Ten years after Lehman: New financial crises in the making

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Two characteristics predominate in the plethora of commentaries that have appeared on the tenth anniversary of the global financial crisis, set off by the bankruptcy of investment bank Lehman Brothers on September 15, 2008.

The first is the lack of any scientific explanation of the meltdown itself. The second is the fear that, far from its causes having been overcome, a new crisis is very much in the making.

The paucity of scientific analysis is most clearly exemplified by Ben Bernanke, the chairman of the US Federal Reserve at the time and the chief architect of the bailout of the banks and other financial institutions. The tax payer-funded handout of $700 billion to Wall Street was followed by the program of quantitative easing, which pumped trillions of dollars into the financial system, underwriting an expansion of the very speculation that had set off the collapse in the first place.

Bernanke, now a fellow at the Brookings Institution and an adviser to two investment groups, has had a decade to ponder the events over which he presided, with all the research resources of the Fed, universities and well-funded think tanks available to him. What has he come up with?

In a paper prepared for Brookings on the anniversary, he maintains that the collapse of the American real estate market was only a secondary factor in the plunge. The second and major factor through which "the crisis led to a recession was a severe financial panic—a system-wide run on providers of credit, including banks, but also, importantly, nonbank lenders like investment banks and finance companies." The "fragilities" in the financial system "resulted in a panic and credit crunch."

In other words, the main cause of the crisis, which took the form of a panic and a loss of confidence, was panic and loss of confidence.

While the collapse of the real estate market, above all in the sub-prime area, was only a trigger for the eruption of the crisis and the subsequent Great Recession, Bernanke has a vested interest in deflecting attention away from it because, as problems began to emerge in that area, he denied they would have any broader impact.

"We believe the effect of the troubles in the sub-prime sector on the broader housing market will be limited and we do not expect significant spill-overs from the sub-prime market to the rest of the economy or to the financial system," he stated in March 2007.

One of the most striking features of his Brookings paper is its exposure, no doubt inadvertent, of the lack of any coherent understanding of the workings of the capitalist economy at the highest levels of the institutions that supposedly preside over it.

This has far-reaching political implications. A major role of bourgeois ideology is to mystify economic processes in order to reinforce the conception that only the powers-that-be can be allowed to organise society, because they alone possess special knowledge beyond the comprehension of the masses of working class people, who must simply accept their lot.

In fact, the emperor has no clothes, and this nakedness is revealed in a striking passage from Bernanke's paper.

"Prior to the crisis," he writes, "the macroeconomic models used by central banks and forecasters—including the Fed's workhorse model—provided little guidance on how to think about credit market disruptions."

This is an astonishing admission, given the crucial role played by credit and finance in the operations of the capitalist economy. It is as if the designers of a flood mitigation system suddenly discovered, after a disaster, that, in drawing up their plans, they had neglected to take account of water.

But the source of the omission was not simply Bernanke and the other supposed "wise men" at the top of the Fed. It is rooted in bourgeois economics itself. From its very earliest days, it has treated money, and its further development as credit, as simply a technical device.

Bourgeois economics has always opposed the analysis of Marx, who showed that money arises from the contradiction in the very cell form of capitalist economy, the commodity, between a commodity's use value and its exchange value. Use value refers to the production of material goods. But the capitalist economy is driven not by the production of material wealth to meet human needs, but by the expansion of value, which is the source of profit.

Ever anxious to sustain the illusion that those at the top are in control, Bernanke offers the reassurance that the crisis has "significantly changed economists' views on the importance of credit factors in the economy at large," and that they are seeking to incorporate the role of credit in macroeconomic forecasting and analysis.

But this solves nothing because, as Marx's analysis showed, the crises of capitalism cannot be overcome by reforms to the monetary system because, while they necessarily express themselves there, they were rooted in the very foundations of the capitalist economy, in its DNA so to speak—that is, in the social relations based on profit and the market system.

Consequently, he drew out, while reforms to the monetary system, guided perhaps by better "models," may alleviate certain problems, the underlying contradictions will inevitably find expression.

In the light of Marx's analysis, it is significant that the prospect of such a development is reflected in the views of other writers on the anniversary.

Andrew Ross Sorkin, who covered the financial crisis while working at the *New York Times*, writes in a recent commentary in that newspaper that the question he is most frequently asked is, “Will we have another crisis?”

“The answer, of course, is yes,” he writes. “But it’s not a Wall Street crisis that concerns me,” he adds, “I’m worried about something far bigger.”

Sorkin notes that when he wrote his book *Too Big to Fail* the phrase was used only in connection with financial institutions. “Today, it is used to refer to cities, municipalities, states and countries. If you look at the build-up of debt, that’s the place to keep an eye on.”

