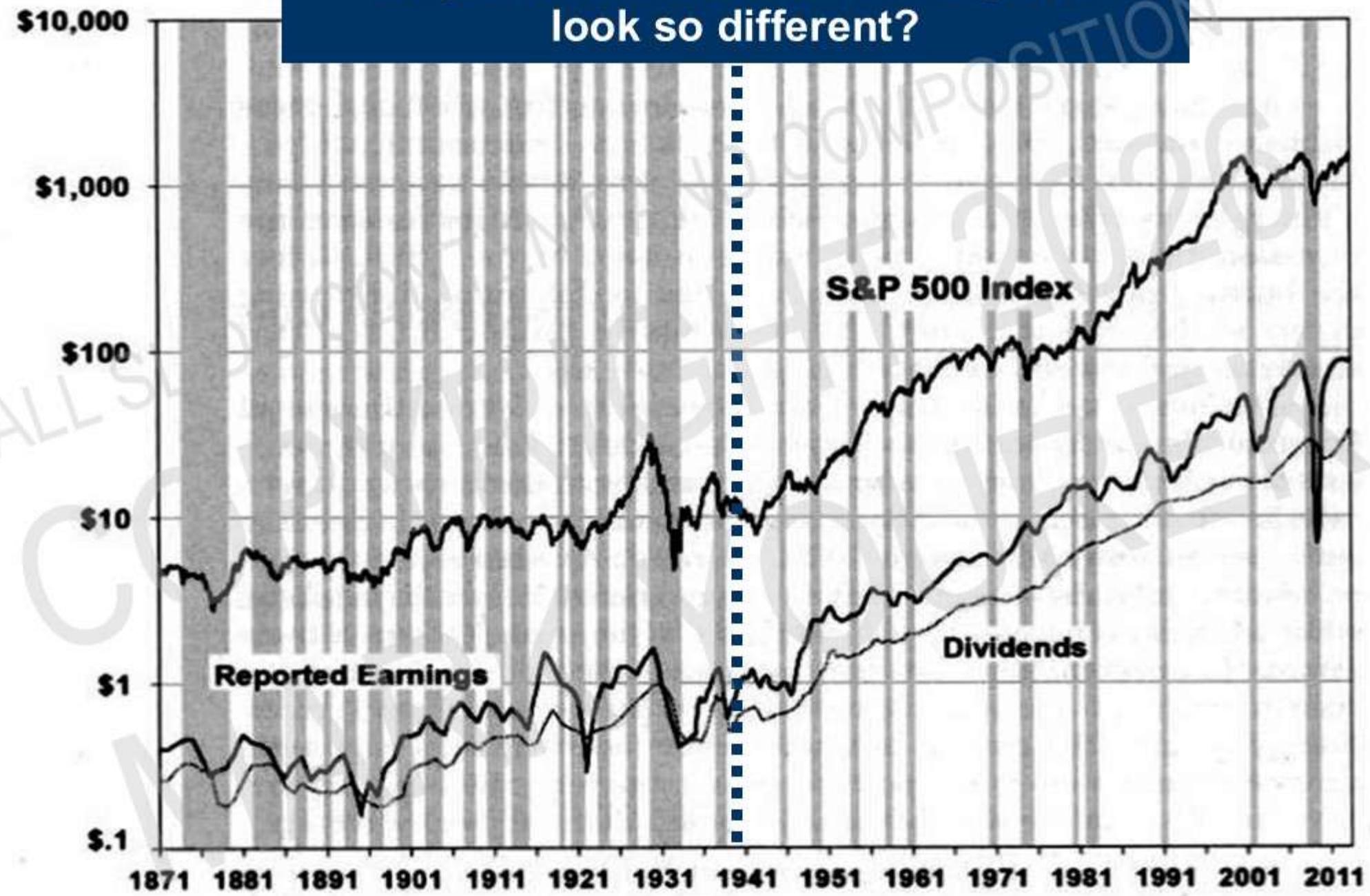
1994

FIGURE 15-1

Stock Prices, Earnings, Dividends, and Recessions 1871–2012



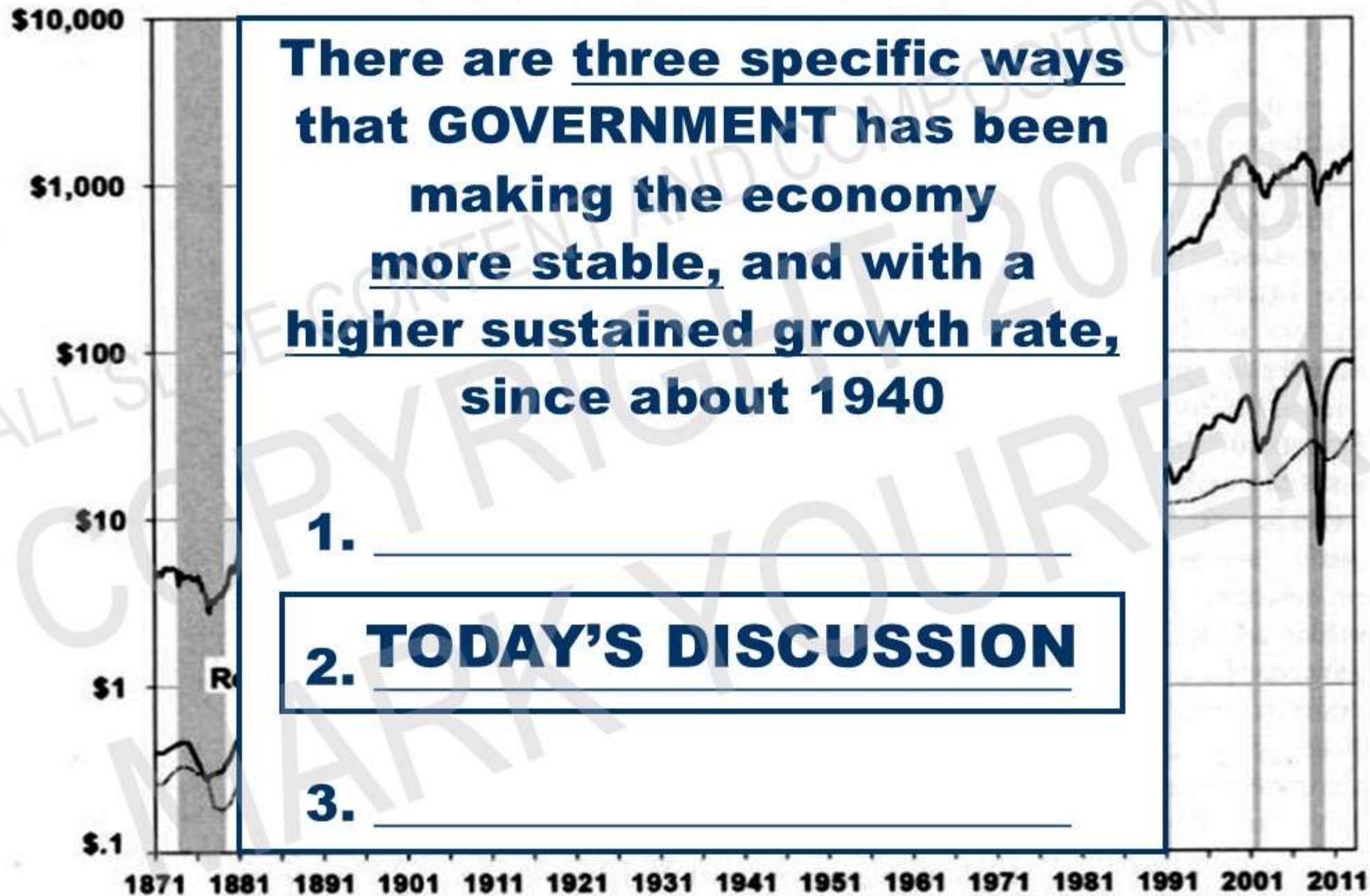
Why do the two sides of this graph look so different?



