

The Financial Crisis Was Entirely Foreseeable

By [Washington's Blog](#)

Global Research, December 10, 2011

[Washington's Blog](#) 10 December 2011

Region: [USA](#)

Theme: [Global Economy](#)

Foreseeable or Not?

I [noted](#) in April:

Whenever there is a disaster, those responsible claim it was “unforeseeable” so as to escape blame.

For example:

- It happened with [9/11](#)
- It happened with the BP oil spill (see [this](#), [this](#), [this](#), [this](#) and [this](#))
- It happened with the [Japanese nuclear accident](#)

The big boys [gamble with our lives and our livelihoods](#), because they make a killing by taking huge risks and cutting costs. And when things inevitably go South, they aren't held responsible (other than a slap on the wrist), and may even be bailed out by the government.

But surely the financial crisis was different. After all, Wall Street executives and politicians say that [the financial crisis wasn't foreseeable](#). And see [this](#).

Actually, it might have been slightly foreseeable for a *little while* before the financial crisis.

We've Known for Thousands of Years

We've known for literally [thousands of years](#) that debts need to be periodically written down, or the entire economy will collapse. And see [this](#).

We've known for [1,900 years](#) that that rampant inequality destroys societies.

We've known for [thousands of years](#) that debasing currencies leads to economic collapse.

We've known for [hundreds of years](#) that the failure to punish financial fraud destroys economies.

We've known for [hundreds of years](#) that monopolies and the political influence which accompanies too much power in too few hands is dangerous for free markets.

We've known for [hundreds of years](#) that trust is vital for a healthy economy.

We've known since the 1930s Great Depression that separating depository banking from speculative investment banking is key to economic stability. See [this](#), [this](#), [this](#) and [this](#).

We've known since [1988](#) that quantitative easing doesn't work to rescue an ailing economy.

We've known since [1993](#) that derivatives such as credit default swaps - if not reined in - could take down the economy. And [see this](#).

We've known since [1998](#) that crony capitalism destroys even the strongest economies, and that economies that are capitalist in name only need major reforms to create accountability and competitive markets.

We've known since [2007](#) or earlier that lax oversight of hedge funds could blow up the economy.

And we knew [before the 2008 financial crash](#) and subsequent bailouts that:

- The easy credit policy of the Fed and other central banks, the failure to regulate the shadow banking system, and “the use of gimmicks and palliatives” by central banks hurt the economy
- Anything other than (1) letting asset prices fall to their true market value, (2) increasing savings rates, and (3) forcing companies to write off bad debts “will only make things worse”
- Bailouts of big banks harm the economy
- The Fed and other central banks were simply transferring risk from private banks to governments, which could lead to a sovereign debt crisis

Given the insane levels of debt, rampant inequality, currency debasement, failure to punish financial fraud, growth of the too big to fails, repeal of Glass-Steagall, refusal to rein in derivatives, crony capitalism and other shenanigans ... the financial crisis was entirely foreseeable.

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