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What I read About the Global Financial Crisis in 2007 and 2008*

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abstract

Inspired by Eliot Weinberger's piece in the London Review of Books ('What I Heard about Iraq in 2005') and Walter Benjamin's 'method' of montage I trace the global financial crisis through selected quotations. I follow a chronological approach, sometimes briefly fast forwarding to pursue a storyline. The quotations, which I positioned so that they would hopefully illuminate one another, build up to a crescendo in autumn/winter 2008. The material has been derived mainly from the Financial Times newspaper (FT), but is supplemented with quotations culled from reports, speeches, and official testimonies. This piece can be read as a 21st century homage to Karl Kraus who announced in February 1915 that he had become 'a simple newspaper reader', using just scissors and paste to demonstrate the schizophrenia of contemporary history.

Introduction

"What I have written consists, as it were, almost entirely of quotations. It is the craziest mosaic technique you can imagine." (Walter Benjamin, Letter to Gerhard Scholem, December 22, 1924)

"Walter Benjamin dreamt of publishing a book composed entirely of quotations. I lack the necessary originality. Juxtaposed, quotations take on novel meanings and enter into a mutual debate." (George Steiner, *Grammars of Creation*, 2001, p.13)

"I believe that this means cultivating a different kind of academic positionality which we might call, following Simmel, 'the glance' – an attempt to produce writing which can function as critical direct action through its close attention to the present. Such quick-response writing to the quick responses of capitalism, located somewhere between academia and journalism, is currently starved of outlets and yet it seems to me that if we want to keep up with capitalism's ceaseless experimentation… we will need

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to cultivate this art more than any other. Otherwise, we will become disconnected from the very entity we wish to critique." (Nigel Thrift, *Knowing Capitalism*, 2005, p.11)

"Journalism, so the adage goes, is the first draft of history. In 2008, the Financial Times had a once-in-a-lifetime opportunity to report, analyse and comment on the most serious financial crisis since the Great Crash of 1929… It was a story tailor-made for the FT." (Lionel Barber, Editor-in-chief of the *Financial Times*, December 2008)

2007

Jean-Claude Trichet, president of the European Central Bank: "There is now such creativity of new and very sophisticated financial instruments . . . that we don't know fully where the risks are located. We are trying to understand what is going on – but it is a big, big challenge." (January 2007)

"Credit risk cannot in practice be somehow magicked away. It is bound to land somewhere, and, in the event of a severe credit crunch, the overlending of the present boom is almost certain to end badly for some." (*The Independent*, February 2007)

"It may surprise readers to learn that this World Economic Outlook sees global economic risks as having declined since our last issue in September 2006. Certainly this is at odds with many recent newspaper headlines and commentary, which have focused on problems related to U.S. mortgages, the potential for 'disorderly' unwinding of global imbalances, and worries about rising protectionist pressures. Nevertheless, as discussed in Chapters 1 and 2, looking at the big picture, we actually see the continuation of strong global growth as the most likely scenario". (*IMF World Economic Outlook Report*, April 2007)

Simon Gibson, CEO Wesley Clover, Private Equity House: "It kind of starts to sound like the dotcom boom. When suddenly, you know, you have a realisation that the inmates are running the asylum… when you start to see those demonstrations of excess, you kind of know that it probably will go." (May 2007)

Chuck Prince, CEO Citigroup: "As long as the music is playing, you've got to get up and dance… We're still dancing." (FT, 09/07/07)

Jim Cramer former Hedge Fund Manager, CNBC financial cable channel host: "Bank executives are calling me in distress. We have Armageddon. In the fixed income markets, we have Armageddon." (August 2007)

Matthew Rothman, a Chicago PhD and head of quantitative equity strategies at Lehman Brothers: "Wednesday is the type of day people will remember in Quant Land for a very long time. Events that models predicted would happen only once in 10,000 years happened every day for three days." (August 2007)