**Why do the two sides of this graph look so different?**

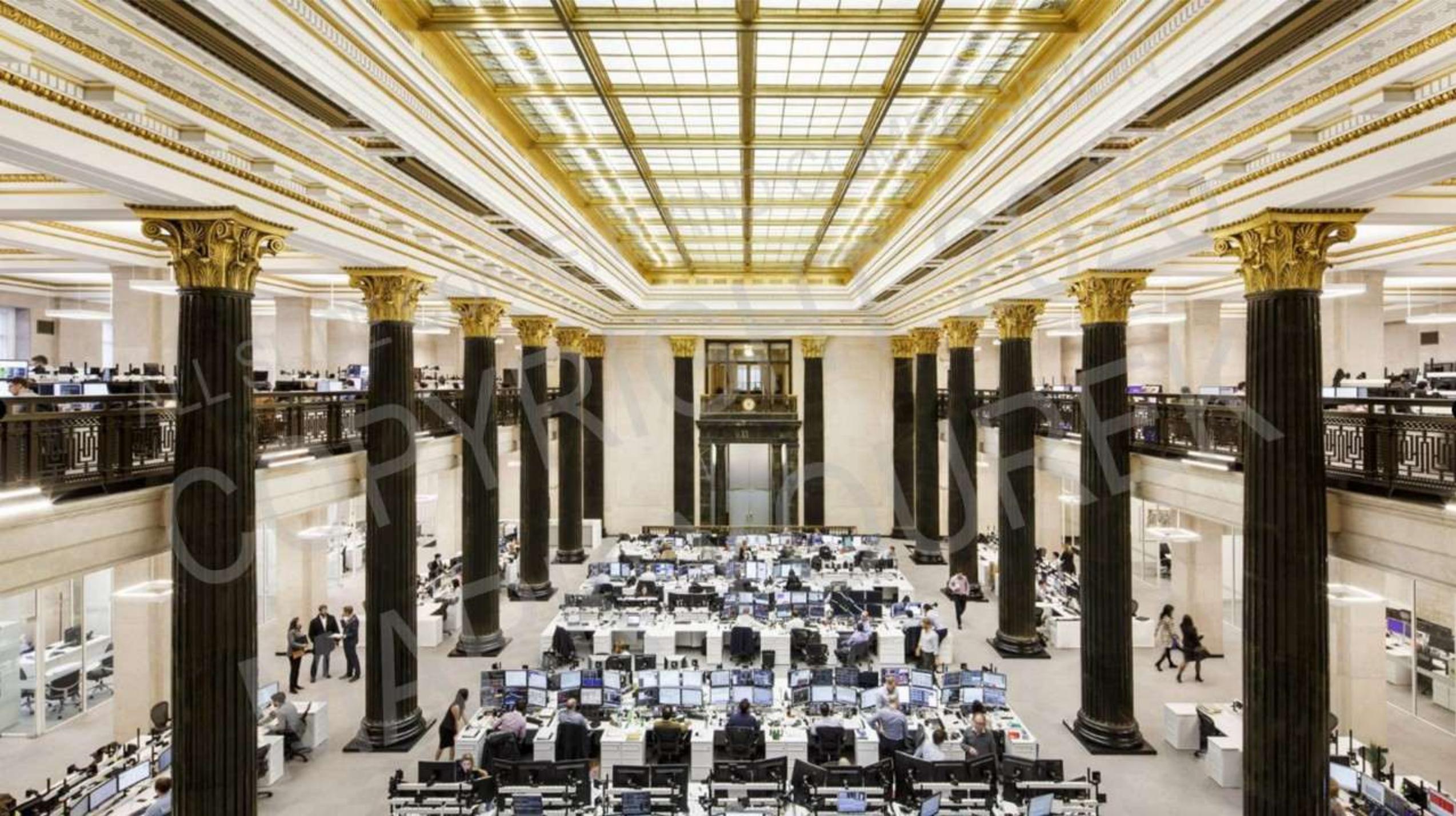


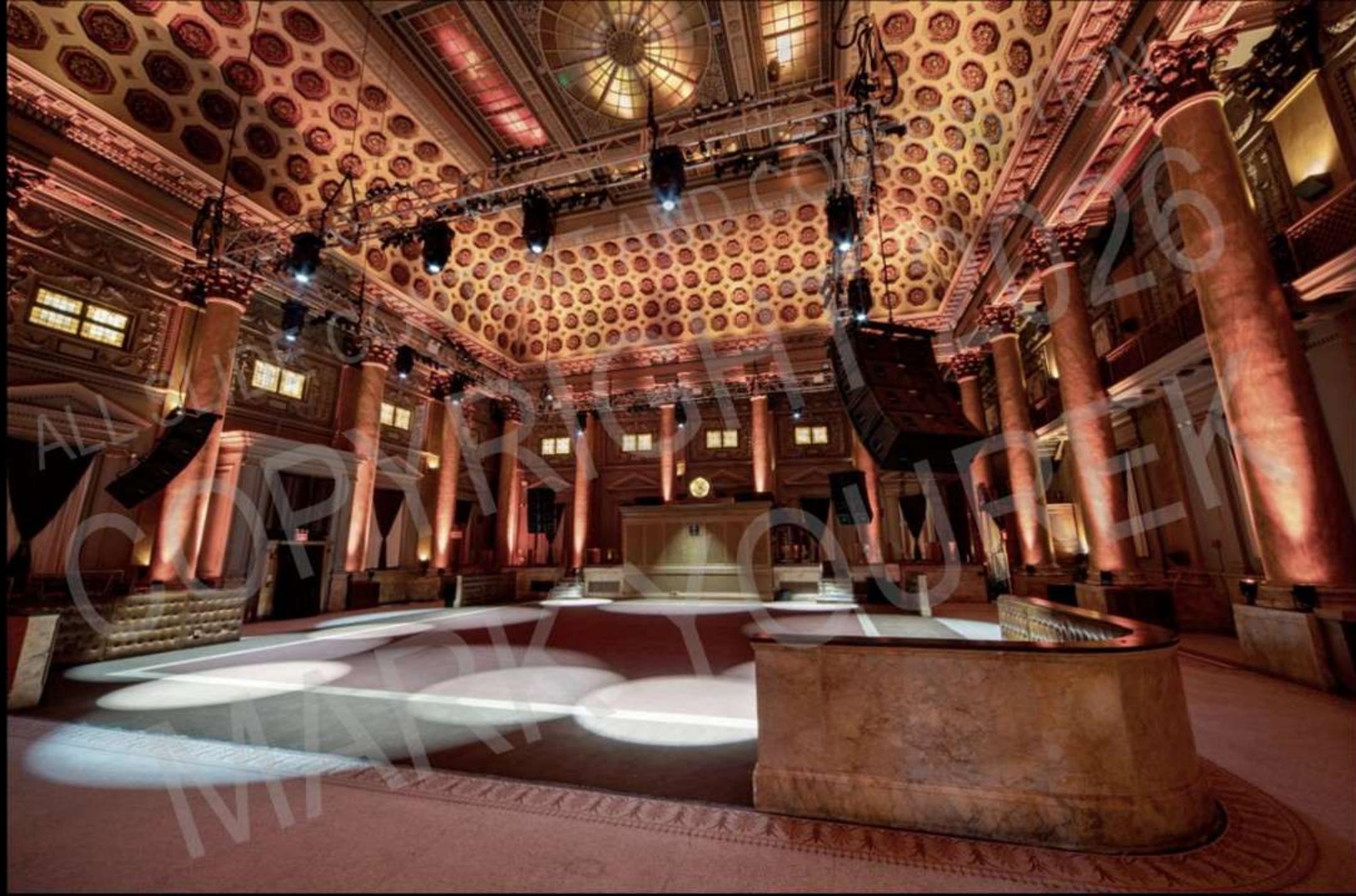
**GOVERNMENT**  
is the overriding reason  
why the American  
economy has been far  
more stable, with  
a significantly higher  
sustained growth rate,  
since around 1940





ALL SLIDE CONTENT IS THE PROPERTY OF MARK YOUR REK  
COPYRIGHT 2020  
COMPOSITION







intel

HP

Microsoft

CITRIX

Citrix & Intel Strategic Collaboration

Cloud Managed Network  
Cloud Managed Security  
Cloud Managed IT

Citrix & Intel Strategic Collaboration

Cloud Managed Network  
Cloud Managed Security  
Cloud Managed IT

ALL SLIDE CONTENT AND COMPOSITION  
COPYRIGHT 2026  
MARKYOLU





THE BOWERS SAVINGS BANK

AD MDCCCXXXIV

AD MDCCCXCIV

228





Charles Belfoure, *Monuments to Money: The Architecture of American Banks*, 2005







When did the banking industry  
stop building 'monumental'  
customer-facing facilities?

Why did they stop?

## What business are banks in?

- Banks are in the business of facilitating investments, by intermediating between:

People who have money on hand, with no immediate use for it, and who want to preserve their money for future use

People who have projects they want to pursue, but who need access to more capital than they themselves possess

- Through providing loans to borrowers, while maintaining customers' access to their deposits, **banks 'create' money**

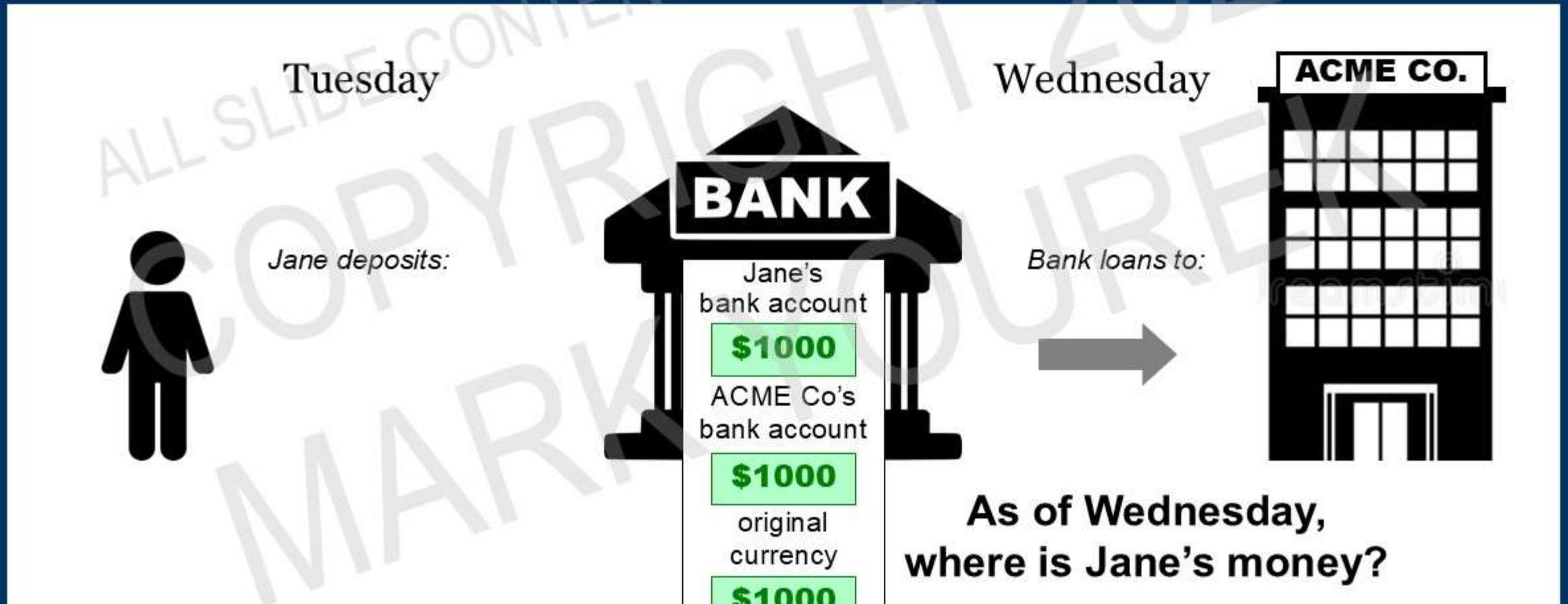
People who have money on hand,  
with no immediate use for it,  
and who want to preserve  
their money for future use

