

# Ten years since the collapse of Lehman Brothers

15 September 2018

Ten years ago on this day, the global capitalist system entered its most far-reaching and devastating crisis since the Great Depression of the 1930s. A decade later none of the contradictions which produced the financial crisis has been alleviated, much less overcome. Moreover, the very policies carried out to prevent a total meltdown of the financial system, involving the outlay of trillions of dollars by the US Federal Reserve and other major central banks, have only created the conditions for an even bigger disaster.

The immediate trigger for the onset of the crisis was the decision by US financial authorities not to bail out the 158-year-old investment bank Lehman Brothers and prevent its bankruptcy. There is considerable evidence to suggest that this was a deliberate decision by the Federal Reserve to create the necessary conditions for what they knew would have to be a massive bailout, not just of a series of banks but the entire financial system.

The previous March, the Fed had organised a \$30 billion rescue of Bear Stearns when it was taken over by JP Morgan. But as the Fed's own minutes from that time make clear the Bear Stearns crisis was just the tip of a huge financial iceberg. The Fed noted that "given the fragile conditions of the financial markets at the time" and the "expected contagion" that would result from its demise it was necessary to organise a bailout. As Fed chairman Ben Bernanke later testified, a sudden failure would have led to a "chaotic unwinding" of positions in financial markets. The bailout of Bear Stearns was not a solution but a holding operation to try to buy time and prepare for what was coming.

While the demise of Lehman was the initial trigger, the most significant event was the impending bankruptcy, revealed just two days later, of the American insurance firm AIG, which was at the centre of a system of complex financial products running into trillions of dollars.

Due to the interconnections of the global financial system, the crisis rapidly extended to financial markets around the world, above all across the Atlantic to Europe where the banks had been major investors in the arcane financial instruments that had been developed around the US sub-prime home mortgage market, the collapse of which provided the immediate trigger for the crisis.

The value of every crisis, it has been rightly said, is that it reveals and starkly lays bare the underlying socio-economic and political relations that are concealed in "normal" times. The collapse of 2008 is no exception.

In the twenty years and more preceding the crisis, particularly in the aftermath of the liquidation of the Soviet Union in 1991, the bourgeoisie and its ideologists had proclaimed not only the superiority of the capitalist "free market" but that it was the only possible socio-economic form of organisation. Basing themselves on the false identification of the Stalinist regime with socialism, they maintained that its liquidation signified that Marxism was forever dead and buried. In particular, Marx's analysis of the fundamental and irresolvable contradictions of the capitalist mode of production had proved to be false. According to the central foundation for what passed for theoretical analysis, the so-called "efficient markets

hypothesis," a financial meltdown was impossible because with the development of advanced technologies all information had been priced into decision making and so a financial collapse was impossible.

Rarely have the nostrums of the bourgeoisie and its ideologists been so graphically exposed.

Two days after the crisis erupted, President George W. Bush declared "this sucker's going down." Later, the high priest of capitalism and its "free market," the now bewildered former head of the US Federal Reserve Alan Greenspan, testified to the US Congress that he had been completely confounded because markets had failed to behave according to his "model" and its assumptions.

The crisis also exposed in full glare another of the central myths of the capitalist order—that the state is somehow a neutral or independent organisation committed to regulating social and economic affairs in the interests of society as a whole.

It confirmed another central tenet of Marxism, expounded more than 170 years ago, that "the executive of the modern state is but a committee for managing the common affairs of the bourgeoisie."

This was exemplified in the naked class response to the financial meltdown. The plans, already developed by the Fed and other authorities to cover the losses of the financial elite, whose speculative and in many cases outright criminal activities had sparked the crisis, were put into operation.

In the lead-up to the presidential election of November 4, Wall Street swung its support behind Obama—with the media promoting him as the candidate of "hope" and "change you can believe in"—over McCain. The Democrats had committed themselves to the bailout, securing the passage of the \$700 billion TARP asset-purchasing program through Congress. This massive increase in the national debt of the United States was authorised with virtually no debate.

Of course, a new political fiction was immediately advanced. It was necessary to bail out Wall Street first, the public was told, in order to assist Main Street. However, this lie was rapidly exposed. The crisis was the starting point for a massive assault on the working class. While bankers and financial speculators continued to receive their bonuses, millions of American families lost their homes. Tens of millions were made unemployed.