Mr Cassano, Head of Financial Products Division AIG: "It's very difficult to see how there can be any losses in these [CDS] portfolios." (At Investor Meeting in Manhattan, December 2007)

2008

"A more fundamental lesson still concerns the way the financial system works. Outsiders were already aware it was a black box. But they were prepared to assume that those inside it at least knew what was going on. This can hardly be true now. Worse, the institutions that prospered on the upside expect rescue on the downside. They are right to expect this. But this can hardly be a tolerable bargain between financial insiders and wider society. Is such mayhem the best we can expect? If so, how does one sustain broad public support for what appears so one-sided a game?" (FT, 27/02/08)

Joseph Ackermann, CEO of Deutsche Bank: "I no longer believe in the market's self-healing power." (March 2008)

"Prices in some credit markets are likely to overstate the losses that will ultimately be felt by the financial system and the economy as a whole, as they appear to include large discounts for illiquidity and uncertainty. Conditions should improve as market participants recognise that some assets look cheap relative to credit fundamentals." (*Bank of England Financial Stability Report*, April 2008)

Sir John Gieve, Deputy Governor of the Bank of England: "While there remain downside risks, the most likely path is that confidence and risk appetite will return gradually in the coming months." (April 2008)

"APRIL is the cruellest month, breeding

Lilacs out of the dead land, mixing

Memory and desire, stirring

Dull roots with spring rain."

(T.S. Eliot, *The Waste Land*, 1922)

Sir John Gieve, Deputy Governor of the Bank of England: "The instability of the global financial system in recent weeks has been the most severe in living memory." (October 2008)

"In recent weeks, the global banking system has arguably undergone its biggest episode of instability since the start of World War I." (*Bank of England Financial Stability Report*, October 2008)

Lord Turner, Chairman of the FSA (Financial Services Authority): "In April of this year [2008] everybody knew that something pretty big had happened to the world's financial system. What we had no idea, bluntly, was how extreme it was going to be…There has to be a bit of sort of humility that some or other of the things that we've said in the past must be wrong, because otherwise we wouldn't have gone wrong." (October 17, 2008)

Paul Volcker, former chairman of the US Federal Reserve and chair of the Economic Recovery Panel in president Obama's administration: "Today's financial crisis is the culmination, as I count them, of at least five serious breakdowns of systemic significance in the past 25 years – on the average one every five years. Warning enough that something rather basic is amiss… Simply stated, the bright new financial system – for all its talented participants, for all its rich rewards – has failed the test of the market place." (Speech to the economic club of New York, April 8, 2008)

Pete Peterson, Chairman the Blackstone Group: "Do you feel that the senator has some special attributes, like his presumed ability to unifying the country, that might transcend the principle of long term fiscal responsibility? Or is there a relationship between your support of Senator Obama and your commitment to long term fiscal responsibility?"

Paul Volcker: "Well I will make a great confession in this small group that I did, I thought we weren't supposed to talk about political matters here."

Pete Peterson: "You and I have never done what we should have done." (April 8, 2008)

Horst Köhler, German President and former head of the IMF: "I am still waiting for a clear, audible mea culpa. The only good thing about this crisis is that it has made clear to any thinking, responsible person in the sector that international financial markets have developed into a monster that must be put back in its place… Capitalism only has a future if it rises up to its responsibilities, especially its responsibility towards the weak. It is about practising responsibility and solidarity without at the same time switching off market and price mechanisms." (May 14, 2008)

George Soros, Hedge Fund manager: "The system, as it currently operates, is built on false premises. Unfortunately, we have an idea of market fundamentalism, which is now the dominant ideology, holding that markets are self-correcting; and this is false because it's generally the intervention of the authorities that saves the markets when they get into trouble." (May 15, 2008)

Michael Lewitt, Investment Advisor: "Allowing investment banks to be leveraged to the tune of 30 to 1 is the equivalent of playing Russian roulette with 5 of the 6 chambers of the gun loaded. If one adds the off-balance sheet liabilities to this leverage, you might as well fill the 6th chamber with a bullet and pull the trigger." (April 11, 2008. Quoted again in Testimony of Jared Bernstein, Senior Economist Economic Policy Institute, Joint Economic Committee of the United States Senate and the United States House of Representatives, July 23, 2008)