People who have projects  
they want to pursue, but who  
need access to more capital  
than they themselves possess

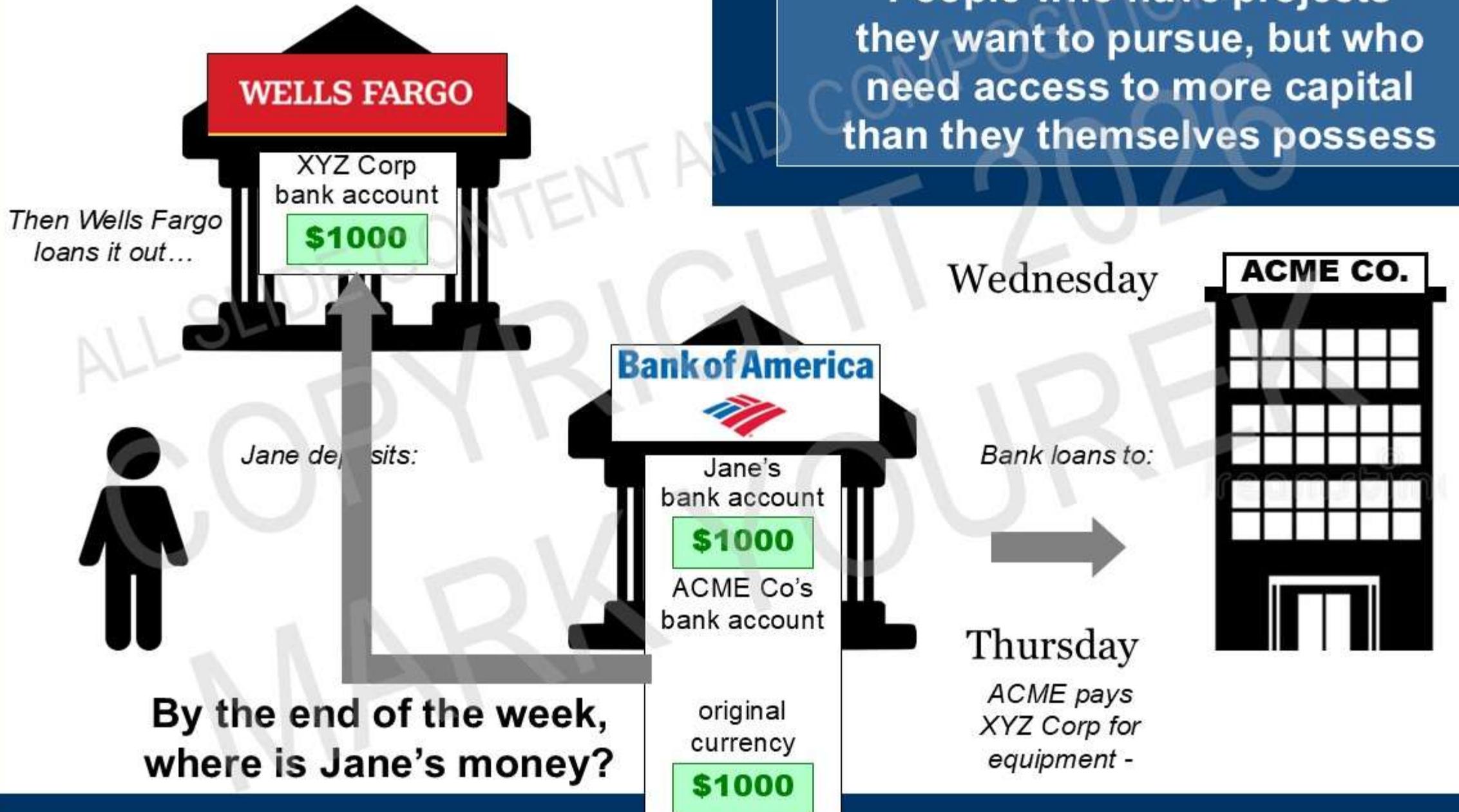


People who have money on hand,  
with no immediate use for it,  
and who want to preserve  
their money for future use

People who have projects  
they want to pursue, but who  
need access to more capital  
than they themselves possess



People who have projects they want to pursue, but who need access to more capital than they themselves possess



Banks effectively **CREATE MONEY** through *loaning it out*, which lets it be in *multiple places at the same time*

WELLS FARGO

XYZ Corp  
bank account

\$1000

Then Wells Fargo  
loans it out...

**BANKS, operating in the private-sector economy, have an immense ongoing impact on the total money supply – both increasing it, as well as shrinking it at times – depending on their lending activities**

By the end of the week,  
where is Jane's money?

Bank of America

Jane's  
bank account

\$1000

ACME Co's  
bank account

original  
currency

\$1000

Wednesday

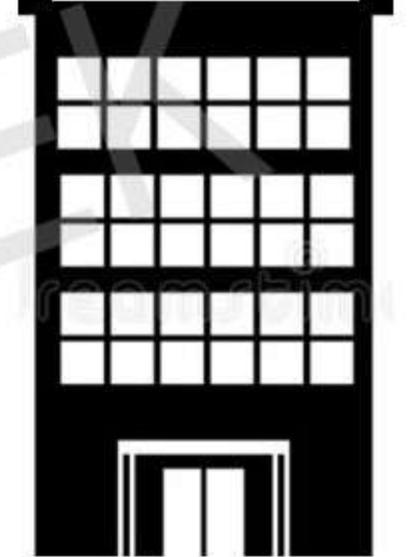
Bank loans to:



Thursday

ACME pays  
XYZ Corp for  
equipment -

ACME CO.



- Banks are in the business of facilitating productive investments, by intermediating between:

People who have money on hand, with no immediate use for it, and who want to preserve their money for future use

People who have projects they want to pursue, but who need access to more capital than they themselves possess

- **Banks create money**, through providing loans to borrowers, while maintaining customers' access to their deposits
- These are the **unique functions** banks perform, and the **unique value** banks produce, without which capitalism is inconceivable

- Banks facilitate a large part of the investment and growth within every market-capitalist economy
  - **Banks are an essential foundation of capitalism**
- 

**Banks are inherently, inescapably  
unstable businesses**

Economists recognize that banks have ‘two equilibria’:

— **Stability**

— **Collapse**

# Basic Model of a Business Balance Sheet

## ASSETS

Things  
having value,  
that a  
business  
**OWNS**

## LIABILITIES

Shareholders' equity

What a  
business  
**OWES**  
its  
creditors

# Basic Model of a **Bank** Balance Sheet

## ASSETS

Loans  
outstanding

Cash reserves

## LIABILITIES

Shareholders' capital

Customer  
deposits  
and funds  
borrowed  
from other  
institutions

# Basic Model of a **Bank** Balance Sheet

## ASSETS

Loans  
outstanding  
(FIXED  
**LONG-TERM  
REPAYMENT  
SCHEDULES**)

Cash reserves

## LIABILITIES

Shareholders' capital

Customer  
deposits  
(**ON-DEMAND  
DEPOSITS,  
TERM  
DEPOSITS,  
SHORT-TERM  
LOANS**)

