The role of financial crises in history

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At a 2008 hearing before the American Congress, former Chairman of the US Federal Reserve, Alan Greenspan, called the unfolding financial crisis “a once-in-a-century credit tsunami”, meaning that the crisis hit people like a natural disaster. It is well known that a tsunami is almost totally unforeseeable, comes with very little warning and is completely unpredictable. And indeed crises of this nature cannot be accounted for in economic models. Warnings were given only by a few experts, which led to much criticism later and references to a “failure of academic economics”. But economic history was of great interest to economists; while they could not have predicted tsunamis, they should at least have provided insight into empirical experience.

The best known publication on the history of financial crises was produced in 2009 by two prominent US economists, Carmen M. Reinhart and Kenneth S. Rogoff. In their book This Time Is Different, a compendium of the financial crises of the last eight centuries, they list around 320 debt crises and more than 200 banking crises arranged by country. Reinhart and Rogoff have now come in for criticism due to errors in their data, but their figures provide impressive evidence that economic and financial crises are not at all unusual and have occurred throughout history. For economic historians this is nothing new, it is actually pretty obvious.

For them crises are a “normal part of the economic process” and essential because they correct the defective trends which occur with every structural change.\(^4\) Indeed, there are many indications that crises are the indicators and not the causes of defective trends; in a similar way to fever, which indicates an infection and helps eradicate it.

Another reason for the success of Reinhart and Rogoff’s book was the evidence they provided to back up the widely held view that for centuries financial crises have followed more or less the same pattern.

According to the authors, however well financial systems are regulated they cannot withstand the pressure created by greed and the irrational exuberance that leads to speculative bubbles.\(^5\) However, this approach does not take into account the fact that the causes and nature of financial crises over the last few centuries have changed radically time and again. Financial crises should be regarded as an integral part of economic development, and it is precisely for this reason that they change in line with that development. New causes, actors and mechanisms all emerge over time. For historians there is little point in counting up all the crises of the last two hundred years. It is much more useful to try and identify specific underlying patterns and the way they change. We can only learn lessons from the past if we take these changes into account. If we hide them, we end up simply playing unhistorical and unrealistic number games. To illustrate the point, let us take Reinhart and Rogoff’s finding that Spain has experienced thirteen cases of national bankruptcy, more than any other European state. Yet if we take a closer look at the data, it is clear that these debt crises are in no way related to the present. Out of the occasions on which the Spanish government’s coffers ran empty, not one occurred in the 20th century, while six date back to the 16th and 17th centuries and the rest to the 19th century. The picture in France, where the last debt crisis arose in 1788 under Louis XVI, is very similar.\(^6\)

The aim of this article is to demonstrate how the patterns that characterise Europe’s financial crises in the 19th and 20th centuries can be categorised from a historical perspective. We shall then examine the extent to which financial crises recur; to what extent they differ from each other and how much we have learnt from them.

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5 Reinhart/Rogoff, This Time, pp. 291f.
6 Ibid., pp. 87, 91, 96.
Our main focus will be on the two most important types of financial crisis, i.e. banking crises and debt crises. Given the large number of past crises from which to choose, we shall of necessity focus on a number of selected cases.

The evolution of national debt and the speculative crises of the 19th century

Although debt crises have been a regular occurrence since the late Middle Ages, frequently taking the form of spectacular bankruptcies of entire states, it was not until the 19th century that we had the first banking crises on a scale that threatened the entire banking system rather than merely the collapse of a single bank. Indeed, the first banking systems as such only became established during the course of the 18th century as the trading of goods and precious metals stimulated the formation of an increasing number of private banks.

Before 1800 all the bank collapses we know of were cases of straightforward insolvency that did not produce a chain reaction. Most were linked to state bankruptcies caused by spending on costly wars. The term “state bankruptcy” means that a state is no longer able to meet its obligations to its creditors. Unlike companies, states are not forced out of existence by bankruptcy. Nevertheless, it does oblige them to take remedial action, and this generally helps to restore a degree of health to the national finances.

