One year since the collapse of Lehman Brothers

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15 September 2009

The collapse one year ago today of the 158-year-old Lehman Brothers, the fourth largest US investment bank, set in motion an avalanche that threatened to engulf the entire global financial system.

It was followed two days later by an $85 billion US government bailout of the insurance giant American International Group (AIG) and in the ensuing weeks by a run on the $3.6 trillion international money market. The commercial paper market, which provides the financial lubricant for the global capitalist economy, seized up. Financial transactions virtually came to a halt in every market as banks and finance houses held on to their cash, fearing they might need it themselves or that those to whom they lent money might collapse.

The immediate origins of the crisis lay in the downturn in the US mortgage finance market at the beginning of 2007 following the housing bubble, fueled by cheap credit, of the earlier years of the decade. The buying and selling of mortgage-backed securities had assumed ever greater importance for the Wall Street banks and investment houses, leading to a vast expansion of the so-called “sub-prime” market based on increasingly risky investments.

The end of the housing bubble impacted Wall Street in the form of a steep decline in the stock market in August of 2007—at one point there were predictions of a 1,000-point fall in a single day—as the crisis began to spread internationally, with the bailing out of two German banks that had been heavily exposed to the US mortgage market.

The US Federal Reserve intervened as it had in previous financial storms—the Wall Street collapse of October 1987, the Asian economic crisis of 1997, the failure of Long Term Capital Management in 1998, and the bursting of the dot.com bubble in 2001—by cutting interest rates and easing credit conditions. But this time, these measures failed to alleviate the crisis.

Over the ensuing months, the problems in financial markets grew steadily worse until they erupted in March 2008, when the US government mounted a $30 billion operation to secure the takeover of the investment bank Bear Stearns by JPMorgan Chase. Bear Stearns, the second largest US underwriter of mortgage bonds, had been hit by the failure of two of its hedge funds the previous July and there were growing fears that it did not have the cash to meet creditors’ claims.

A *World Socialist Web Site* editorial board statement of March 18 drew out the implications of the Bear Stearns collapse: “However the events on Wall Street play out during the next few weeks, there is no question but that a crisis of historic magnitude is now unfolding. After a generation of relentless media propaganda, which touted the infallibility of the capitalist market and the genius of Wall Street’s financial wizards, the United States economy now stands on the very brink of an economic crisis on a scale not seen since the Great Depression.”

Just six months later, this warning was confirmed.

The crisis of September and October 2008 was to trigger a bailout operation by the US administration and governments around the world on an unprecedented scale. While the massive injection of funds to prop up the financial system—in the US alone total commitments, if fully met, would amount to $23.7 trillion—has been touted as a means to prevent economic catastrophe, the way in which this operation was organized from the beginning revealed its essential purpose—to protect at all costs the most powerful financial interests.

The initial plans were drawn up by a small group, headed by the then-US treasury secretary and former Goldman Sachs chief executive, Henry Paulson, meeting in the offices of the New York Federal Reserve. Among those present was Timothy Geithner, the current US treasury secretary, who was at the time the president of the New York Federal Reserve, and the chief executive of

Goldman Sachs, Lloyd Blankfein.

In subsequent weeks the question was often asked: Why was not Lehman Brothers bailed out when just two days later AIG was given a lifeline of $85 billion? Although it was not widely known at the time, Goldman Sachs was AIG's largest trading partner and stood to lose at least $20 billion if the insurance giant went down.

The initial emergency meetings established the pattern to be followed thereafter: the bailouts were to be organized by and for the banks, with government officials charged with the task of organizing the necessary finance and legislation.

Since the beginning of the global financial crisis and the onset of the deepest recession since the 1930s—the fall in global industrial production, world trade and global equity prices to June of this year was greater than in the corresponding period in 1929-30—major governments have spent trillions of dollars in bank bailouts and stimulus packages, estimated to be equivalent to at least 18 percent of global gross domestic product.

This has produced signs of "recovery" in the form of a rise in equity markets, a certain stabilization of the financial system and, above all, increased profits for the banks. But the conditions confronting the working class have steadily worsened, with unemployment now on the verge of 10 percent in both the US and Europe.

While trillions of dollars have been spent, not one of the underlying problems that led to the crisis has been resolved, none of those responsible has been held to account and all the same financial methods that led to the crash continue to be employed.

The crisis has not been resolved. All that has happened is that the massive debts and "toxic assets" of the banks and finance companies have been taken onto the books of the capitalist state, acting as the executive committee of the financial aristocracy. Now this debt is to be paid for through sweeping attacks on the social conditions of the working class.

In a recent speech on the need to prepare an "exit strategy," the managing director of the International Monetary Fund, Dominique Strauss-Kahn, set out the agenda that must now be adopted: "The most important step is to contain pension and health care costs. … While cost-cutting reforms in this area may be politically difficult, they are essential to secure fiscal sustainability."

This program is already being implemented. In the US, after "restructuring" the auto industry, the Obama administration is moving to slash health care. In Britain, whatever party comes to power after the forthcoming elections will cut spending on a massive scale. A recent article in the London-based *Financial Times* insisted that consumption in Britain would have to be reduced by 20 percent from the levels of 2006-2007. In Australia, which has not officially entered a recession, the Rudd Labor government has warned of the "pain of recovery" as it commits itself to cut the budget deficit.

While the official "newspeak" is of "recovery" and "turning the corner," more perceptive commentators have noted that nothing has been resolved and the dangers of a further collapse are increasing.

According to the former International Monetary Fund chief economist, Simon Johnson, there is very little "reform" of the financial system either under way or on the table. The "facts on the ground," he notes, are simple: "Our banks and their 'financial innovation' have not been defanged. In fact, they are becoming more dangerous. … We have lived through a tremendous crisis—and learned how close we came to a second Great Depression—yet nothing is now happening to prevent a repeat of something similar in the future."

One year on, the working class must draw the necessary lessons from this crisis. Whatever the immediate course of economic events, it must take matters into its own hands and strive to remove the threat of catastrophe hanging over its head.

There is no rational solution to this historic crisis within the framework of capitalism. Only by ending the profit system and overthrowing the financial oligarchy, which has concentrated effective political power in its hands, can the future be secured through the establishment of a planned world socialist economy. This is the perspective of the International Committee of the Fourth International and the *World Socialist Web Site*.

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