The World is Still Paying a Heavy Price Ten years after the Crisis Caused by the Capitalist Financial System

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The US Federal Reserve Bank of San Francisco reported on the 13th of August, that 10 years after the 2008 financial crisis: “the U.S. economy remains significantly smaller than it should be”, which “represents a lifetime present-value income loss of about $70,000 for every American”, and “the United States is not alone.”

The global financial crisis of 2008 is considered to be the second major financial crisis of the modern era to cause a general collapse in financial market values. Black Monday, on the 19th of October 1987, saw the greatest percentage crash in Wall Street history, and what 1987 and 2008 had in common was that the crashes were not confined to specific markets, but rather were systemic and hit stocks, bonds, gold and commodities and swiftly caused worldwide panic. The report shows that the effects of 2008 are still with us, and the whole world is suffering. Europe’s debt crisis was triggered by the crash and threatened to bring down the European Union and the single currency, and still the danger lingers on. The interconnectedness of different financial markets and the ease with which paper assets can cross national borders is why the collapse of one financial market or a bank can cause a worldwide crisis.

The catalyst for the financial crisis was the collapse of Lehman Brothers on the 15th of September 2008, which caused panic by showing that US banks were not ‘too big to fail’. Within a month, the global financial collapse forced governments to inject capital into their banks to prevent them all collapsing. Then with Europe’s debt crisis, it became evident that wealthy Western Countries could also become bankrupt and they too had to be bailed out like the banks. The banks had been investing heavily in the so-called ‘sub-prime’ mortgage market, which means they were lending money, at higher interest rates, to people at high risk of defaulting on their home loan repayments. Before the crash, there had been a housing boom and the banks felt safe knowing that when borrowers became bankrupt, their homes would be worth more than their debt. Lehman brothers made record profits for 3 years, and then, after the housing market collapsed, so too did the bank. The Federal Reserve Bank of San Francisco said that the 2008 crisis caused: “large losses in the economy’s productive capacity”, and that: “output is unlikely to revert to its pre-crisis trend level”, but they don’t know why: “We do not yet have a good grasp on the mechanisms through which financial market disruptions can have such persistent effects on output.”

Financial regulation has been put in place to reduce the risk of a future market collapse. Swift action in 2008 stopped a domino effect of US bank collapses, but the cost of bailing out these banks was borne initially by the tax-payer and the ‘Dodd-Frank’ legislation in 2010 sought to prevent the US taxpayer from being burdened with future bailouts, but this is an ongoing experiment, and last year the Trump administration replaced ‘Dodd-Frank’ with the Financial Choice Act, which its authors hope will save them next time. President Roosevelt once said: “The country demands bold, persistent experimentation. It is common sense to take a method and try it: If it fails, admit it frankly and try another”, and the capitalist experiment continues today – we are all experimental mice.

Experimental regulations will not protect the world from future crises, because attempting to patch up a flawed interest-based economic system leaves the root cause of the problem in place. Furthermore, regulations are directed to past experiences, while innovations in financial markets and related technologies are ongoing. Black Monday, the great crash of 1987, was made much worse by new computer technology that sped up financial transactions, and thereby sped up the collapse. The financial markets of 2018 are not the same as those of 1987 and 2008, and more changes are expected. The Federal Reserve Bank of Chicago predicted last year that: “*Blockchain* technology is likely to be a key source of future financial market innovation.” This is what the crypto currency called bitcoin is built upon, but regardless of bitcoin, innovative technology that lets interest-based international trade move faster, will also cause future crises to happen more quickly than national governments can cope with, and everyone may have to pay the price for that.

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