In the following year, the rescue operation organised by the Obama administration of Chrysler and General Motors, with the active and full collaboration of the United Autoworkers Union, resulted in the development of new forms of exploitation, above all though the two-tier wages system, paving the way for even more brutal systems such as those pioneered by Amazon.

This was the other side of a Wall Street bailout—a massive restructuring of class relations in line with the edict of Obama's one-time chief of staff Rahm Emanuel to "never let a serious crisis go to waste" because it provides "an opportunity to do things you think you could not do before."

The same class response was in evidence elsewhere. After the initial effects of the crisis had been overcome, the European bourgeoisie

initiated an austerity drive forcing up youth unemployment to record levels. In Britain workers have endured a sustained decline in real wages not seen in more than a century.

The most egregious expression of this class logic has been seen in Greece with the imposition of poverty levels last seen in the Great Depression of the 1930s. The numerous bailout operations were never aimed at “rescuing” the Greek economy and its population but directed to extracting the resources to repay the major banks and financial institutions.

The crisis revealed the real nature of bourgeois democracy. The euro zone and the European Union were exposed as nothing more than a mechanism for the dictatorship of European finance capital. As one of the chief enforcers of its diktats, the former German finance minister Wolfgang Schäuble, declared, in the face of popular opposition, “elections cannot be allowed to change economic policy.”

As the working class in every country confronts stagnant and declining wages, falling living standards, the scrapping of secure employment and attacks on social services, leading to mounting health and other problems, innumerable reports and data chart the development of a global system in which wealth is siphoned up the income scale.

According to the latest Wealth-X World Ultra Wealth Report some 255,810 “ultra-high net worth” individuals, with a minimum of \$30 million in wealth, now collectively own \$31.5 trillion, more than the bottom 80 percent of the world’s population—comprising 5.6 billion people. Overall the wealth of this cohort increased by 16.3 percent in 2016–17, rising by 13.1 percent in North America, 13.5 percent in Europe and 26.7 percent in Asia.

The full significance of the bailouts of the financial system and the subsequent provision of trillions of dollars is clear. It has brought about the institutionalisation of a process, developing over the preceding decades, where the financial system, with the stock market at its centre, functions as a mechanism for the transfer of wealth to the heights of society.

In its analysis of the financial crisis, the *World Socialist Web Site* insisted from the outset that this was not a conjunctural development, from which there would be a “recovery,” but a breakdown of the entire capitalist mode of production.

That analysis has been completely confirmed. While a total financial meltdown was prevented, the diseases of the profit system that gave rise to the crisis have not been overcome. Rather, they have metastasised and mutated into new and even more malignant forms.

The actions of the US Federal Reserve and other major central banks in pumping trillions of dollars into the financial system in order to “rescue” it, and to enable the continuation of the very forms of speculation that led to the crisis, have only created the conditions for a new disaster in which the central banks themselves will be directly involved.

This fact of economic and financial life can even be seen in the comments by bourgeois analysts and pundits on the occasion of the upcoming anniversary. While they generally maintain that the financial system has been “strengthened” since 2008—a completely worthless assertion given that it was held to be strong in the lead up to the crash and any warnings of growing risks were dismissed as “Luddite” by such luminaries as former US Treasury Secretary Lawrence Summers—no one dares to proclaim that the underlying problems have been resolved.

Rather, taking heed from the warning of JP Morgan chief Jamie Dimon that while the trigger for the next crisis will not be the same as the last but “there will be another crisis”, they nervously scan the horizon for signs of where it might strike.

Some analysts point to the rise in global debt, which is now running at 217 percent of gross domestic product, an increase of 40 percentage points since 2007, contrary to all expectations that, since debt was a major cause of the 2008 crisis, some deleveraging would have occurred.

Others single out the mounting problems in so-called emerging markets facing repayments on dollar-denominated loans, a source of speculation when interest rates were at record lows but which now present major refinancing problems as interest rates have started to rise.