"Since a year is a natural period of comparison, it makes sense to think of a recession as a time when the economy is worse than a year earlier on a range of measures. It might happen, but Britain is not there yet, and not even close." (FT, 11/07/08)

Alan Greenspan, former chairman of the US Federal Reserve: "We may not easily confront or accept the price dynamics of home and equity prices, but we can fend off cries of political despair which counsel the containment of competitive markets. It is essential that we do so. The remarkably strong performance of the world economy since the near universal adoption of market capitalism is testament to the benefits of increasing economic flexibility." (August 4, 2008)

Alan Greenspan, former chairman of the US Federal Reserve: "I made a mistake in presuming that the self-interest of organisations, specifically banks and others, was such that they were best capable of protecting their own shareholders… I had been going for 40 years with considerable evidence that it was working very well. The whole intellectual edifice, however, collapsed in the summer of last year." (October 23, 2008)

"The iron faith in markets and de-regulation of Mr Greenspan, given an honorary knighthood by the Queen in 2002 for his 'contribution to global economic stability', has been shaken… The most powerful chairman of the Federal Reserve, accorded the status of a mystic with unparalleled insight into the inner workings of the American economy as he presided over an ostensibly limitless growth in prosperity, a contrite Mr Greenspan now confesses to being 'in a state of shocked disbelief' at the present financial turmoil." (FT, 24/10/08)

Stephen Roach, Chairman Morgan Stanley Asia: "The Fed will need to replace its ideological convictions with common sense… Over the past decade, an ideologically-driven Fed failed to make the distinction between financial engineering and innovation… Driven by its ideological convictions, the Fed flew blind on the derivatives front…This trust in ideology over objective metrics was a fatal mistake." (October 27, 2008)

Stephen King, group chief economist HSBC: "It will also be the fault of all those economists and other technocrats who took the view that, freed of political influence, policymaking institutions could make the world a better place though their 'technical' skills. In the event, this was merely wishful thinking." (October 30, 2008)

Stephen Cecchetti, Professor of global finance at Brandeis International Business School: "While we need to clean up the present mess… the fundamental innovations should remain. As we think about how to adjust the financial regulatory system, it is important that we do not stop what is going on, just that we do it better." (June 22, 2008)

John Thain, CEO Merrill Lynch: "Right now, we believe that we are in a very comfortable spot in terms of our capital… We've been, I think, pretty balanced in terms of what we sold, and at what prices we sold them. And so we have not simply liquidated stuff at any price we could get." (July 17, 2008)

"$8.5 billion share offering announced… Merrill also announced it would sell CDO's valued at $11bn in Q2 2008 for $6.7bn, or 22 cents on the dollar." (FT, 28/07/08)

"BofA said in a statement it would exchange 0.8595 shares of its common stock for each Merrill common share in a $50bn all-stock transaction. Based on Friday's closing prices, the offer is the equivalent of $29 per share and 1.8 times Merrill's stated tangible book value… Mr Thain's willingness to accept market realities has enabled Merrill shareholders to escape a total wipe-out." (FT, 15/09/08)

"The crisis is partly an epistemological one. Few people outside of the financial industry have ever understood how the new complex derivatives work. Were they hedges or means of multiplying leverage? It turns out that few people inside the industry understood either. The most astonishing stories of the past week have to do with AIG's final weekend, when teams of government analysts and accountants from the world's leading investment banks could not figure out how much cash the company would require in order to collateralise its credit-default swaps. Estimates rose from $20bn to $85bn." (FT 19/09/08)

AIG Share Price (Source FT.com): AIG worth $4.5 billion [down 97% on the year – was world's biggest Insurance company] with a total derivative exposure of $441bn on October 24, 2008.