The earliest example on record is the bankruptcy of England under King Edward III in 1345. The English crown was unable to pay the debts it had incurred during the Hundred Years’ War against France. For a long time, it was thought that this was the trigger for the collapse of Edward III’s two biggest creditor banks, Bardi and Peruzzi in Florence.\(^7\) Two hundred years later the Spanish King Philip II led his country into no fewer than three bankruptcies. One of his biggest creditors, the Welser Bank in Augsburg, collapsed as a result in 1557. Eventually, as government bonds became a common form of borrowing, the risk of default following the bankruptcy of a state was borne by a large number of investors rather than individual banks. Risk premiums were already factored into the price.

\(^7\) More recent research does not confirm such a link and instead sees the reasons for the collapse of both banks as a change in the flow of trade and internal problems of the Republic of Florence. Edwin S. Hunt, A New Look at the Dealings of the Bardi and Peruzzi with Edward III, in: The Journal of Economic History, Vol. L No. 1 (March 1999), pp. 149-162.
Consequently, Europe’s banking systems proved amazingly robust when faced with a whole series of debt crises and state bankruptcies during the Napoleonic Wars. Indeed, many banks – Rothschild being perhaps the best-known example – profited handsomely from debts run up by the countries engaged in those wars. Austria alone stopped servicing its debts on no fewer than four occasions between 1802 and 1816. The period between 1797 and 1812 was marked by an “explosion” of debt, not only on account of military spending but also due to inefficient financial systems. In most countries, the state’s finances were not yet separate from the private assets of the monarch and the ruling dynasty.8 State bankruptcies were often concealed. In 1806, for example, Prussia became insolvent as a result of the Napoleonic occupation, and was only able to avoid a second bankruptcy after the Congress of Vienna with the help of two loans from Rothschild.

A new pattern emerged after the Napoleonic Wars. In Northern and Western Europe, levels of national debt and the number of state bankruptcies fell considerably. Overall, the 19th century was marked by a reduction of the debt burden in these countries as a direct result of financial reforms, the absence of protracted wars and economic growth generated by industrialisation.

This trend is well documented in British statistics, which are particularly revealing as they date all the way back to the 17th century and have not been influenced by changes in currency or territory. In 1820, public debt in Great Britain stood at around 200% of the country’s gross domestic product, whereas by 1855 the proportion had fallen to around 100%. In Europe, cases of insolvency were now almost exclusively limited to Spain, Portugal and Greece, where they occurred with great frequency. Looking at the period between 1825 and 1900, Reinhart and Rogoff list a total of sixteen foreign debt crises and debt restructuring measures in these three countries alone. Only four such crises of this nature occurred in the rest of Europe as a whole, including Russia and Turkey.9

By this stage, those countries with the strongest economies (Britain, France and soon afterwards the United States and Germany) had relatively well-developed banking systems.

9 Reinhart/Rogoff, This Time, pp. 155ff.
There were no further cases of national insolvency, although banking crises – triggered by speculative bubbles that formed on the stock markets – occurred at regular intervals. Whereas speculation had previously been driven by independent share traders known as stock jobbers, it was now fomented by the banks – not only the new joint-stock banks but also the older private banks, whose earlier business activities in the 18th century had been much more conservative. Crises of this new type were triggered by speculative investments in new areas of business created by industrialisation and the growth in world trade. Individual bank collapses could easily reduce the supply of credit and consequently jeopardise the banking system as a whole. In many countries, however, newly established central banks provided a crucial foundation that helped to protect the financial system in such crises. Following the model of the Bank of England, they acted as the lender of last resort (LLR) by providing liquidity to hard-pressed banks.