The seemingly unstoppable rise of stock markets, fuelled by the provision of ultra-cheap money by the Fed and other central banks, is also an issue of concern. The increased use of passive investment funds tied to global indexes via computer trading systems tends to reinforce downswings as has been seen in a series of “flash crashes” such as that of last February when Wall Street fell by as much as 1,600 points in intraday trading.

The greatest source of anxiety, although it is not mentioned so much publicly, is the resurgence of the working class and the push for increased wages. To the extent it is discussed publicly, this fear, manifested in stock market falls generated by news of relatively small wage increases, is generally couched in terms of “political tensions” caused by increased social inequality.

A further expression of the ongoing and deepening breakdown of the capitalist order is the disintegration of all the geo-political structures and relationships that have constituted the framework within which the movements of capitalist economy and finance have flowed throughout the post-war period.

In the wake of the 2008 crisis, the leaders of the G20 gathered in April 2009, in the midst of a collapse in world trade taking place at a faster rate than in 1930. They pledged to never again go down the road of the protectionist tariff policies that had played such a disastrous role in the Great Depression and had worked to create the conditions for the outbreak of World War II, just ten years after the Wall Street crash of October 1929.

That commitment lies in tatters as the Trump administration, seeking to counter the economic decline of the US so graphically revealed in the 2008 collapse, embarks on ever widening trade war measures.

The principal target, at least to this point, is China. But the Trump administration has designated the European Union as an economic “foe,” and has already implemented trade war measures against it, with more in the pipeline.

The G7, the grouping of major capitalist powers set up in the wake of the world recession of 1974–75 and the end of the post-war boom to try to regulate the affairs of world capitalism, exists in name only following the acrimonious split at its meeting last June with the US decision to impose tariffs against its nominal “strategic allies.”

World war has not yet broken out. But there are innumerable flashpoints—in the Middle East, in Eastern Europe, in North East Asia and in the South China Sea to cite just some examples—where a conflict could erupt between nuclear-armed powers. The impetus for a new global conflagration is the drive by US imperialism to counter its economic decline by asserting its dominance over the Eurasian landmass at the expense of its enemies and allies alike.

It is of enormous significance that the civil war that has erupted in the American state apparatus between the state and military-intelligence apparatus, whose mouthpiece is the Democratic Party, and the Trump administration is over how this objective should be accomplished; that is, whether the American drive should be directed in the first instance against Russia or China. At the same time, all the major powers are boosting their military budgets in preparation for the escalation of military conflicts.

The political system in every country is beset by deep crisis. The very rapidity of the crisis is accentuating the contradictions between the objective dangers and the level of class consciousness. The chief obstacle to achieving the necessary alignment of working class consciousness with the objective reality of capitalist crisis on a world scale remains the reactionary political role of the old bureaucratised labour and trade union organisations, abetted by the various pseudo-left tendencies, in

suppressing the class struggle. But the conditions are developing for these shackles to be broken.

In the founding program of the Fourth International, Leon Trotsky wrote: "The orientation of the mass is determined first by the objective conditions of decaying capitalism, and second, by the treacherous policies of the old workers' organisations. Of these factors, the first, of course, is the decisive one: the laws of history are stronger than the bureaucratic apparatus."

That perspective is now being confirmed in the resurgence of the class struggle internationally, above all in the centre of world capitalism, the United States.

Conscious of their profound weakness in the face of such a movement, and fully aware of its revolutionary implications, the ruling classes in every country have been developing ever-more authoritarian forms of rule.

Their greatest fear is the development of political consciousness, that is, the understanding in wider sections of the working class, and above all the youth, of its real situation, that its enemy is the entire capitalist system. Above all, the ruling elites fear the development of a revolutionary socialist movement, based on the principles and program of the Fourth International. This is why the *World Socialist Web Site* is the central target of internet censorship. It is also the reason for the escalation of attacks by the German coalition government on the Sozialistische Gleichheitspartei, the German section of the International Committee of the Fourth International (ICFI).

But the efforts to suppress the work of the International Committee will fail. The renewal of class struggle will provide new forces for the development of the working of the ICFI throughout the world.

The meltdown of 2008 demonstrated above all that the working class confronts a global crisis. The crisis can therefore be resolved only on a global scale through the unification of the working class across national borders and barriers on the basis of an international socialist program for the reconstruction of society to meet human need and not profit.

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