"In the fraught weekend that preceded Lehman Brothers' slide into bankruptcy, the bankers and regulators huddled in the headquarters of the New York Federal Reserve made a startling discovery. 'We have no idea of the details of our derivatives exposure and neither do you,' a senior Lehman banker told government officials, according to people familiar with last month's events. He was right." (FT, 31/10/08)

"It is no exaggeration to say that, in financial terms, the world changed fundamentally this week. The firestorm that has blown through the global economy in the past seven days has destroyed so many famous names that it is hard to know where to lay the first wreath. Lehman Brothers has gone bankrupt. The 'thundering herd' of Merrill Lynch has been sent to the abattoir. Investors have been desperately ditching shares even in those icons of global capitalism, Goldman Sachs and Morgan Stanley. The sickness in the credit markets has snuffed out HBOS, Britain's largest mortgage lender. Others remain on the critical list." (*Independent Leader*, 20/09/08)

"A Bad Week in Hell!" (Rubric heading of *Global Outlook Report*, JP Morgan Chase, September 2008)

"The financial system has reached the point of maximum peril… If the unravelling of the banking system continues, the economic consequences will be dire. Yet there is an even greater risk: that the politicians… draw the wrong conclusions and take the wrong decisions, losing their confidence in markets altogether. It would not be the first time. After the Wall Street Crash, markets were deemed to have failed and US lawmakers attempted to regulate short-cuts through the crisis… and deepened the 'Great Contraction' of 1929 to 1933. *The price of popular anti-market sentiment was much higher in some of Europe's fledgling democracies: fascism* [emphasis added]… This is a difficult time to defend free markets. Nevertheless they must be defended, not only on their matchless record when it comes to raising living standards, but on the maxim that it is wise to let adults exercise their own judgment. Market freedom is not a 'fundamentalist religion'. It is a mechanism, not an ideology, and one that has proved its value again and again over the past 200 years. The Financial Times is proud to defend it – even today." (FT Leading article, 25/09/08)

Chrystia Freeland, FT American Editor: "Thursday afternoon was the moment America realised its version of capitalism was no longer working. You could feel the pain of that eureka moment from Wall Street to Main Street, where the middle class howled at the magnitude of a mooted $700bn bail-out package [the original proposal ran to only three typed pages!]. The most direct expression of this epiphany was on Capitol Hill, where an apostate faction of House Republicans declared their 11th-hour opposition to the financial plan being advanced by their own president and secretary of the Treasury… At the heart of the rebellion was the fear that, as Jen Hensarling, the Texas congressman who led the resistance said, the rescue plan would lead the US down 'the road to socialism'." (September 29, 2008)

"The End of American Capitalism?" (*Washington Post* lead article, October 10, 2008)

"The ideology of the US is a lack of ideology. Where Nicolas Sarkozy, the French president, could not resist being photographed reading Marx's Das Kapital and announcing the death of 'capitalism', the Americans settled down to fix the problem. They will do everything required to stem the crisis: for evidence of this, witness the shift of the $700bn bail-out fund from buying toxic assets to recapitalising banks." (FT, 16/10/08)

"A hedge fund manager who made what is thought to be one of the biggest percentage profits of all time bowed out of the business on Friday with a fierce attack on the 'idiots"

"…running big banks… Mr Lahde is one of the few hedge fund managers to have correctly predicted the subprime crisis. One of his funds made a return of 870 per cent last year. Money is now being returned to investors as the remaining business is shut down." (FT, 17/10/08)

Andrew Lahde, Lahde Capital Management: "I was in this game for the money. The low hanging fruit, i.e. idiots whose parents paid for prep school, Yale, and then the Harvard MBA, was there for the taking. These people who were (often) truly not worthy of the education they received (or supposedly received) rose to the top of companies such as AIG, Bear Stearns and Lehman Brothers and all levels of our government. All of this behavior supporting the Aristocracy only ended up making it easier for me to find people stupid enough to take the other side of my trades. God bless America… I truly do not have a strong opinion about any market right now, other than to say that things will continue to get worse for some time, probably years. I am content sitting on the sidelines and waiting. After all, sitting and waiting is how we made money from the subprime debacle." (Open letter, October 17, 2008).