An early example of this is the British bank crisis of December 1825. Speculation with Latin American bonds had created a bubble, loans were cheap and many new stock companies were formed. When this bubble burst, 66 UK banks crashed. The fact that the situation wasn’t even worse was thanks to the Bank of England, which issued bank notes worth a total of 5 million pounds. Jeremiah Harman, a former governor of the Bank of England, made the following observation on the role of the central bank in this crisis: “Seeing the dreadful state in which the public were, we rendered every assistance in our power”. 10 Over the next few decades, it became generally accepted that one of the functions of the central banks emerging in nearly all the industrialised countries of Europe was to act as a lender of last resort.

They were effectively a new instrument that made it possible not to prevent but at least to mitigate the impact of banking crises.

As capital began to flow more widely across borders and communications were improved by the advent of new technology, crises were able to migrate easily from one country to another. The first global economic and financial crisis occurred in 1857 as a result of “railroad fever”, a period of intense speculation in the shares of rail companies.

One of the main drivers of this speculation was rapid expansion of the joint-stock banks that had been set up to finance the construction of new railway lines. When the railroad boom faltered after the Crimean War, the bubble burst. The collapse of Ohio Life Insurance and Trust Company in New York unleashed a panic that also affected individual savings banks.\textsuperscript{11} Commercial bills of exchange lost their value, and as a result the crisis spread to Europe and South America. In London, the Bank of England intervened, while the big trading houses in Hamburg received assistance from a city government support fund. In a lead article for the \textit{New York Daily Tribune}, Karl Marx wrote: “This kind of communism, where the mutuality is all on the one side, seems rather attractive to the European capitalists.”\textsuperscript{12} The US economy, more than any other, took some time to recover fully from this crisis, yet contrary to Marx’s predictions it did not prove to be the beginning of the end of capitalism. Confidence in the banks returned quickly, and Europe experienced another boom – followed soon after by its next major financial crisis.

\textbf{Run on the Seaman’s Savings Bank during the Panic of 1857.}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{run_on_bank.png}
\caption{Run on the Seaman’s Savings Bank during the Panic of 1857.}
\end{figure}

Strong economic growth in Central Europe during the early 1870s led to an outpouring of optimism and feverish speculation in shares and property. In Germany this mood was stoked even further by the foundation of the Reich and by French reparations. Money was cheap, and the market had been deregulated by the removal of concession requirements for joint-stock companies. Between 1870 and 1873, new joint-stock companies sprang up like mushrooms – nearly a thousand in total including many joint-stock banks with a dubious funding base. The speculative bubble burst in 1873 – first in Vienna, then in New York. The stock exchanges in both these financial centres had to cease trading. In October 1873 the crisis reached Berlin, where many of the newly founded joint-stock companies disappeared in the wake of the crash. This was followed by a sustained period of falling prices and shaky economic growth. Recent research has linked the extent and duration of this Great Deflation with the rise of the gold standard as the first international currency system. In 1873, as a direct response to the crisis, Germany amended its joint-stock legislation and once again introduced a series of stricter regulations. From this point onwards, joint-stock companies were obliged to disclose their year-end accounts.

National debt and political interests had very little impact on the classic speculative crises of the 19th century. Equally, governments were not directly involved in measures to tackle these crises. This was the task of the central banks, which consulted each other and took action to provide the market with liquidity. It was not until after the 1873 crisis that legislative bodies in several countries introduced stricter regulation. Although Europe continued to experience banking crises at almost regular intervals, their impact was mitigated by central bank intervention. The collapse of Union Générale in France at the beginning of 1882 following a stock market crash led to the country’s first serious banking crisis but failed to provoke a wider financial crisis at international level. Eight years later Baring Brothers, one of the most famous British banks, was pronounced bankrupt, yet the Bank of England managed to prevent the international financial system from crashing with the help of a standstill agreement signed by a consortium of London’s joint-stock banks and further assistance from the central banks in Paris and St. Petersburg.