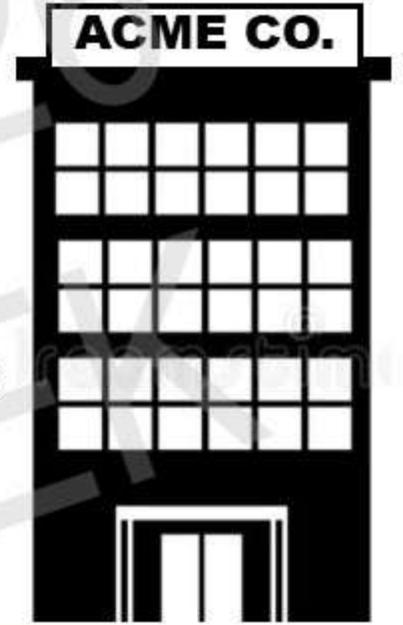




JANE CAN  
ASK FOR  
HER MONEY  
BACK AT  
ANY TIME



THE BANK  
HAS TO WAIT  
FOR MONTHLY  
LOAN PAYMENTS  
TO COME IN,  
FROM  
BORROWERS



***If too many depositors ask for their money back all at the same time, the bank will be in deep trouble***

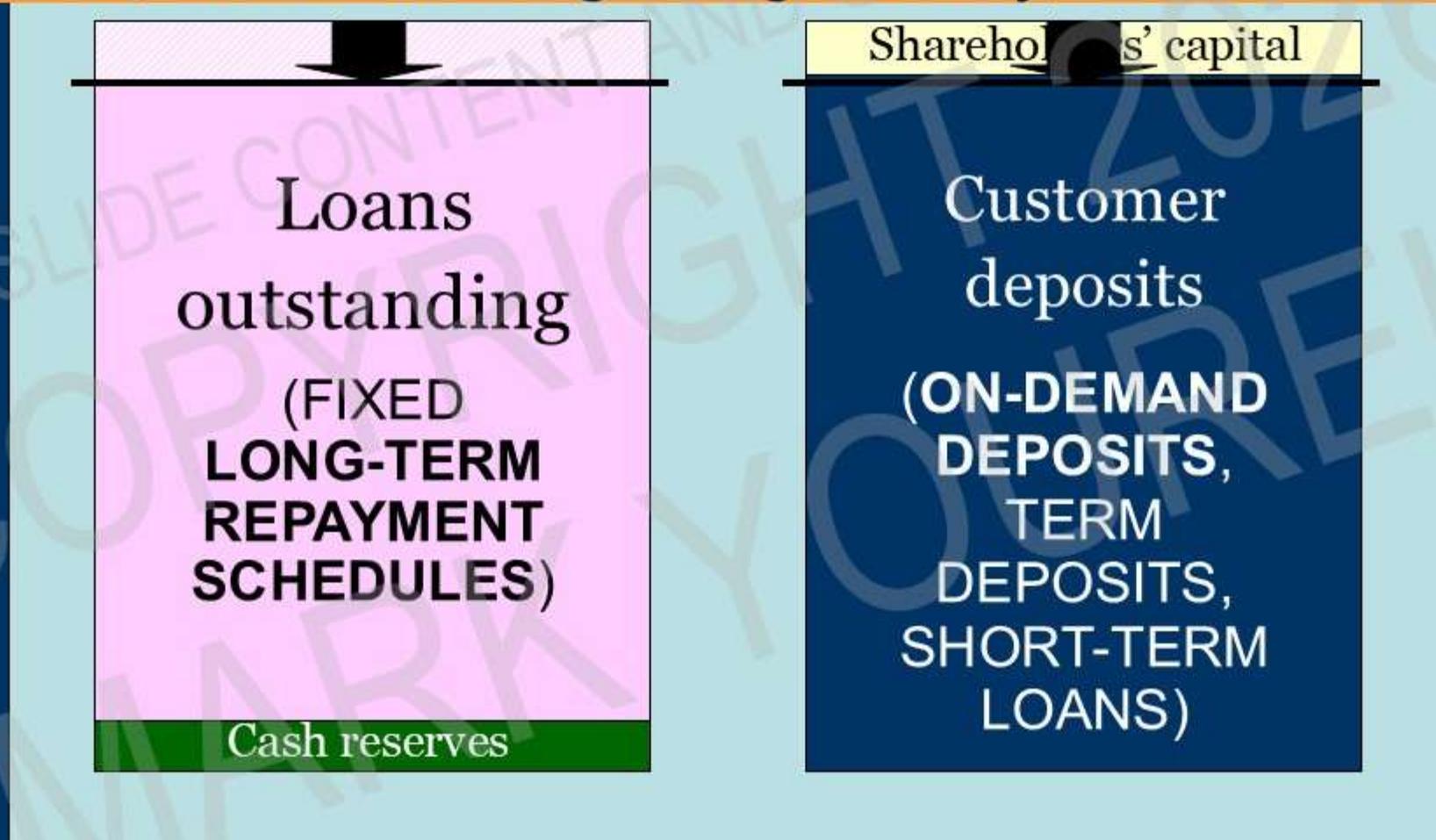
## Basic Model of a **Bank** Balance Sheet

# The 'Asset-Liability Mismatch' Problem



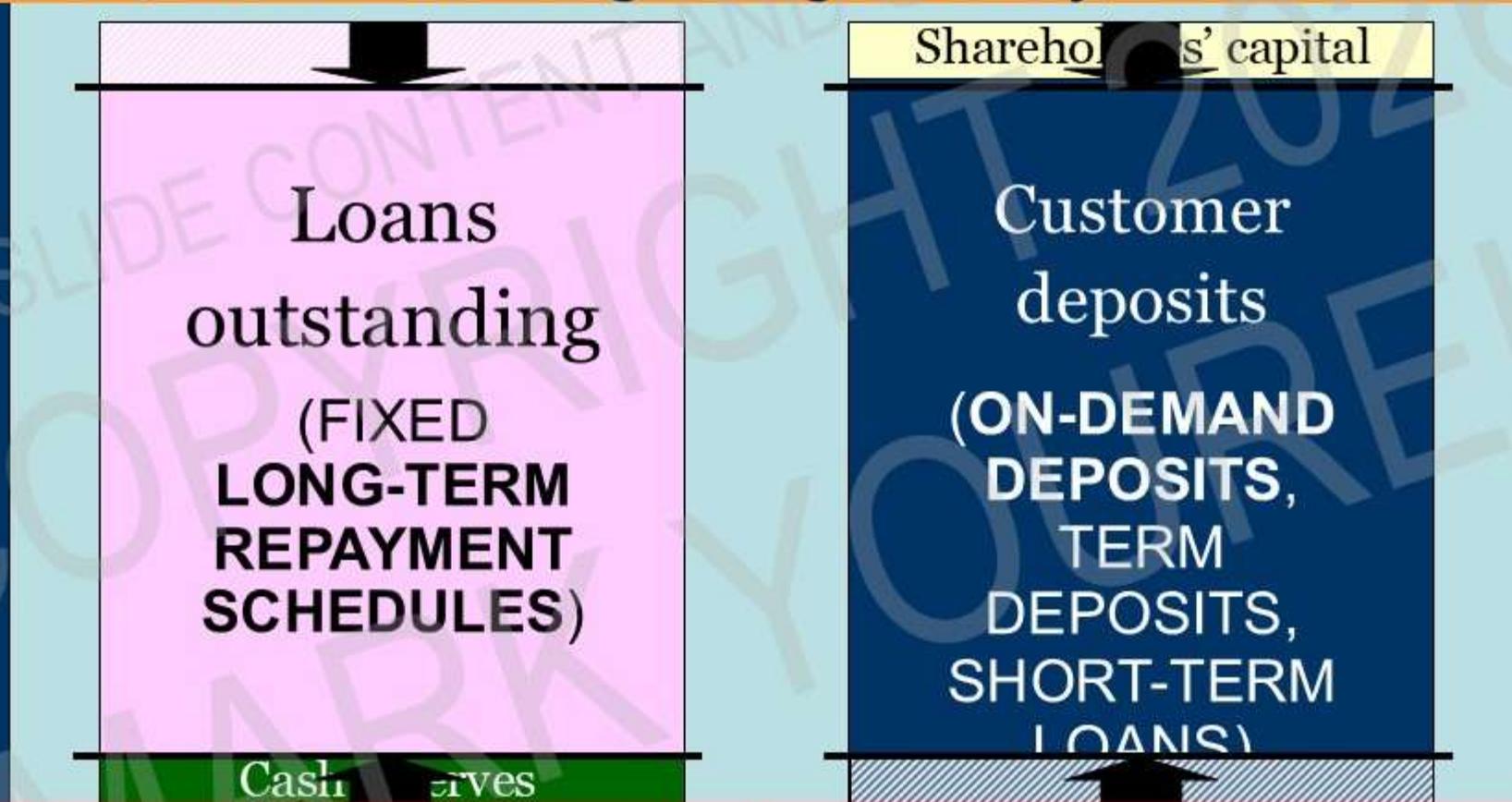
# Paths to Bank Failure

*In an economic downturn, loans may begin to default in significant numbers, and banks begin to get shaky, then **insolvent**...*



## Paths to **Bank Failure**

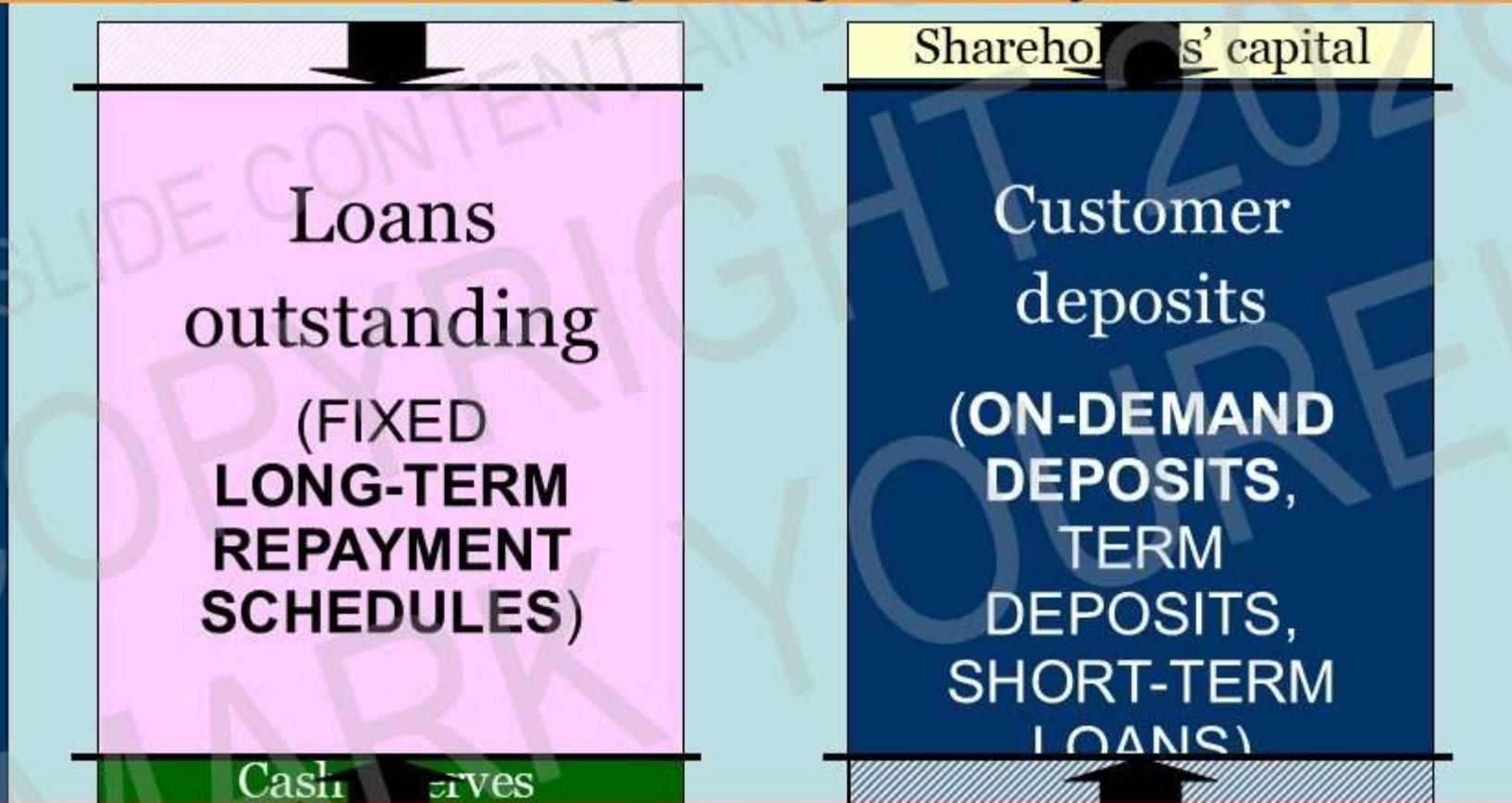
*In an economic downturn, loans may begin to default in significant numbers, and banks begin to get shaky, then **insolvent**...*