"A meeting with Charles Bean, the Deputy Governor of the Bank of England, provided the Scarborough Evening News business reporter Laura Crothers with an unexpected scoop yesterday… In a curious interview, he spoke first of his childhood visits to the town to see his grandparents, before delivering the most startling official prediction yet on the impending recession: 'This is a once in a lifetime crisis, and possibly the largest financial crisis of its kind in human history'… The comments made waves on trading floors, in front rooms and through Whitehall – but not in Scarborough, where the Evening News's front page instead carried a story about a trial for theft and deception." (FT, 24/10/08)

George W. Bush: "It would be a terrible mistake to allow a few months of crisis to undermine faith in free market capitalism…. History has shown that the greater threat to economic prosperity is not too little government involvement in the market – but too much." (November 13, 2008)

"In sworn testimony, five of the highest paid and most powerful hedge fund managers, including George Soros, blamed the crisis on the 'financial system itself' as they sought to explain their compensation policies to a committee of sceptical legislators… Justifying his own pay package, Philip Falcone, co-founder of Harbinger Capital, pointed to his modest upbringing in Minnesota, where, he said, his father never earned more than $14,000 a year… John Paulson, of Paulson & Co, whose bearish views on the mortgage bubble made him the most highly paid fund manager last year, according to some calculations [pay estimated at $3.7bn], said his pay reflected returns to investors." (FT, 13/11/2008)

Charles Bean, Deputy Governor for Monetary Policy of the Bank of England: "The present financial crisis has many parents, encompassing both market failures and supervisory shortcomings. A non-exhaustive list would include: inadequate incentives for care in the origination of loans if the risks are to be passed on; extreme opacity in the nature of the risks underlying complex structured finance assets; too much reliance on statistical models of risk based on past behaviour; disproportionate dependence on ratings by end-investors and a failure to observe due diligence; excessive closeness of the ratings agencies to those who were issuing debt; compensation schemes in financial institutions that encouraged excessive risk-taking and a focus on short-term returns; a failure by originating banks to realise the extent to which distributed risks could return to them; excessive reliance on short-term wholesale funding and inadequate attention to the potential liquidity of assets; and a failure by regulatory and supervisory authorities to appreciate fully the risks inherent in the 'originate-to-distribute' model. The ongoing work of the Financial Stability Forum and G20 to address these and related issues and to strengthen the financial system against any future repeat is, of course, extremely welcome." (November 22, 2008)

Slavoj Žižek, co-director of the International Centre for Humanities, Birkbeck College: "It is unlikely that the financial meltdown of 2008 will function as a blessing in disguise, the awakening from a dream, the sobering reminder that we live in the reality of global capitalism. It all depends on how it will be symbolised, on what ideological interpretation or story will impose itself and determine the general perception of the crisis. When the normal run of things is traumatically interrupted, the field is open for a 'discursive' ideological competition… Consequently, to put it in old-fashioned Marxist terms, the main task of the ruling ideology in the present crisis is to impose a narrative that will not put the blame for the meltdown on the global capitalist system as such, but on its deviations – lax regulation, the corruption of big financial institutions etc… The danger is thus that the predominant narrative of the meltdown won't be the one that awakes us from a dream, but the one that will enable us to continue to dream." (November 14, 2008)

Nassim Nicholas Taleb, Professor of risk engineering at New York University PolyTechnic Institute: "A crime has been committed. Yes, we insist, a crime. There is a victim (the helpless retirees, taxpayers funding losses, perhaps even capitalism and free society [emphasis added]). There were plenty of bystanders. And there was a robbery (overcompensated bankers who got fat bonuses hiding risks; overpaid quantitative risk managers selling patently bogus methods)." (December 7, 2008)