13 Plumpe, Wirtschaftskrisen, pp. 65ff.
Central banks now had to adjust to the gold standard, which spread out from Britain to encompass all the major industrialised countries and established itself as a new international monetary system. The act of linking national currencies to gold limited the scope of these countries to increase their money supply. A “credit tsunami” was practically impossible, and both prices and currencies remained stable. Once again, this can be illustrated particularly well with the help of statistical data from the UK, where the ratio of public debt to GDP fell to a historic low up to the beginning of the First World War. Of course, this level of stability was only made possible by the absence of wars between the European powers in the period between 1880 and 1914.

United Kingdom Public Net Debt in percent GDP 1800-1914

By contrast, on the periphery of the gold standard in the Mediterranean region and Latin America, state bankruptcies remained a common event in countries plagued by economic and political instability and by military conflicts. In Spain, a series of civil wars, revolutions and coups between 1820 and 1882 led to recurring deficits and insolvency. In 1875 the Ottoman Empire stopped paying its creditors.

17 Source: http://www.ukpublicspending.co.uk.
In 1893, the Greek Prime Minister Charilaos Trikoup declared his country bankrupt when it was no longer able to service its foreign debts after a sharp fall in agricultural prices. Three years earlier, a major decline in commodity prices had plunged Argentina into bankruptcy. The London bank Baring Brothers, which had invested heavily in Argentinian bonds, met the same fate.  

The worst banking crisis in the decades preceding the First World War began in the United States, which at the time had no central bank. The Knickerbocker Trust Company, one of the biggest trust companies in New York, collapsed in the autumn of 1907. This triggered a run on the banks. Within a very short time, deposits were withdrawn all over the country. The banks ran short of funds and many collapsed. It is only thanks to the intervention of J.P. Morgan, the richest banker in the country at the time, that the situation did not deteriorate much further. In response to this crisis, US legislators introduced stricter regulation. Following the recommendations of a commission set up by the Congress, the country established its own central bank in 1913, the Federal Reserve System.

Inflation, depression and the gold standard: the crises of the 1920s and 1930s

The First World War and its aftermath brought about a fundamental change in Europe’s economic situation and consequently in the nature of future crises. The major European states had accumulated large debts and lost ground to the United States in terms of economic power. World trade was hampered by new tariff and non-tariff barriers, while currency problems created new risks. Faced with these problems, governments increased their spending, with the result that levels of national debt that had already increased during the war rose further still. In Britain, the ratio of national debt to GDP almost reached the level of 1820, while in Germany the sheer amount of debt caused inflation on an unparalleled scale – a development that the government initially regarded as opportune as it helped the Reich to pay its creditors.

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The hyperinflation of 1923 finally allowed Germany to pay off that part of its debt not denominated in foreign currencies. It was one of the most radical examples of debt reduction in recent history, although in Germany it also destroyed a great deal of capital and subsequently created a growing pile of foreign debt.\textsuperscript{20}

Even the United States saw its national debt rise after the First World War, but, unlike Europe, it was also experiencing an economic boom that generated a speculative bubble on the real estate and share markets. When this bubble burst in the stock market crash of October 1929, known on Wall Street as the legendary Black Friday, the US economy plunged into a depression that broadened into the world’s then biggest-ever economic crisis.\textsuperscript{21}

Two years earlier, in 1927, Japan was hit by the Shōwa financial crisis, the worst banking crisis in its history. For years, the central bank had been pumping cash into the market, partly in response to the Kanto earthquake. Then the glut of credit ceased, many of the country’s banks collapsed and hundreds disappeared permanently from the market.\textsuperscript{22}

In the early 1930s, banks in many countries came under pressure as a result of the global economic crisis. There were major banking crises in Austria (May 1931), Germany (July 1931) and the United States (early 1933). All these were triggered by the collapse of banks that had entered into riskier credit deals than others: Creditanstalt in Austria, Darmstädter und Nationalbank in Germany and the Guardian Trust Company of Detroit in the US. Banking panic struck Berlin and New York. Customers, afraid the collapse might spread to other banks, stormed the counters. Unlike the banking crises of the 19th century, however, these customers were no longer solely business people. Thanks to the growing popularity of savings accounts, they now represented a broader spectrum of the public, with the result that savings banks were also hit by runs.

