What Lessons have been Learned from the Financial Crisis?

Gorton, Yale
Safe Debt as a Percentage of Total Assets

- Government Liabilities
- Financial Liabilities
Composition of Privately-Produced Safe Debt (% of Total Privately-Produced Safe Debt)

- Deposits
- Money-like debt
- MBS/ABS Debt
- Corporate Bonds and Loans
- Other Liabilities
Holders of U.S. Treasury Securities
(percent of total outstanding)

- US Depository Institutions
- Rest of the World
- Insurance Companies
- Mutual Funds
Ratio of Notes to Deposits and US Govt Debt to GDP
Demand Deposits not Understood

• Bray Hammond (1957), in his Pulitzer Prize-winning book *Banks and Politics in America*, wrote: “. . . the importance of deposits was not realized by most American economists . . . till after 1900” (p. 80).

• Russell C. Leffingwell, the Assistant Secretary of the Treasury wrote as late as 1919: “All of these people who believe in the quantity theory of money . . . choose to call bank deposits money, but bank deposits are not money.”
“Those who ignore history are entitled to repeat it.”