*...and the **fear that the bank may be insolvent** can cause nervous customers to rush to pull out their money, causing a **bank run** – and immediate collapse*

## Paths to Bank Failure

*In an economic downturn, loans may begin to default in significant numbers, and banks begin to get shaky, then **insolvent**...*



***Perfectly solvent banks can also fail, if customers panic and pull enough of their deposits. This happened frequently, during financial crises in the old days***

# Paths to Bank Failure

**This is why economists have long recognized:  
Banks are *inherently* unstable businesses**



Banks facilitate a large part of the investment and growth within every market-capitalist economy

Banks are an **essential foundation of capitalism**

Banks are **inherently, inescapably unstable businesses**, inherently unstable institutions

---

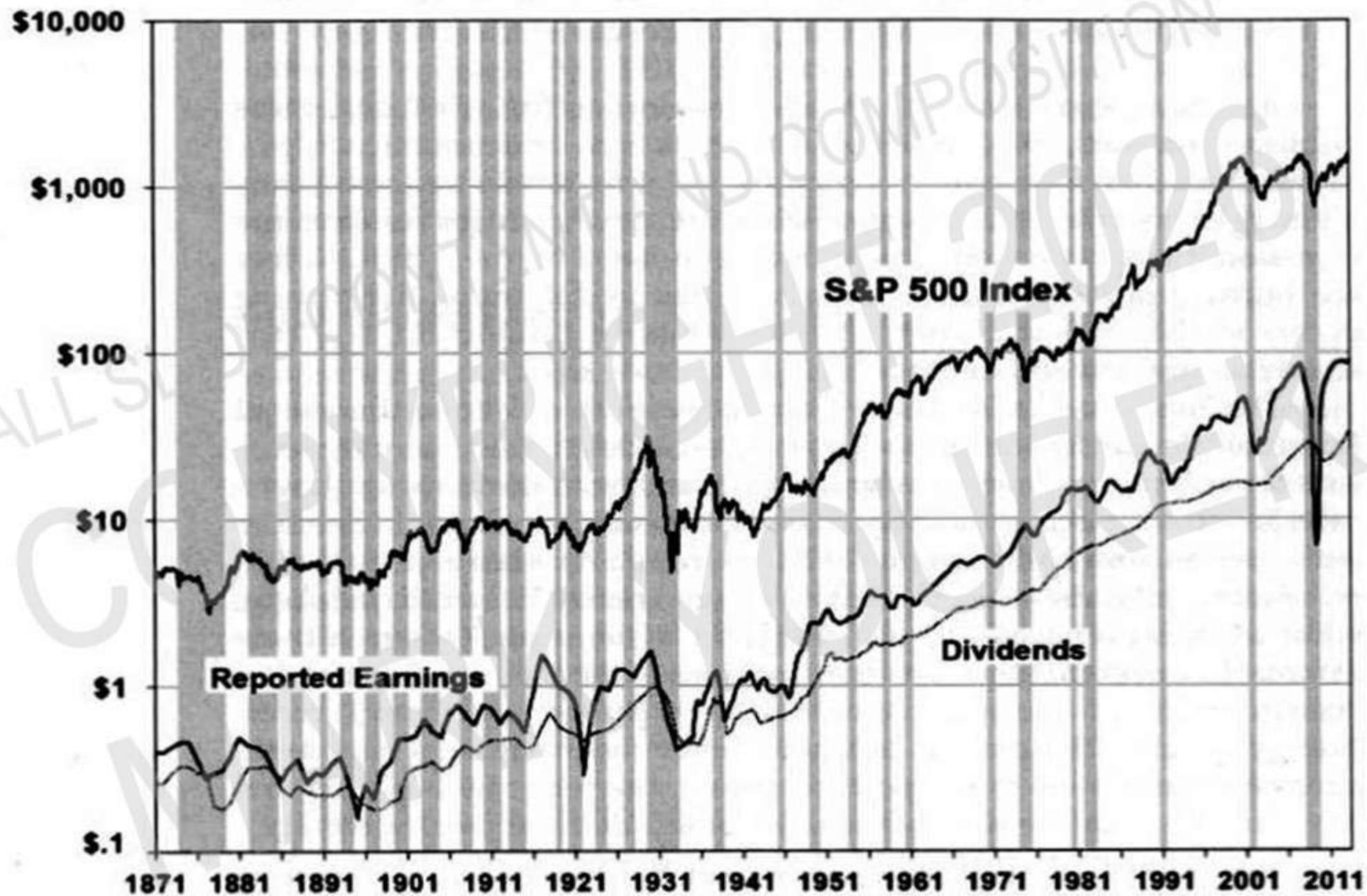
For this reason, as well as for several other reasons, capitalist economies, by their very nature, at their foundation, are unstable

By its nature, capitalism is subject to **recurrent, inevitable crisis** – sudden, unpredictable spasms of collapse, contraction, and economic destruction

---

Capitalism is **bipolar** – always alternating inevitably between boom and bust

# Stock Prices, Earnings, Dividends, and Recessions 1871-2012



Banks are an **essential foundation of capitalism**

Banks are inherently,  
inescapably **unstable**  
**businesses**, inherently  
**unstable institutions**

---

This is not to say that  
*bankers* are unstable

**Capitalism**,  
by its very nature,  
at its foundation,  
is **unstable**

---

This is not to say that  
*capitalists* are unstable

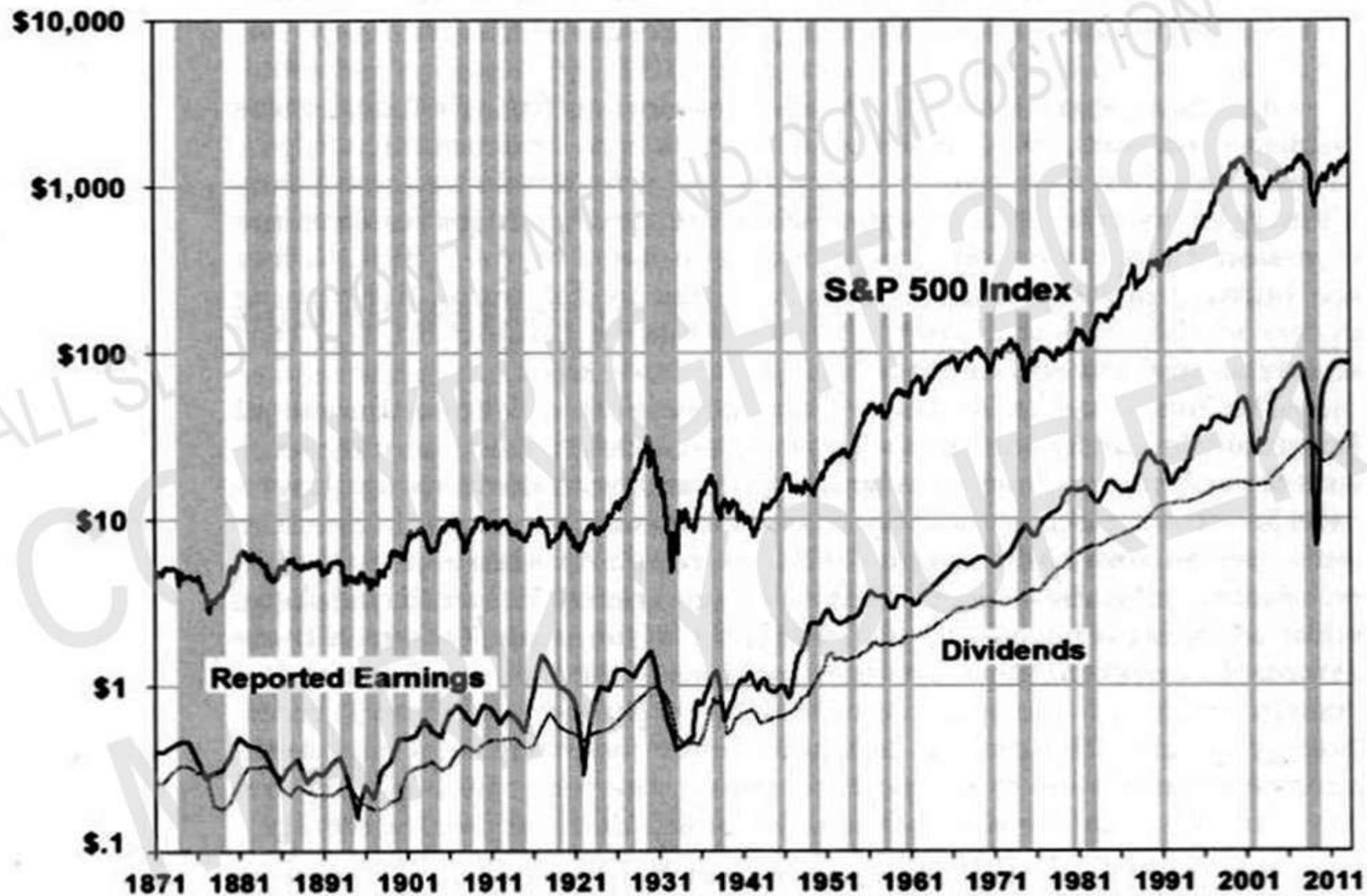
Businesspeople are some of the smartest, most grounded, clear-headed, *thoroughly rational* people around – **they have to answer to the marketplace**