In Germany and the United States, the crises escalated because the central banks failed to take appropriate action in good time. Instead, their priority was to protect the gold standard, which had been reintroduced in the 1920s.

This system had been under pressure for a long time on account of the global economic crisis and had prevented central banks from supplying the banks with additional liquidity. Consequently, only massive intervention by the German government was able to save the country's banking system from collapse. After the failure of Darmstädter und Nationalbank in July 1931, Germany closed all its banks temporarily and opted for a large-scale bailout. Some of the most important commercial banks, including Dresdner Bank and Commerzbank, were nationalised.

There was also support for the savings banks and their “giro centres” (especially the recently collapsed Rheinische Landesbank) and for numerous cooperative banks, but not for the private banks. In the United States, the banking crises of the Great Depression reached a climax in February 1933.

As soon as he was elected in early March of that year, President Franklin D. Roosevelt declared a National Bank Holiday and drove through a comprehensive reform of banking legislation.


Source: DSGV (German Savings Banks Association)

While it is true that the banking crises of this period were also caused by the behaviour of certain banks, they escalated because they occurred in a problematic environment: not as a result of national indebtedness but on account of an exchange system that made it difficult for central banks to implement support measures. The gold standard, which many saw as a blessing prior to 1914, was now regarded as a curse.24 The situation was aggravated by growing nationalism and particularly by the antagonism between Germany and France, which contributed to the banking crisis of 1931. By contrast with the speculative crises of the 19th century, systemic deficiencies were unresolved even after the crises were over. Unemployment in the United States remained high, and the recovery of the banking system in Germany was very slow.

It was not until the period between 1935 and 1937, during the Third Reich, that the nationalised banks could be reprivatised. In both countries, the banking crises prompted a reform of banking legislation in the shape of regulations that were greater in scope than those implemented in the wake of the 1873 crisis. In Germany, this included the introduction of a banking industry supervisor. In the United States, the 1933 Glass-Steagall Act brought about the separation of investment banking and commercial banks.

The long years of post-war stability and the return of crises

As a result of the Second World War, national debt soared to record levels in Britain, the US and above all Germany, which had been heading inexorably towards bankruptcy during the last few years of the war. By contrast with the situation after the First World War, when inflation had eaten away at the country’s debts, it was a “haircut” (the other radical method of debt relief) that allowed the country to deal with most of its post-war debt mountain. For German creditors, the outcome was nearly as bad as having their loans eroded by high inflation. Meanwhile, the value of savings deposits fell by 94% in the 1948 currency reform. By contrast, thanks to the relative stability of its currency, Britain again managed to reduce its own pile of wartime debt without recourse to such draconian measures.

In the decades that followed, it seemed that the economies of the world’s leading industrial nations could no longer be destabilised by serious banking and debt crises. Now we know better, of course, and the role of the post-war boom in economic history will need to be reassessed in the light of the financial and economic crisis of 2008-2009. If we assume that crises are an integral part of economic development, the astonishing thing is not so much that we have now witnessed major new crises but that the leading economic powers remained free of such crises for so long. This was certainly helped by strong economic growth in the first few decades after the war, as well as the price and currency stability established by Bretton Woods. Between 1950 and 1970, European and US debt as a proportion of gross domestic product fell by a greater margin than at any period in the 20th century. In 1970, Britain’s debt stood at just 64% compared to 138% in 1955.

