Happy Anniversary Financial Crisis: It's Not Over Yet

By Danny Schechter
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The market meltdown that began in September 2007 was a 'slow-motion catastrophe', says finance journalist and author Danny Schechter.

New York, New York: Get out your party hats and strike up the band. We are about to celebrate the second anniversary of the GFC – the Global Financial Crisis.

No doubt the event will be marked by event-driven television programming and on the world's op-ed pages, even though this is a crisis that began long before most of the world found out about it.

Special report

The market meltdowns began in September 2007, but this has been a slow-motion catastrophe that started with the euphoria of financial bubbles that seemed to defy the laws of gravity by only rising.

When the markets were up, there were few naysayers.

Economist Brad Delong was one of the few reminding us that:

"Institutions and human psychology lead financial markets to bounce back and forth between exuberant greed and catatonic fear."

The housing bubble created in 2001 by a combination of low interest rates set by the Federal Reserve's Alan Greenspan, massive, predatory sub-prime lending by shadow lenders and financial institutions, and so-called market "innovation" in the form of exotic derivatives, securitization and deregulation all pushed profits in the financial services industry to new highs.

'Financial monster'

The consequences were largely ignored, as a process called financialization put more and more power in the hands of the economic architects on Wall Street.

New York University's Dr Nouriel Roubini was called "Dr Doom" for predicting the emergence of a "financial monster" that could not be sustained.

Roubini reasoned: "Combine an opaque and unregulated global financial system where moderate levels of leverage by individual investors pile up into leverage ratios of 100 plus;

add to this toxic mix investments in the most uncertain, obscure, misrated, mispriced, complex, esoteric credit derivatives that no investor can properly price; then you have created a financial monster that eventually leads to uncertainty, panic, market seizure, liquidity crunch, credit crunch, systemic risk and economic hard landing."

What he and many others did not draw adequate attention to were the underlying structural problems in the US economy that led it to collapse.

Stephen Lendman of Gobal Research enumerated some of them:

– Soaring consumer debt;

– Record high federal budget and current account deficits;

– An off-the-chart national debt, far higher than the reported level;

– High and rising level of personal bankruptcies and mortgage loan defaults;

– An enormous government debt service obligation we are taxed to pay for;

– Loss of manufacturing and other high-paying jobs to low-wage countries;

– A secular declining economy, 84 per cent service-based and mostly composed of low-wage, low or no-benefit, non-unionised jobs;

– An unprecedented wealth gap disparity;

– Growing rates of poverty in the richest country in the world;

– A decline of essential social services

As the financial markets became more volatile, credit began to freeze, and an event outside the US signaled the deeper global crisis; customers were queuing outside London's Northern Rock bank demanding their money back.

Bank runs

Soon the Bank of England was pumping money in just one day after warning others, in the name of "moral hazard" rules, not to bail out lenders who had engaged in irresponsible practices.

A Wall Street insider told me: "A century ago, the depth of a banking crisis was measured by the length of the queue outside banks. These days, financial panics are more likely to be played out through heavy selling in share, bond or currency markets than old-fashioned bank runs."

The UK government was forced to rescue Northern Rock after it collapsed [AFP]

The bankers knew how bad it was. Here is Jim Glassman of JP Morgan: "The credit-market storm is a far more dangerous thing that anything we've seen in memory."

More and more news reports were glum. Here is the Sydney Morning Herald in Australia reporting on “How Bad Debt Infected the World”: “The foreclosure butterfly flapped its wings in small town USA and the hurricane built and tore through world banking.”

In many countries, angry critics blamed the US for exporting a form of “financial Aids” worldwide.

Luiz Inacio Lula da Silva, the Brazilian president, blamed “white men with blue eyes on Wall Street”.

“I believe there is a systemic debt problem and it will take years to work out – and the Federal Reserve cannot resolve the issues,” said Richard Bove, a bank analyst at Punk Ziege.

Michael Bloomberg, the mayor of New York City and a financial guru, also said the causes went deeper.

He believed the global credit crunch had as much to do with public debt as the US sub-prime meltdown. The billionaire media and business mogul talked about the “lunacy” of debt levels in the US and the UK at the Conservative Party conference in Britain.

“This is not a mortgage crisis,” Bloomberg insisted, “It’s a crisis in confidence and we’re all in it together.”

Bail outs

Washington responded with interest rate cuts and the injection of billions into banks, along with similar stimulus efforts by central banks in other countries.