It's a safe assumption that none of them behaves irrationally on any regular basis

Capitalism is populated  
with smart, grounded,  
thoroughly rational people  
who all behave rationally  
essentially all the time

The nature of the activities  
within a free-market economy  
ensures – indeed dictates –  
that **capitalist economies**  
**are naturally unstable,**  
and **subject to recurrent,**  
*inevitable crisis*

# Stock Prices, Earnings, Dividends, and Recessions 1871-2012





When did the banking industry stop building  
'monumental' customer-facing facilities?

Why did they stop?

Why did recessions and financial crises  
become rarer, after about 1940?

Why did the long-term economic growth rate  
increase permanently, after about 1940?

The short answer:

In the United States, the problem of the **inherent instability of banks** was largely solved in the 1930s

- Establishment of **government-backed deposit insurance**
- Role of the Federal Reserve as ‘**lender of last resort**’ to banks
- **Bank regulation, examination and supervision, *to monitor the health of banks, and to protect the taxpayer from loss***

**Virtual elimination of bank runs,  
and largely successful long-term stabilization  
of the banking industry overall**

- Establishment of **government-backed deposit insurance**
- Role of the Federal Reserve as **'lender of last resort'** to banks
- **Bank regulation, examination and supervision,**  
*to monitor the health of banks, and to protect the taxpayer  
from loss*

These constitute **significant, permanent, ongoing interventions** by the *public sector*, into the *private sector*, that **add significant value** to the economy

- Establishment of **government-backed deposit insurance**
- Role of the Federal Reserve as ‘**lender of last resort**’ to banks
- **Bank regulation, examination and supervision, to monitor the health of banks, and to protect the taxpayer from loss**

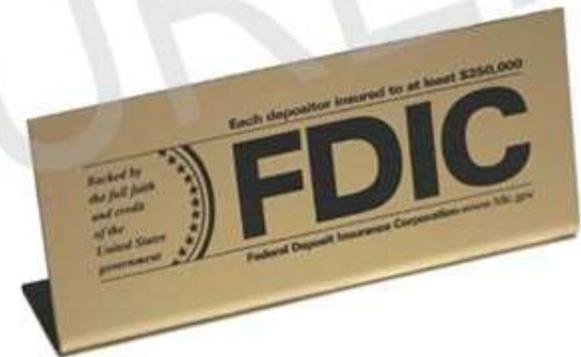
1934

Government-backed  
deposit insurance

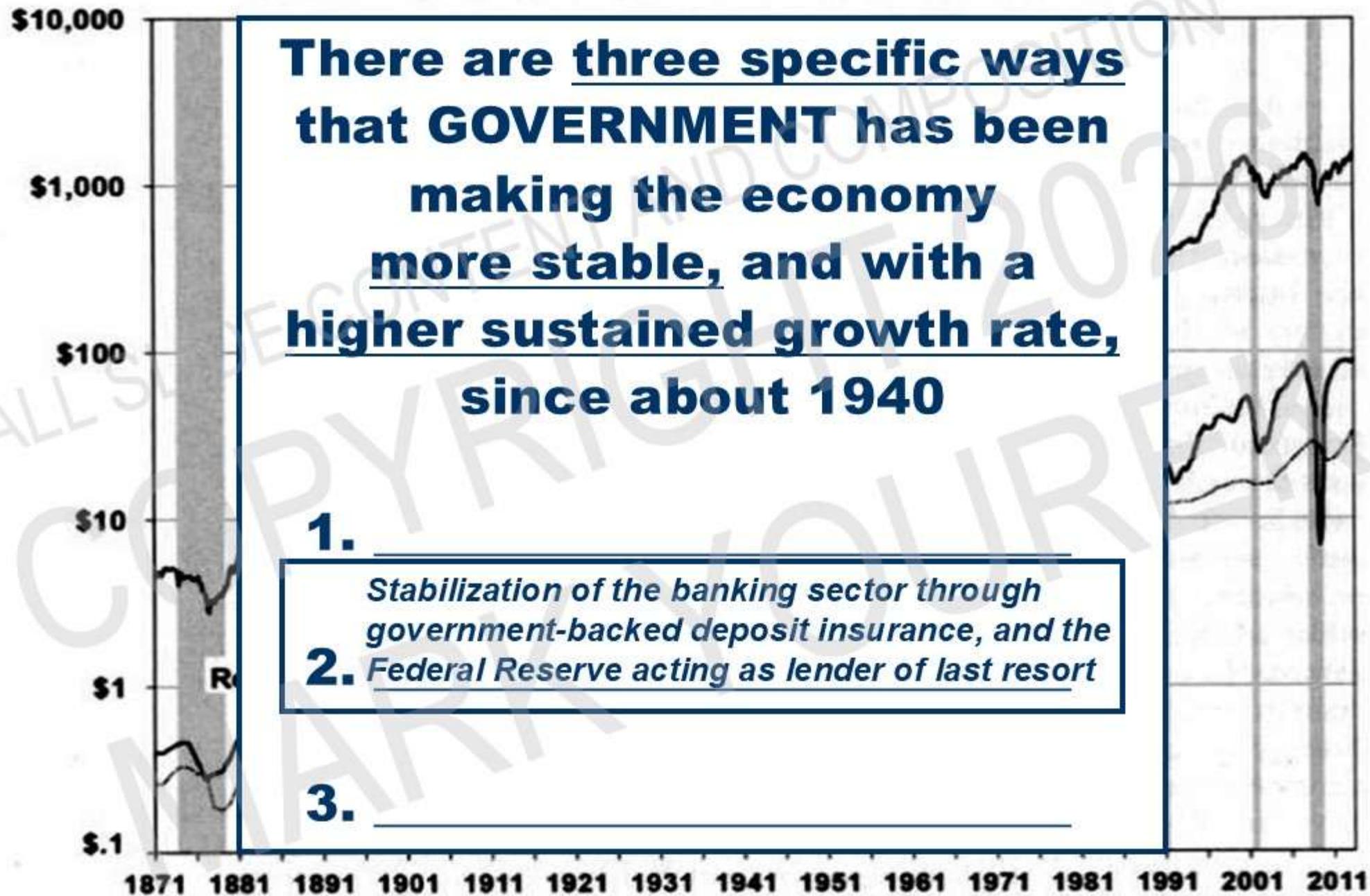
1934

The end of monumental  
bank architecture









None of us has personal experience of 'capitalism in the raw' ...