25 Source: http://www.ukpublicspending.co.uk.
The Bretton Woods system collapsed in 1973, and the high levels of growth enjoyed in the post-war period came to an end in the same year with the onset of the first oil price crisis, which drove unemployment back up and was responsible for a sharp increase in levels of national debt. Even under these conditions, the world’s financial systems proved remarkably stable for a long time. Individual bank collapses, such as the insolvency of Cologne’s Herstatt Bank in 1974, remained isolated events with no risk of contagion. The same was true of the US savings banks crisis in the 1980s. The Swedish banking crisis of 1990-1992, which was preceded by a property market crisis, shook the banking system but had no impact outside the country. In the United States, Western Europe and Japan – the world’s major economic centres – confidence in the banking system was unbroken. This is particularly remarkable given the debt crises of the 1980s in Latin America and a raft of state bankruptcies (e.g. Mexico in 1984). In this context, it would be hard to dispute the effectiveness of the protective measures set up in response to the crises of the 1930s. Sweeping legislative reforms had imposed new regulations covering the banking industry, share trading and taxation, while new powers had been established for the central banks and the International Monetary Fund, which had been set up in 1944 under the Bretton Woods Agreement.

So why was this long period of relative stability followed by the major crisis of 2008-2009? Opinions on this matter diverge considerably. There are those who take the view of Reinhart and Rogoff that financial crises simply cannot be prevented, however sophisticated our regulations and control systems.26

By contrast, the Financial Crisis Inquiry Commission established by the US Congress concluded that the Lehman Brothers collapse could have been avoided and that the government, the financial supervisor and the banks all bore an equal share of the blame.27 There are many who see the deregulation of financial markets in the 1980s and 1990s as the origin of the crisis, although others frequently point the finger instead at regulation, e.g. of the US mortgage market.

26 Reinhart/Rogoff, This Time, pp. 291f.
There is a good deal of evidence to suggest that a new kind of crisis has emerged. This “twin crisis”, to use the term adopted by many economists, differs from both the classic speculative crises of the 19th century and those of the inter-war period. A twin crisis is characterised by the link between a banking crisis and a currency (balance-of-payments) crisis. It occurs when a banking crisis provokes a currency crisis, thus creating a vicious circle. This pattern was first observed in the financial crises that struck East Asia and Latin America in the 1990s. In an article published in 1999, Graciela Kaminsky and Carmen Reinhart described it as follows: “We find that problems in the banking sector typically precede a currency crisis – the currency crisis deepens the banking crisis, activating a vicious spiral”.28 The present euro crisis appears to provide striking confirmation of this pattern.

High-risk transactions in the banking industry undoubtedly contributed to the latest crisis, and there can be no disputing the fact that speculation – driven by a huge increase in the volume of money in circulation and by the sheer complexity of bank products – long since entered a completely different dimension from that of earlier periods. Yet these factors alone cannot trigger a twin crisis; others need to be in place. Kaminsky and Reinhart also noted that twin crises were generally preceded by a lengthy boom with a credit glut and an overvalued currency, alongside measures to deregulate the financial markets (financial liberalisation) that in turn led to riskier lending practices because they gave the banks easier access to sources of funding.29 A similar conclusion was reached ten years later by Reinhart and Rogoff.30 The real estate bubble that formed in the US from 2001 onwards was indeed caused by historically low interest rates. The once-in-a-century credit tsunami to which Alan Greenspan referred was in part a direct consequence of his own policies.

There is of course nothing new about loose monetary policy and bank deregulation enticing banks to engage in risky transactions that lead to a financial crisis. Throughout history this has been the rule rather than the exception, as the crashes of 1825, 1857, 1873 and 1929 demonstrate. Nevertheless, there were differences in the most recent crisis.