Willem Buiter, Professor of European Political Economy at the LSE, former chief economist of the EBRD, former external member of the UK Monetary Policy Committee: "We have no longer just a crisis in the financial system. We have gone even beyond the stage where there is a crisis of the financial system. The western (north-Atlantic) financial system we knew has collapsed. If I may paraphrase that great ensemble of Nobel-prize winning financial wizards, Monty Python's Flying Circus: 'This financial system is no more! It has ceased to be! It's expired and gone to meet its maker! It's a stiff! Bereft of life, it rests in peace! If you hadn't nailed it to the tax payer's perch it'd be pushing up the daisies! Its metabolic processes are now history! It's off the twig! It's kicked the bucket, it's shuffled off its mortal coil, run down the curtain and joined the bleedin' choir invisible!! THIS IS AN EX-FINANCIAL SYSTEM!!'." (November 26, 2008)

"It has been a bad year… So bad that royalty wants to know what went wrong. 'Why did no one see it coming?' Britain's Queen Elizabeth asked during a visit to the London School of Economics this month… Giulio Tremonti, Italy's finance minister, raised the predictive bar last week when he said Pope Benedict XVI was the first to foresee the crisis. A 1985 paper showed, according to Mr Tremonti, 'the prediction that an undisciplined economy would collapse by its own rules'… If only society had listened to the younger Cardinal Ratzinger more than 20 years ago – before, of course, it was reasonable to forecast he would be the next Pope." (FT, 24/11/08)

Haukur Már Helgason, department of philosophy at the Iceland Academy of the Arts: "At the same time, there is an enormous sense of relief. After a claustrophobic decade, anger and resentment are possible again. It's official: capitalism is monstrous. Try talking about the benefits of free markets and you will be treated like someone promoting the benefits of rape. Honest resentment opens a space for the hope that one day language might regain some of its critical capacity, that it could even begin to describe social realities again. Or things might go quite differently: perhaps nothing stands in the way of a complete neoliberal victory. Perhaps it's the end of history, not in a liberal democratic utopia, but in capitalismo puro, a capitalism that bears no relation to freedom: capitalism as mere fact." (November 20, 2008)

"Last week, Mr Madoff told senior employees, including his sons, that his investment management firm had lost $50bn over a number of years, according to court documents. Prosecutors alleged that he said his operations were "just one big lie" and "basically a giant Ponzi scheme" – where investment managers pay old investors with money raised from new investors. There is little information on where the $50bn Mr Madoff is alleged to have said he lost actually went." (FT 15/12/08)

Chrystia Freeland, FT American Editor: "From Bernie Madoff's self-declared Ponzi scheme, to Dick Fuld's Jonestownstyle collective immolation at Lehman Brothers, to the subprime lending fiasco, the US version of the market economy – and many of its leading players – have failed more spectacularly than even the darkest dreams of Noam Chomsky could predict." (December 19, 2008)

"The Belgian government on Monday night became the first national administration to fall as a direct result of events linked to the global financial crisis." (FT, 23/12/08)

"Self-pity doesn't wash here [Iceland], though. In the queue for a charity food parcel, and some toys to give to her children, one woman says: 'What I like about the kreppa [crisis] is people start to be cosy, more human'." (FT, 24/12/08).

"A clean-up is overdue. Yet, in cleaning up, we must remember deeper truths: human beings will always believe what they want to; and so regulation will always fail. We know, too, that nothing better than the market system is on offer, however flawed. Financial markets fail. They are also indispensable." (FT Leading article, 27/12/08).