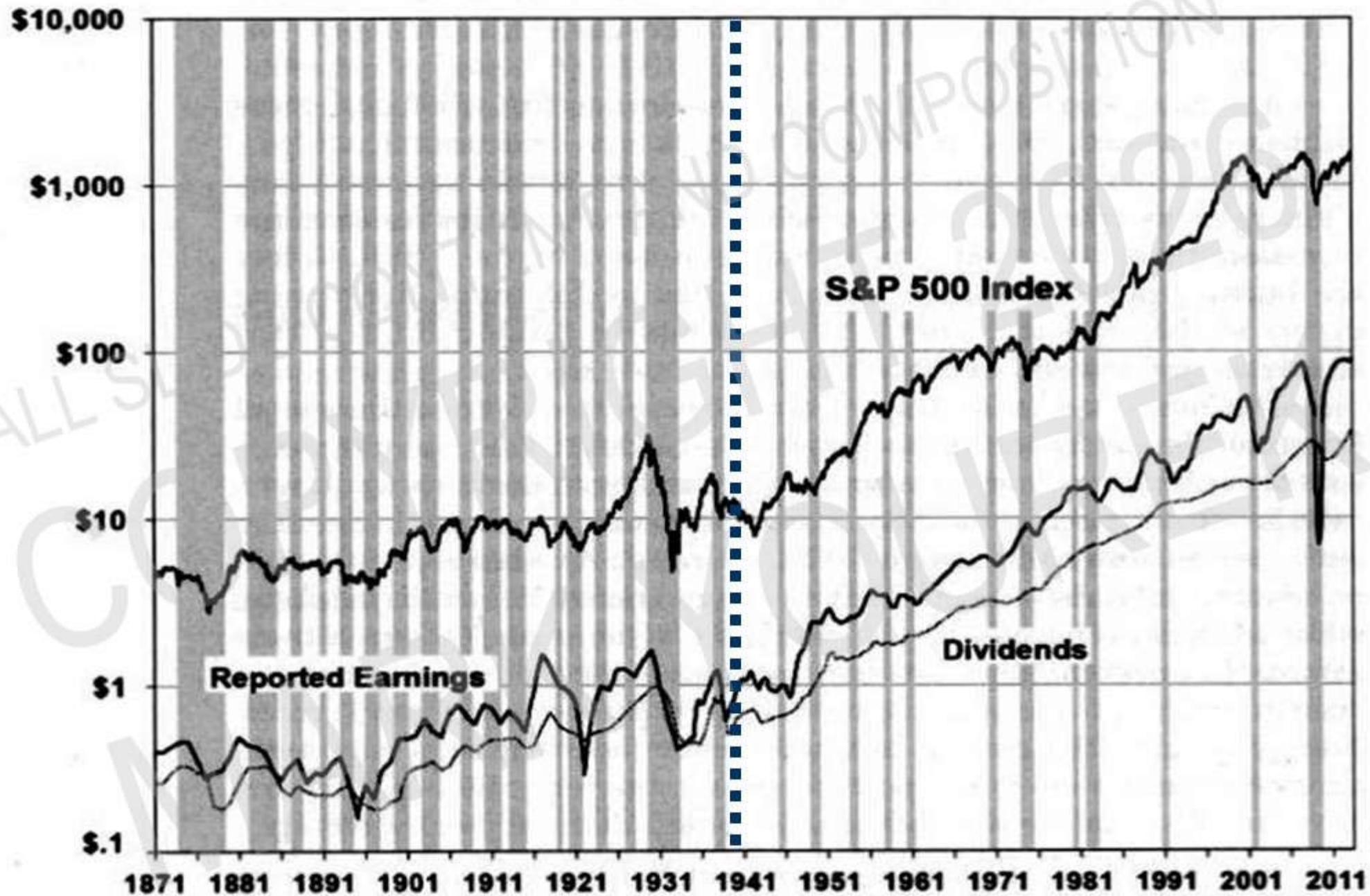


None of us has personal experience  
of **'capitalism in the raw'**...

We have lived our entire lives  
within an **improved framework**,  
in which **American government** works  
symbiotically with the **private sector**  
to make the economy *more stable*  
and *more productive*

**'Capitalism on meds'**

# Stock Prices, Earnings, Dividends, and Recessions 1871-2012



Redress of the problem of bank instability through **ongoing public-sector intervention** has been a pivotal factor in the **reduction in financial crises and recessions** in the postwar era

The steadying hand of the American central bank is **one way** that government in the United States contributes to much greater wealth production...

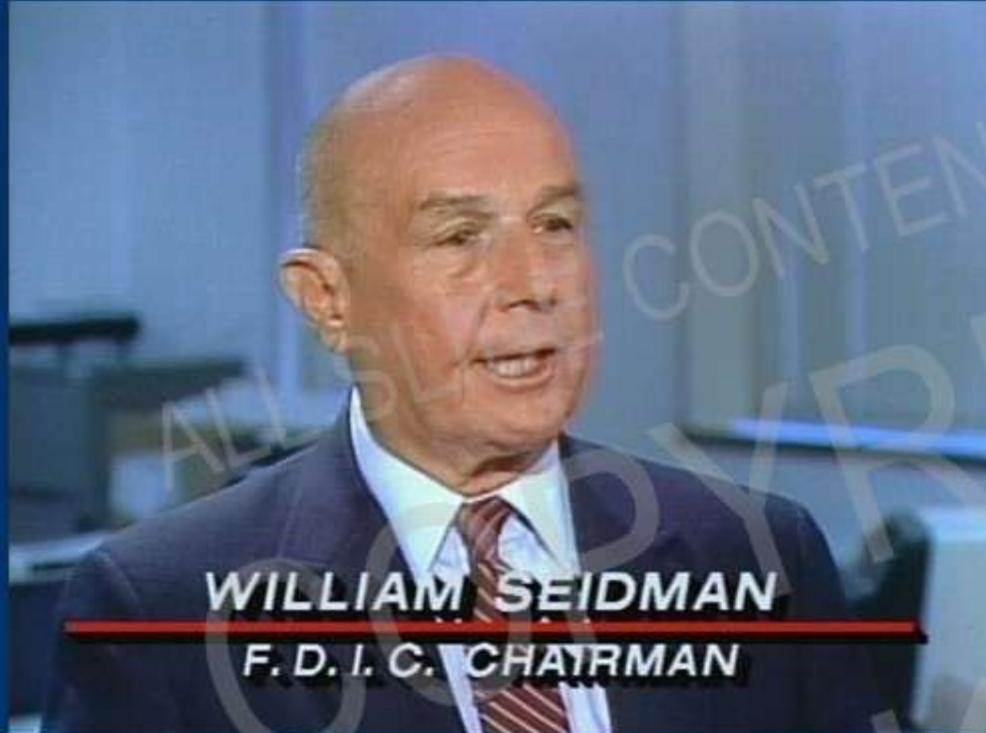
But the story, as we will see, is much richer than this  
and includes pivotal episodes  
that need to be recognized as object lessons:

about the ultimate, indispensable **value of capitalism**  
and the natural, inescapable **instability of capitalism**  
and the ultimate, indispensable **role of government**

and – how badly things can go wrong  
if government fails to play an effective role  
in stabilizing and calming  
capitalism's bipolar episodes

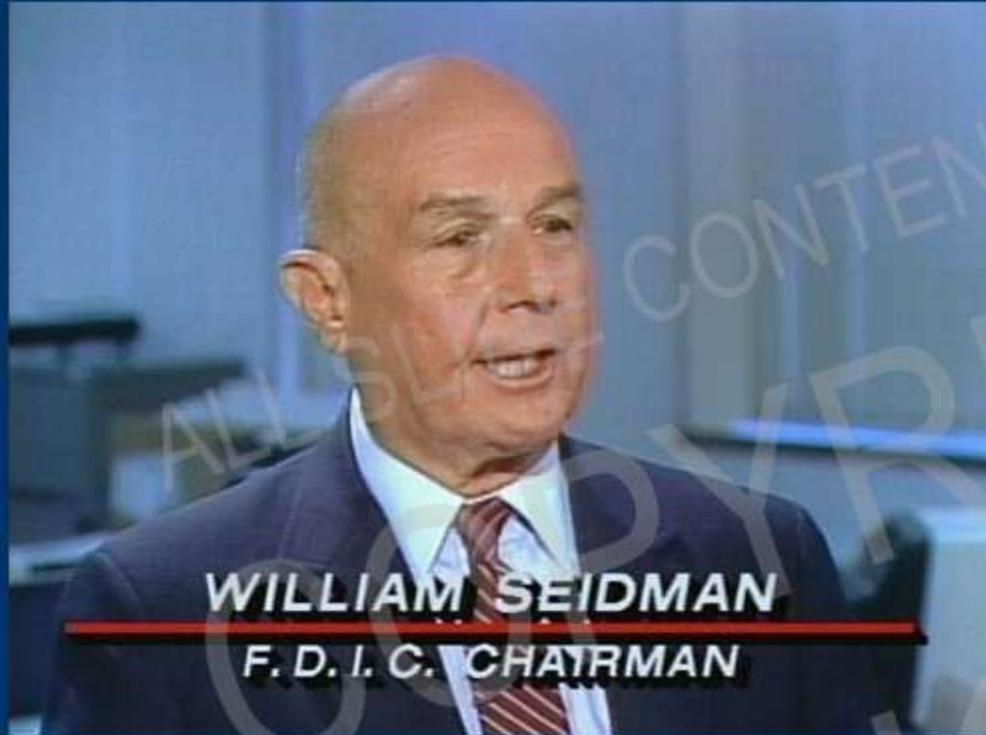
## Postscript: The special thing about banks

William Seidman, Chairman of the FDIC 1985-1991



A bank is a very special kind of company, chartered by a state, or by the federal government, to do something no other business can do: collect, hold and lend out other people's money at a profit.

Postscript: The special thing about banks  
William Seidman, Chairman of the FDIC 1985-1991

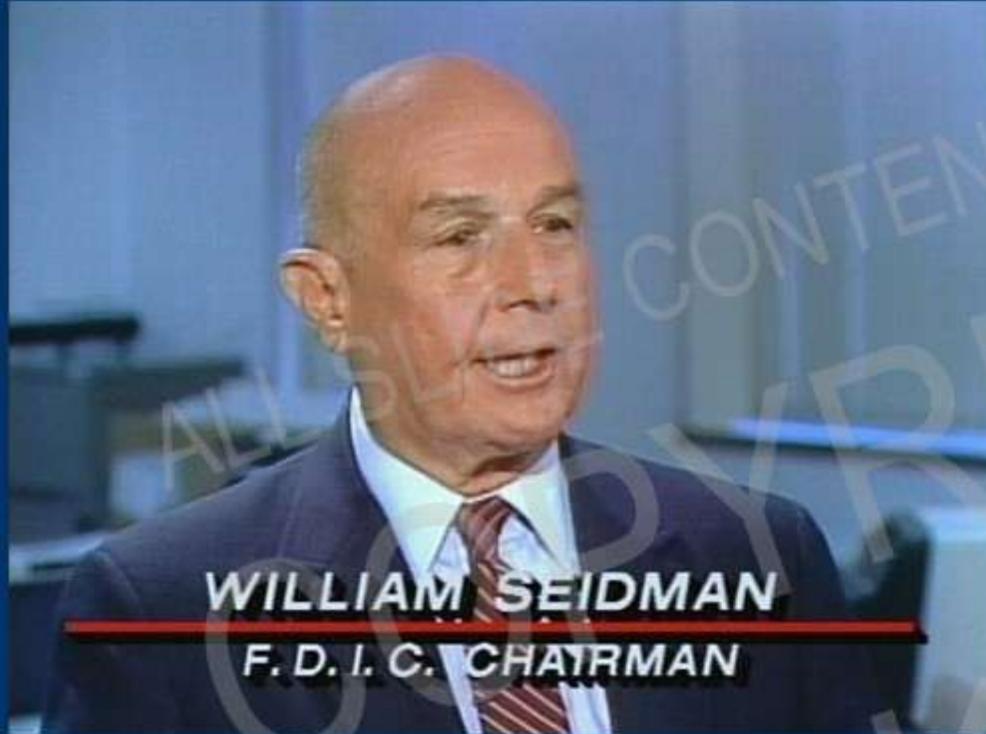


**Only banks have their deposits insured by the government, and for that reason, only banks have as their full business partner the US taxpayer – because the US taxpayer is on the hook for up to 90% or more of the loss, if the bank makes too many bad bets.**

**For that reason, effective bank regulation and examination is absolutely essential.**

## Postscript: The special thing about banks

William Seidman, Chairman of the FDIC 1985-1991



**WILLIAM SEIDMAN**

**F. D. I. C. CHAIRMAN**

In the late 1970s the FDIC reached its peak staff of almost 2500 bank examiners.