29 Ibid.
30 Reinhart/Rogoff, This Time, p. 271.
The insolvency of Lehman Brothers on 15 September 2008 did not trigger a banking panic or a run to withdraw deposits. What really threatened to topple the world’s financial systems was that the banks no longer trusted each other and were no longer prepared to lend to each other. As a result, the crisis rapidly expanded from the US investment banks and mortgage lenders to every other type of bank including those which had remained solvent. At the same time, adding another new element to the crisis, high levels of national debt in many countries created additional risks. A combination of loose monetary policy and the post-2011 credit glut had proven irresistible not only to the banks but also to governments. Furthermore, many European countries saw the introduction of the euro as an opportunity to refinance their debt on more favourable terms, and this had a similar impact. In the 1990s, gross debt had actually fallen in several European states, especially in Sweden but also in the UK, Italy and Spain.\(^{31}\) It was not until after 2005 that debt levels began to rise steeply as part of a more generalised trend. US debt had already set a new record high in 2003 but then continued to grow at a rapid pace. While the banks were encouraging speculation with cheap money, many governments were piling up ever greater levels of debt. With modern states apparently perceiving a need for almost unlimited funds, this took on even greater importance than it had in the past. As predicted by the twin crisis model, when the credit bubble burst the result was first of all a banking crisis and then a debt and currency crisis. The fact that subsequent bailout packages drove national debt levels higher still simply took things one step further but was not the trigger for the ensuing vicious circle.

**Lessons from history**

High-risk speculation and financial mismanagement have existed ever since the first banks were established and will no doubt remain with us. When the economy is performing well, such cases remain isolated and do not threaten confidence in the banking system as a whole. Yet when we enter a boom phase, the heady mix of speculation, euphoric expectations and credit glut can easily produce a bubble.

At such times many of those involved, including bankers and investors alike, submit to pure greed. This irrational manifestation of business activity is referred to by the economists George A. Akerlof and Robert J. Shiller as “animal spirits”. In their interpretation, it is in the nature of financial market actors to perceive the chance of profit more strongly than the corresponding risks and indeed to screen out those risks when the potential for profit reaches a certain level.

At the same time, however, our historical perspective demonstrates that for this very reason history does not repeat itself at all; that the nature of financial crises changes in line with economic development, and that we can also learn valuable lessons from previous crises. Financial crises are not shaped by some automatic mechanism but by the prevailing economic and legal framework and the responses of central banks and political leaders. Crucially, it is the economic and political environment that determines whether a banking crisis merely serves to correct certain undesirable developments over a relatively brief period – as was the case with the classic speculative crises of the 19th century, which took place within a robust framework – or whether it is accompanied by and exacerbates a major economic crisis, as in the early 1930s. We have experienced lengthy periods during which there have been no large-scale financial crises. Equally, countries do manage to overcome and free themselves permanently of debt crises. So far, we have fared well in our attempts to consolidate the lessons of the last crisis in regulation. This will not prevent the next one from occurring but should allow us to keep it at bay for a bit longer and mitigate its impact.

The link we can now see between the 2008 banking crisis and the debt and euro crisis is not a good sign. In this form, it represents a new constellation of developments within Europe. While the ECB has – for now – managed to restore the confidence in the markets, high levels of unemployment across much of Europe will force central banks to maintain a loose monetary policy, and this will tempt many banks to engage once again in riskier business practices. Nevertheless, there are also more hopeful signs: international cooperation is relatively smooth, even when it comes to support for the banking systems; the euro zone is the only major region experiencing a currency crisis; and we are seeing growth in the world’s biggest national economies. From this perspective, today’s situation is different from that of 1931.

By contrast with the aftermath of previous crises in 1873, 1907 and 1931-1933, there is some cause for concern that the lessons drawn from the latest crisis have not as yet given rise to substantive changes in the regulation of financial markets.

We can be certain that this will not be the last crisis and that the scope of the next one and the speed with which we approach it will depend on the extent to which we implement the lessons learnt from our latest experience.

About the Author

Prof. Dr. Johannes Bähr studied history and political science, was awarded his PhD by University of Freiburg in 1986 and Habilitation by Free University Berlin in 1998. He taught at Free University Berlin and worked in research groups at Hannah-Arendt-Institut in Dresden, Max-Planck-Institut for European History of Law in Frankfurt and Institut für Zeitgeschichte in Munich. Since 2009 he teaches at the Goethe-University in Frankfurt, currently as extraordinary professor of economic and social history. He is author of numerous publications on economic, financial and business history.