

Let's not pretend otherwise: we have a banking crisis. ...

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Martin Wolf [has an article](#) in the FT this morning which is good.

First, he says we have a bank crisis, and I agree with him.

He rationalises this by noting [US Federal Reserve](#) banking data. This suggests that there are approximately \$2.1 trillion of assets to underline the US banking system at present, which system has \$22.8 trillion of assets.

Then he cites [a paper](#) suggesting that there are at least \$2 trillion of unrealised losses in the US banking system at present, meaning that assets are overstated by that amount. He comes to the conclusion as a result that the US banking system is running on empty: it has no reserves.

This is why Danny Blanchflower and I [called for a 100% guarantee](#) in bank deposits yesterday: this is the only way to stop a flow from smaller to larger banks that might wipe out the smaller institutions.

This is why we, like Wolf, suggest banking reform is required.

Wolf goes for central bank deposits for all funds. He virtually eliminates the role of the commercial bank as we now have it. That's a discussion to have.

The point at this moment is threefold.

First, there is a crisis and action is required. That is a rate cut this week and a deposit guarantee in the first instance. That leaves something to argue about in place.

Second, there is a need to reform audit so that these hidden losses are revealed.

Third, this time it has to be real: this has to happen. We cannot keep having these fiascos. And that means, amongst other things, that central bankers have to lose their pre-eminent role in policy making where as a result they think they have the duty to keep wages low to serve the economic interests of a few in a way that always leads to

an economic crisis.