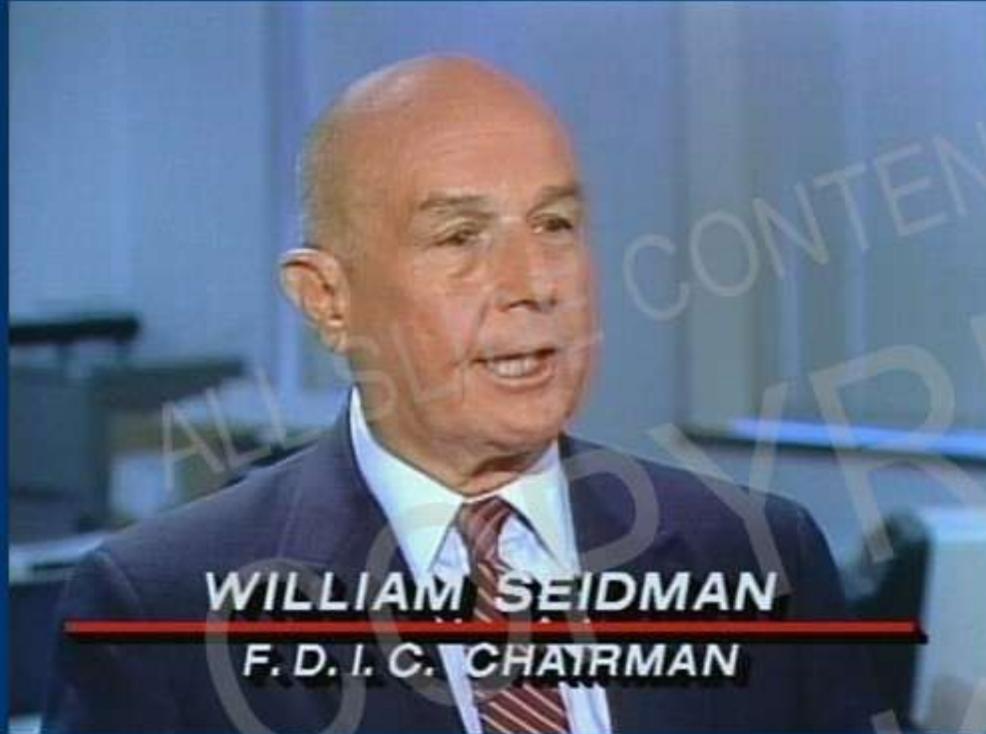
By 1983 our number of supervisors had shrunk to about 1400.

The number shrank because the Reagan Administration held the view that fewer supervisors would be needed, as financial institutions were deregulated.

They thought that fewer people would be needed, to look over the shoulders of the banks.

## Postscript: The special thing about banks

William Seidman, Chairman of the FDIC 1985-1991

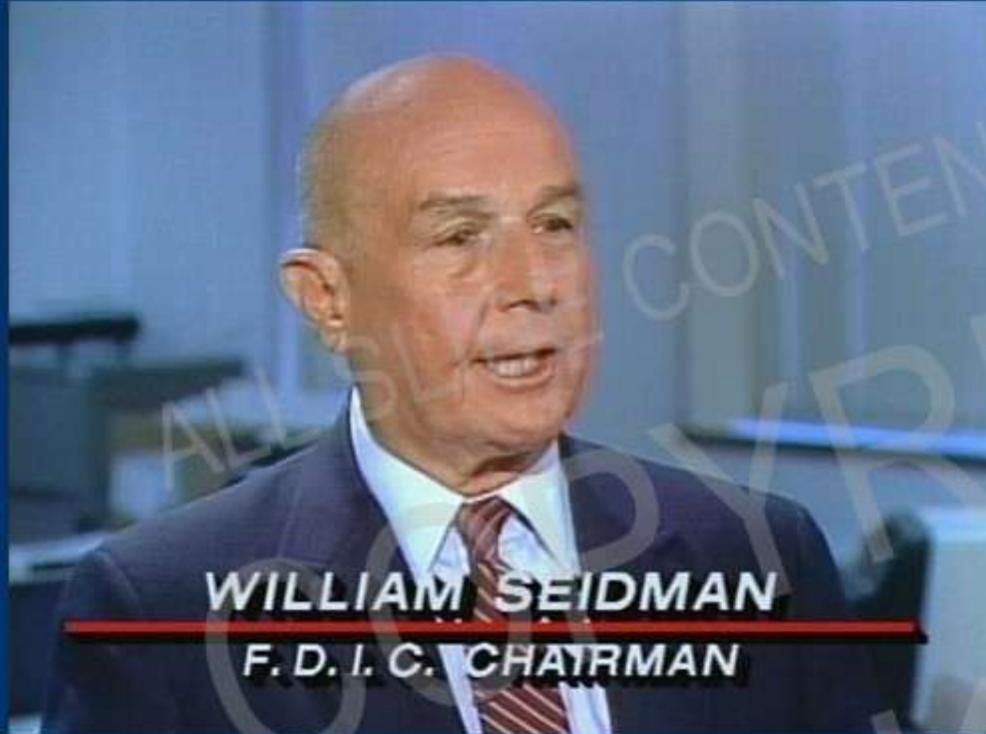


In fact, the *opposite* is true –

**The more freedom you give bankers to undertake various kinds of risk, *the more you have to watch them* –**

especially if your agency is the one that is offering the government's full faith and credit guarantee, by insuring [bank] deposits, in case risky loans go sour.

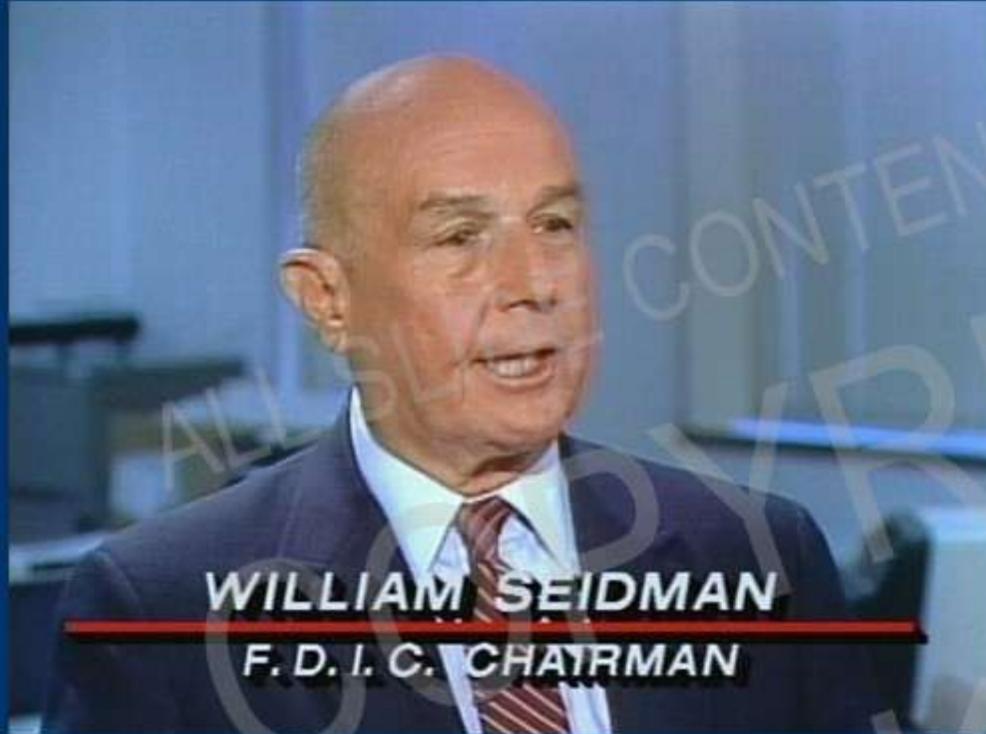
Postscript: The special thing about banks  
William Seidman, Chairman of the FDIC 1985-1991



**Bank deregulation is unusual in that it requires *more*, not less, supervision.**

This was not a message that was easily received in the Reagan White House.

Postscript: The special thing about banks  
William Seidman, Chairman of the FDIC 1985-1991



Much of the Reagan Administration's efforts at deregulation was of great economic benefit, but applying that doctrine to the banking industry, specifically the thrift industry, was a **colossal error.**

*Full Faith and Credit:  
The Great S&L Debacle and  
Other Washington Sagas, 1993*

We've been talking  
about the #2 reason  
why growth  
accelerated after  
1940, and recessions  
became rarer

What is reason #1?

**Capitalism,  
Government,  
Money,  
and the  
Future of  
the World**

