Introduction: A Crisis of Financialisation

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I. An unusual and global crisis

In August 2007 international money-markets signalled that financial assets associated with the US housing sector, particularly subprime mortgages, had become illiquid. The significance of this event was not immediately apparent to those who did not regularly observe financial markets. During the following months, however, it gradually became clear that something was badly wrong with global finance. A year later, the US financial system suffered a massive shock as the Government Sponsored Enterprises, the backbone of the housing market, nearly failed and then Lehman Brothers, one of the largest investment-banks, went bankrupt.

Financial panic ensued in September–October 2008, one of those rare phenomena that can hold the attention of economic historians for decades. In the autumn of 2008, banks in the USA and much of the developed world faced systemic collapse. Disaster was avoided only through coordinated and unprecedented state-intervention by Finance ministries and central banks across the advanced countries. Nonetheless, the world-economy went into deep recession toward the end of 2008 and for much of 2009.
The global crisis of 2007–9 is replete with uncommon characteristics. To begin with, it arose at the end of a gigantic housing bubble in the USA but also in other advanced countries, particularly the UK. The bubble of 2001–7 was fed mainly by domestic credit backed by lax monetary policy in the USA. During 2001–4 (following the burst of an earlier bubble in the New York Stock Exchange), the Federal Reserve lowered interest-rates to very low levels in order to forestall recession. Financial institutions took advantage of cheap funds to spur lending in the housing market, eventually creating a bubble. This sequence of events was a replay of the Greenspan ‘put’, a course of action that had been tried repeatedly in preceding years. In other words, the financial sector would blow a bubble; the state would deal with the aftermath; conditions would thereby be created for the next bubble.

The bubble of 2001–7 was also fed by loanable funds flowing into the USA from abroad. These international funds did not originate primarily in other advanced-capitalist countries, as would have happened in past incidents of financial excess. Rather, poor countries were the main outside source of loanable funds to the US-markets after 2004. The suppliers, moreover, were not private capitalists making commercial decisions but monetary authorities. After the Asian crisis of 1997–8, developing countries found themselves obliged to accumulate reserves of US-dollars as a precaution against exchange-rate crises. Monetary authorities bought huge volumes of US government-bonds in spite of low rates of interest in the USA. The global poor were compelled by global capital-markets to send their hard-earned surpluses to the USA, subsidising the US-government and earning low returns. Unfortunately for the USA, these flows also sustained and prolonged the bubble.

The main cause of the bubble, nonetheless, was domestic US-credit, which had still more peculiar features. The most heavily indebted economic agents during 2001–7 were not large capitalist corporations, or even small and medium enterprises. The heaviest borrowers were banks but also individual workers, including some of the poorest, previously ‘unbanked’, layers of the working class. The debt of US-households escalated enormously, exceeding 130% of disposable income in 2007. This was only surpassed by British households, whose debt fluctuated in the vicinity of 160% of disposable income.

The sudden turn of the banks toward the poor – the ‘democratisation’ of credit that presumably opened the path toward home-ownership for all – was combined with securities-transactions undertaken in open financial markets.