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## Lehman Ten Years On

*Why should we care about the tenth anniversary of the Lehman failure? Aren't there more important issues to worry about, and more dramatic events to commemorate? 2018 brings many reminiscences, such as the hundredth anniversary of the end of the First World War. What are the claims of a medium-sized bank failure to rival in importance the end of a conflict that destroyed Euro pean civilization?*

Lehman was not an extraordinarily large bank. It was probably not insolvent when it collapsed. It is hard to see how Lehman should have been able to take down the economy of the United States or the world financial system. But sometimes the flapping of a butterfly's wings transforms the world.

During the European financial crisis that erupted after 2010, Lehman was constantly invoked, especially by Europeans, and applied to the threat of state bankruptcies and defaults.



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The financial crisis had three big effects, fundamentally shifting the general basis of the narrative told by opinion-shapers and policy-makers. One: The Lehman crisis made a particular kind of financial history popular, which went along with a financial theory – that of Charles Kindleberger, who drew very explicitly on the work of Hyman Minsky on financial cycles. It was read as a warning against “market fundamentalism.” Second, Lehman apparently revealed that not just the story of the old business cycle was relevant, but that the Great Depression was contemporary. Ben Bernanke, the Federal Reserve chair, recalled that his response to the Lehman developments was to think of the Austrian Credit anstalt in 1931: “My mind went back to my own studies of the Great Depression of the 1930s.” In the Great Depression, especially in Germany and the US a liquidationist attitude had prevailed, following the dictum of Andrew Mellon: “Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate.” By contrast, in the Great Recession, debt – especially public debt – was used to replace insecure private debt. Because of low interest rates, that may be sustainable, at least for some time.

The third new story was that the butterfly of Lehman was the signal of the end of American capitalism. The German finance minister, Peer Stein brück, explained that “The US will lose its status as the superpower of the global financial system.” The crisis was widely seen as a quintessentially American affair, emanating from a combination of testosterone-driven finance and a political penchant for promoting real estate even for those who could not really afford it. It was only

gradually that analysts such as Hyun Song Shin and Tam Bayoumi pointed out the transatlantic nature of the crisis, and the essential part played by badly regulated and over-sized European banks in the build-up of risk. One of the most widely used Chinese terms in the wake of Lehman was *xing zai le huò*, best translated as “Schadenfreude”: somebody else – some other society – tripped on an enormous political banana skin.

Two of these popular stories are not really right. The financial crisis showed up problems of complexity, of the intertwining of dysfunctional and highly intransparent private and state institutions, and not of markets as such. And the world was not near to another Great Depression. Intransparency, as rapidly became clear, was not a unique property of the U.S.. The combination of these two stories had a massive effect on perceptions, and contributed greatly to the third story, which is quite real: the loss of the United States’ financial and political preeminence.

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>> Editorial

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