The economics commentator for the *Financial Times*, Martin Wolf, bewails the fact that so little has changed since the financial crash. The financial crisis, he writes, “was a devastating failure of the free market that followed a period of rising inequality within many countries.” Concern is now being expressed over inequality, but little has actually been done.

“Policymakers have mostly failed to notice the dangerous dependence on ever-rising debt … Few question the value of the vast quantities of financial sector activity we continue to have, or recognise the risks of further big financial crises.”

In an acknowledgement of the lack of any perspective for meaningful reform, he writes: “The persistent fealty to so much of the pre-crisis conventional wisdom is astonishing … What makes this even more shocking is that there is so little confidence that we could (or would) deal effectively with another big recession, let alone another big crisis.”

Ever anxious to maintain the illusion that it is possible to mitigate the effects of the capitalist economy, Wolf offers a list of “good ideas” to change the workings of the financial system, none of which, however, alters its fundamental operations.

In remarks that recall descriptions of the *Ancien Regime* in France, and its organic incapacity on the eve of the revolution of 1789 to make reforms, he does not hold out much prospect for even limited change, because “today’s rent-extracting economy, masquerading as a free market, is, after all, hugely rewarding to politically influential insiders.”

He warns that what he calls the “centre’s complacency” invites “extremist rage,” and “if those who believe in the market economy and liberal democracy do not come up with superior policies, demagogues will sweep them away.”

In an editorial board statement published on September 13, the *Financial Times* issued a series of warnings. While it said the banking system was better “storm-proofed” in the wake of the crisis, the next one might originate from elsewhere, not least as a result of the greater controls on banks.

“Tightening bank oversight has shifted risk,” the *Financial Times* writes, “notably to the shadow banking sector, or non-bank financial institutions doing the business of the banks, from lending to market making. Asset managers, hedge funds and insurance companies also now carry the kinds of risk that used to be the preserve of banks.”

It is surely a measure of the deep crisis of the financial system that measures supposedly taken to stabilise it can have the effect of increasing the possibility of another meltdown.

The statement notes that among the possible triggers for such an eventuality is the fact that regulatory changes have made banks less willing to hold large volumes of securities that might function as a shock absorber in a falling market. Another potential time bomb is the dramatic growth of passive funds, which operate “by tracking indices regardless of performance.” These, the newspaper warns, “could magnify the effect of market falls.”

According to the *Financial Times*, by some measures the next crisis “already looks overdue.” Debt was a principal cause of the 2008 meltdown, but it has increased. Global debt now stands at about $250 trillion, some 75 percent more than when Lehman failed. And the very measures undertaken in response to the last crisis have worked to prepare the conditions of the next.

“Ultra-loose monetary policy and quantitative easing were undoubtedly justified to help repair bank balance sheets and stimulate economic activity,” the newspaper writes. “But they magnified the debt problem. Using low interest rates to encourage investors into higher-yielding riskier assets has inflated new bubbles. Equity markets are near record highs. Property prices in key global cities are at record multiples of inhabitants’ earnings.”

Reflecting the growing fears of the world's corporate and financial oligarchs of an explosion from below, the statement points to the growing discontent “now felt as an ‘us versus them’ insurgency against political and business elites.” It warns that “the system of liberal democracy and market economics is seen by a sizeable minority in advanced economies as one run for the benefit of well-connected insiders.”

The only difference one might have with the last assessment is that it is a growing majority, rather than a minority.

The geo-political consequences of the 2008 crash, some of which are only now emerging, threaten major consequences if they interact with another financial crisis. “Nationalism and protectionism are … chipping away at the very system of international cooperation that helped contain the last financial crash. That could render still more grave the consequences of the next crisis.”

The editorial concludes that unless “mainstream politicians” are able to show that their policies work, they will be “eclipsed by today’s populists—or worse ones waiting in the wings.” This, it declares, is “the central political battle of our times,” with the danger that the “next financial calamity may strike before that battle has even begun to be won.”

Like many other media commentaries, the *Financial Times* editorial focuses on right-wing populists. But the greatest fear, indicated by the reference to “worse ones waiting in the wings,” is the development of the class struggle, as seen this year in the growing series of struggles by workers in the US and elsewhere. In the ten years since the crisis, the most powerful political movement has not been the rise of populist forces, but the Egyptian revolution of 2011, spearheaded by the working class—a foretaste of what is to come.

That movement was defeated, and a brutal military regime imposed, because it lacked a clear socialist perspective and a revolutionary leadership. The “central political battle of our times” is to build and develop that leadership for the enormous class battles being prepared by the ongoing economic breakdown of world capitalism.