

increased, but they were not large enough to ride out the crash by themselves. In other words, they had become too big to fail, but they were going to fail anyway.

That this had been allowed to happen was itself a failure of government, since some of the responsibility lay with the people whose job it was to regulate the banking industry. But all this shows is that government regulation is necessary to ensure markets function successfully. A government bailout was the only possible rescue once government regulation had failed to prevent the disaster. Free-market fundamentalists can argue that there was an alternative: the big banks could have been allowed to fail and the system could have been given time to correct itself without government interference. But there simply wasn't that time. Markets do correct themselves eventually. But in the meantime the world falls apart.

Complex, innovative systems are not good at big rescues because they are unable to pool their resources quickly enough. The very forces that make them innovative – their complexity and diversity – make them cumbersome and unwieldy in a crisis. States look cumbersome and unwieldy most of the time, but in a crisis they can be decisive. In late 2008 governments around the world were required to step in to rescue their banks. Some of these decisions had to be taken incredibly quickly: once Lehman Brothers went down, calamity was sometimes just hours away. Massive government intervention was needed to prevent the contagion from spreading. The Bush administration that presided over the rescue was made up

of champions of the free market. Their convictions went out the window as soon as it became clear that only government had the power to salvage the situation.

The nature of that power was coercive. Only government could force failing institutions into the arms of solvent ones; only government could bend the rules to make these mergers possible; only government could require the taxpayer to stump up the money to underwrite the costs. Without its ability to coerce, no government would have had the credibility to stem the rising tide of panic. Only government has sufficient power to make its decisions stick in a crisis. That's what it's for.

And that's what makes it frightening. Its power can easily be abused. Anyone who is on the receiving end is going to feel pretty powerless. It is even possible to feel sorry for the bankers in late 2008 who were summoned by government officials to be told their fate. 'Why me?', Dick Fuld of Lehman Brothers wanted to know. 'Why do I go to the wall when others get rescued?' 'Because we've decided', came the answer, and someone had to decide. Once government decides, it's your funeral.