Despite this, the credit markets remained locked and the problem remained unsolved. Businesses closed, some went bankrupt and jobs were cut.

In March 2008, Bear Stearns became the first of the big banks to go down. Others followed and many, like insurance giant AIG, had to be bailed out.

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Mortgage giants Fannie Mae and Freddie Mac were next to implode.

Suddenly the world was fixated on the fall of Wall Street. Lehman Brothers was not bailed out – creating a ripple worldwide with its many “counter parties” – and was soon driven into bankruptcy.

The Bank of America bought Merill Lynch in a transaction that is still being challenged.

On September 19, the Bush administration announced a $700bn bail-out plan to confront the crisis.

Ben Bernanke, the chairman of the Federal Reserve, would later privately say they acted to head off an imminent collapse – a new depression.

Publicly he was more restrained, saying: “If financial conditions fail to improve for a protracted period, the implications for the broader economy could be quite adverse.”

Initially, this was seen as simply a financial problem but it quickly became a social crisis too. States and cities began cutting back essential services as their tax bases contracted.

Markets plunge

Then the Dow fell 777.68 points, the largest one-day point drop in history.

The index experienced its largest one-day point loss ever after the House of Representatives voted down the government's proposed rescue plan.

By April 2008, the IMF projected a $945bn loss from the financial crisis. G7 ministers agreed to a new wave of financial regulation to combat a protracted downturn.

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There was a ricochet effect worldwide – declines in growth were dramatic.

Banks in many countries which had bought into US real estate and asset-less sub-prime mortgages reported vast losses too.

It was like a deck of cards collapsing.

For the first quarter of 2009, the annualized rate of decline in GDP was 14.4 per cent in Germany, 15.2 per cent in Japan, 7.4 per cent in the UK, 9.8 per cent in the Euro area and 21.5 per cent for Mexico.

The World Bank reported that by March 2009, the Arab world had lost $3 trillion because of the crisis.

In April 2009, unemployment in the Arab world was said to be a "time-bomb" and, according to the Arab Labor Organization, it was among the hardest hit regions in the world.

One month later, the United Nations reported a drop in foreign investment in Middle East economies because of a slower than expected rise in demand for oil.

In June, the World Bank predicted a tough year for Arab states.

Economic turnaround?

Yet in August 2009, the world's finance ministers were beginning to declare victory, seeing signs of a slowing in the economic decline.

Some even cautiously projected signs of a recovery.

The amount of money lost is subject to much debate, largely because those in the know have failed to agree on what should be included in the final tally.

One estimate focusing on infusions of capital by central banks around the world, so-called stimulus plans, and monies at risk in debt swaps and shaky derivative products put the number at $196.7 trillion – but that could be low.

In the US, unemployment continues to rise, foreclosures mount, as do bankruptcies.

Many journalists, politicians and economists appear to bemoan the fact that adequate financial reforms and new regulations have yet to be put in place.

Of the fact only a few executives have gone to jail despite evidence of massive fraud in the housing market, Peter Schiff, a conservative financier, noted: “No one has been held accountable for a financial crisis that the professors, pundits and politicians told us would not come.

“All the same players are running the game, [they] always change the rules so they stay on top.”

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Paul Krugman, the liberal New York Times economist, seemed to agree: “Washington has done nothing to protect us from a new crisis and, in fact, has made a new crisis likely.

“There have been many reports on what Wall Street firms did, and continue to do to transfer wealth to their own coffers, but little in the way of a criminal investigation, as if it is all above rigorous scrutiny.”

Many of the biggest banks are back in the business of handing out giant bonuses and record compensation packages. Even as a lot has changed, a great deal remains the same.

President Obama warned on September 22: “If we don’t pass financial regulatory reform, the banks are going to go back to the same things they were doing before.

“In some ways it could be worse, because now they know that the federal government may think they’re too big to fail. And so, if they’re unconstrained [by stricter regulations] they could take even more risks.”

There is very little to celebrate on this “anniversary”, the people most in the know about finance are now wrestling with both hope and despair – hope that a turnaround will spread and fear that another, more serious downturn is possible.

They are all, however, acutely aware that there has been no structural change or new regulation.

As Americans often say: “We’re not out of the woods yet.”

Danny Schechter, the “News Dissector”, writes about the economy at: Mediachannel.org and made the film In Debt We Trust warning of the crisis in 2006. He is now completing a book, The Crime Of Our Time and film treating the financial crisis as a crime story. Comments to dissector@mediachannel.

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