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Read the article from *The New York Times* and outline the present and possible future consequences of the financial crisis.

## From Trump to Trade, the Financial Crisis Still Resonates 10 Years Later

By Andrew Ross Sorkin

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This week is the 10th anniversary of the inflection point of the financial crisis: the collapse of Lehman Brothers, the biggest bankruptcy in history. To some, it feels like a long time ago.

Yet, its effects still echo in the way we live today – in the attitudes that pervade our economy, our culture and our politics. It is hardly a stretch to suggest that President Trump's election was a direct result of the financial crisis.

The crisis was a moment that cleaved our country. It broke a social contract between the plutocrats<sup>1</sup> and everyone else. But it also broke a sense of trust, not just in financial institutions and the government that

oversaw them, but in the very idea of experts and expertise. The past 10 years have seen an open revolt against the intelligentsia.

Mistrust led to new political movements: the Tea Party for those who didn't trust the government and Occupy Wall Street for those who didn't trust big business. These moved Democrats and Republicans away from each other in fundamental ways, and populist attitudes on both ends of the spectrum found champions in the 2016 presidential race in Senator Bernie Sanders and Donald J. Trump.

The depth of financial despair during the Great Recession and the invariably slow recovery have

Annotations <sup>1</sup> plutocrat = sb who is powerful because they are rich



unleashed a sense of bitterness that dominates the political landscape, culminating in Mr. Trump's electoral victory.

30 "We are almost at each other's throats when times are good," said Ray Dalio, the founder of Bridgewater Associates, the largest hedge fund in the world with some \$150 billion in assets, and the author of a new book, "A Template for Understanding Big Debt Crises," an exhaustive study of financial panics and the policies that both created and rescued them.

The deepest crises, he said, always lead to populism. And it should be no surprise that a crisis leads to conflict and, in some extreme cases, war. "I would be 40 worried about the emergence of populism," he said, "because populists tend to want to fight with the other side rather than try to find ways of getting through it." Populists on every side of the political spectrum "have in common that they're confrontational," he said.

45 When I wrote "Too Big to Fail" nearly a decade ago, I knew that the crisis would redefine Wall Street and the economy, but I didn't appreciate how fundamentally it would redefine the political environment.

Amir Sufi, a professor of economics and public policy 50 at University of Chicago's Booth School of Business and the co-author of "House of Debt," pointed to the financial crisis as the source of reduced civility a few months after Mr. Trump's victory. He conducted an analysis of 60 countries with his "House of Debt" 55 co-author, Atif Mian of Princeton University, and Francesco Trebbi of the University of British Columbia. They found that such a response was "common and predictable," he wrote.

"Our conclusion: Financial crises tend to radicalize 60 electorates," Mr. Sufi wrote. "After a banking, currency, or debt crisis, our data indicate, the share of centrists or moderates in a country went down, while the share of left- or right-wing radicals went up in most cases." In the United States, the crisis exposed an economy 65 that had been a charade - one that most Americans didn't understand or appreciate. The use of debt had masked the real problems underneath the surface: a significant decrease in worker participation, automation that would take jobs and stagnant wage 70 growth.

These issues long predated the crisis. But as Warren Buffett famously said, "You only find out who is swimming naked when the tide goes out."

75 In truth, our economy today is in much better shape than you might expect, with unemployment at 3.9 percent - lower than it was before the crisis.

Yet debates persist about the way the government, first under President George W. Bush and then under President Barack Obama, chose to respond to the crisis. 80 Should it have done more directly for homeowners?

Should it have demanded more onerous terms for the hundreds of billions of dollars in loans to the banks and bankers, like restricting compensation and firing executives to demonstrate more accountability? 85 Should some bankers have gone to jail?

For some, it is tempting to think that the government should have taken a more populist approach itself. If it had offered more help directly to the public rather than what was perceived as bailing out the banks, 90 there is a suspicion that divisions could have been lessened, yielding a more united United States. But would it?

In Britain, the government did all those politically popular things: It restricted banker pay, it fired 95 executives, it lent money to banks on onerous terms, it restricted spending.

It didn't work. The British economy grew significantly slower than ours. And the resulting resentment and bitterness were much worse than our own, leading to 100 a manifestation of populism even more drastic: the unimaginable vote to leave the European Union.

It's not popular to say, but it's clear that the financial crisis was so deep and so painful that whatever populist positions policymakers took, the positive 105 feelings would have been short-lived.

Timothy F. Geithner, the Treasury secretary under Mr. Obama, recounted in his book "Stress Test" a conversation that he had with President Bill Clinton as he was considering a more populist approach. Mr. Clinton told him, "You could take Lloyd Blankfein into 110 a dark alley, and slit his throat, and it would satisfy them for about two days. Then the blood lust would rise again."

It doesn't help that the economic medicine used by policymakers after a crisis exacerbates those feelings 115 of anger. The most efficient fix - lowering interest rates - helps the wealthy because they end up with cheaper mortgages and enjoy the benefits that low rates have on corporate growth. Those lower on the economic ladder, on the other hand, get little in 120 interest on their savings. The gap between the haves and the have-nots widens.

But that approach actually works, pulling everyone along with it, even if it is uneven and there are greater 125 beneficiaries than others.

There is one question I get more than any other: "Will we have another crisis?" The answer, of course, is yes. But it's not a Wall Street crisis similar to 2008 that concerns me. I'm worried about something far bigger. 130 When I wrote "Too Big to Fail," that phrase was only used in the context of financial institutions. Today, it is used to refer to cities, municipalities, states and countries. If you look at the buildup of debt, that's the place to keep an eye on.



135 Unmanageable debt is the match that lights the fire  
of every crisis. You can have as many bad actors on  
stage as you want – greedy bankers, inept regulators,  
conflicted credit rating agencies – but unless there  
is significant leverage in the system, there's little  
140 danger of a crisis. Our national debt is more than  
\$21 trillion, and it increased a trillion dollars in  
just six months under Mr. Trump, who rode populist  
and anti-establishment sentiment to the White House  
but whose policy choices have largely favored the  
145 wealthy.

That's not the only cause for concern, either. If  
history tells us the political divisions we have seen  
since the financial crisis were predictable, then  
what does history have to say about what comes  
150 next?

Mr. Dalio pointed to the chilling of international  
relationships that happened after the Great Depression  
as a worrying example of the divisions that can widen  
when populism fosters protectionism. "We started to  
have economic tariffs and we started to have back-  
and-forths of those things," he said.

He paused for a moment, signaling he didn't want  
to contemplate what that later manifested. But he  
continued, "Which then, 10 years later, led to Pearl  
160 Harbor."

There are, of course, many steps between populism  
and war. But Mr. Dalio said he saw similarities  
between the global environment that preceded World  
War II and the one we see today.

That's reason enough to never forget this crisis and  
its lessons.