God (explaining himself in a fragment of Brecht's play St. Joan of the Stockyards): "I have a book here about research on economic conditions. Crises are supposed to be governed by natural law. But now I ask you, wouldn't I know something about it in that case? I tell you there is no truth in it whatsoever. I have never had the slightest thing to do with economics. I have never got involved in it and I never will get involved in it."[1]

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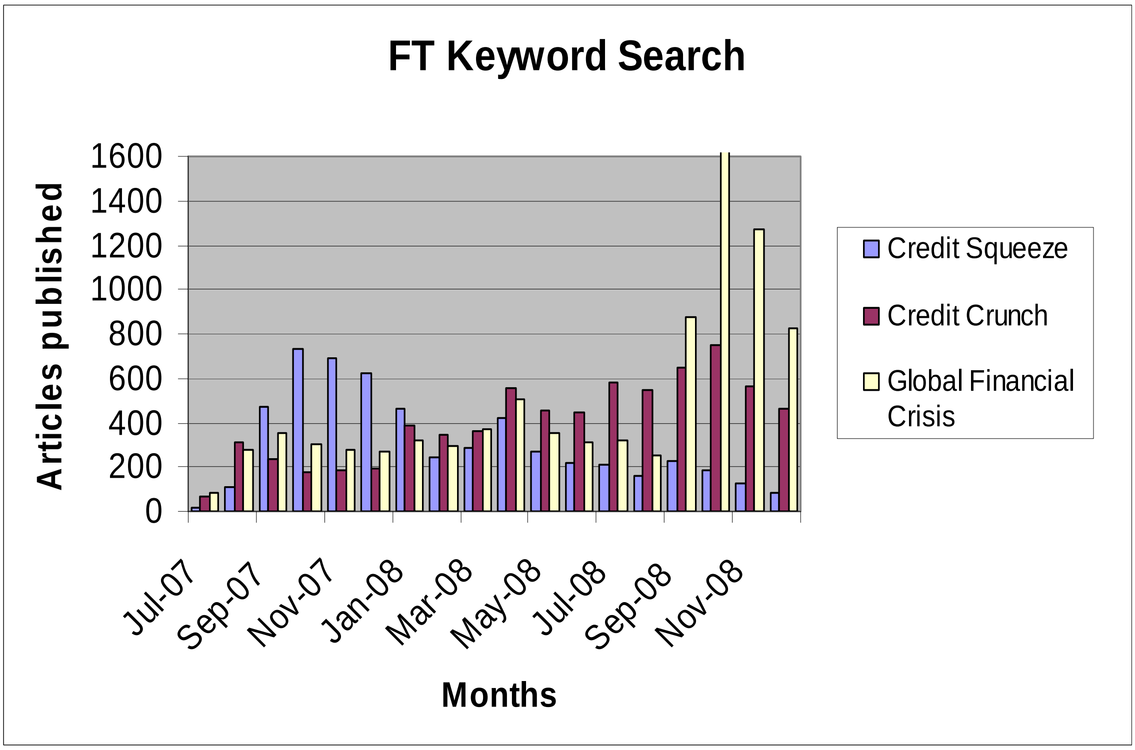
1 Slightly adapted translation from Jameson's *Brecht and Method*, Verso, 1998 (p.41). The original text reads: "Ich habe da ein Buch über die Konjunkturforschungen. Die Krisen sollen da auf Naturgesetzen beruhen. Da frage ich Sie aber doch, davon müßte schließlich ich auch etwas wissen. Und ich sage Ihnen, kein Wort davon ist wahr! Ich habe mit Wirtschaft nie das Geringste zu tun gehabt. Für mich ist Wirtschaft überhaupt nicht vorhanden. Ich habe mich nie in sie eingemischt, und ich werde mich nicht einmischen".

Appendix A: From Squeeze to Crunch to Crisis! (FT keyword article counts)

	Credit Squeeze	Credit Crunch	Global Financial Crisis
Jul-07	14	69	84
Aug-07	107	311	282
Sep-07	472	233	355
Oct-07	735	175	299
Nov-07	687	189	282
Dec-07	624	190	270
Jan-08	462	390	316
Feb-08	243	348	297
Mar-08	287	359	370
Apr-08	419	552	502
May-08	266	458	356
Jun-08	223	449	315
Jul-08	213	581	316
Aug-08	160	550	251
Sep-08	227	646	878
Oct-08	182	749	1974
Nov-08	126	567	1268
Dec-08	81	467	825



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