



George Blecher

Cataclysm, anarchy and knitting

US financial experts are talking of cataclysm and anarchy, but what really worries them is nationalization, writes George Blecher. Meanwhile, at street-level, the crisis is having some unusual effects.

The funniest story I've heard about the financial crisis came from a friend who recently had to undergo a surgical procedure. She reported that before the anaesthetist put her to sleep, he leaned over to her and smiled, "Well, at least you didn't lose all your money with Bernie Madoff."

Gallows humour pervades New York conversations these days, often prefaced by the phrase "at least": "*At least* I haven't been fired from my job," says an editor friend whose company has undergone a major "restructuring." "*At least* my landlord isn't raising my rent," says another friend whose apartment lease runs out next month. (Even in the iron-clad New York City real estate market, sales are practically frozen, inventories increasing, and real estate agencies are talking about auctioning off apartments.) Or this from a friend who's been out of a job for a year: "*At least* I'm not the only one feeling deprived. Now everybody's deprived."

The mood in New York is distinctly sombre; nobody talks about anything but the economy. Though it's true that Barack Obama is currently riding a wave of goodwill, that doesn't translate into a belief that the President's recovery plans will reverse what is beginning to feel like an inevitable — and natural — process.

In addition to the closed stores, empty restaurants, skeletons of half-built luxury apartment houses whose developers have run out of money, there are more subtle, personal signs: waiters getting smaller tips or none at all, shopkeepers looking imploringly at non-buying customers, people with extra bedrooms renting them out to perfect strangers.

Some experts are sounding *very* alarmed. Peter Goldmark, director of the New York State Budget office in the 1970s, said recently: "The storm hasn't really hit yet. We're going to see stuff we can barely imagine." And this from John Tepper Marlin, former chief economist for New York City: "I'm concerned about people being so desperate that they lose the fear of losing their own lives and they become so desperate that they're willing to endanger other people's lives."

Cataclysm, anarchy — words that haven't been in our vocabulary since the early 1930s.

It's no secret that the real fear in the hearts of the opponents of President Obama's bailout plans is nationalization. Call it communism, socialism, "the Swedish way" — whatever, the idea of nationalization of banks is terrifying to American financial institutions, and promises to make the passage of the new Obama budget a long drawn-out process.

To combat potential restrictions on their "freedom", the Right in the US has promoted a myth that has pervaded American economics since the Reagan years — namely, that governments can't manage money. Because of the power of this conventional wisdom, the Obama administration continues to bend over backwards to avoid government takeover of banks, recently offering to finance a public-private plan to buy up to \$2 trillion of "toxic assets" — and thereby driving liberal economists like Paul Krugman to despair. "Officials still aren't willing to face facts", he writes. "They don't want to face up to the dire state of financial institutions because it's very hard to rescue an essentially insolvent bank without, at least temporarily, taking it over. And temporary nationalization is still, apparently, considered unthinkable."

There are two reasons why it is a myth that the government is unable to manage money: first of all, the US government has done a credible job of managing financial institutions many times in the last century; and, secondly, during the present crisis they've already been nationalizing smaller banks at the rate of two a week.

New York Times economics writer Joe Nocera outlined the process in a recent column, pointing out that during the savings and loans crisis in the 1980's the government "took over banks, replaced their top managers, stripped out bad assets that the government then managed brilliantly, and sold the healthy banks to private buyers". More embarrassingly, in addition to Sweden and Japan using comparable tactics to bail out their banks, the International Monetary Fund, which is virtually an arm of the US Treasury, has been putting constant pressure on countries like Thailand (1997) and Russia (1998) to do exactly the same thing.

It doesn't take an economics wizard to see why corporate interests are resistant to the idea of nationalization. With nationalization comes regulation of banks and financial markets — a step that EU banks recently took, but one which the present administration hasn't addressed publicly yet — and lots of people who made lots of money for the past thirty years will stand to make, well, considerably less. No matter how much Congress and the private sector protest (and protest they will), it may only be a matter of time before the US government moves in to resuscitate what the press calls "zombie" banks: only with nationalization will banks be forced to lend again, and money will start circulating.

One positive effect of scaled-down expectations is that the nervous pace of New York life seems to be slowing down. New Yorkers are taking more time for each other. The signs are small but real: people — of both sexes — knitting. Waitresses in coffee shops leaning on the shoulders of regular patrons and chatting while looking at empty tables. Telephone clerks taking the time to explain how to get a cheaper deal on their own merchandise. The emphasis has shifted away from the compulsion to acquire to a more modest wish — the wish just to get by, and maybe to make life more pleasant.

But with these diminished expectations comes a weird counter-feeling: nostalgia. Even if you didn't share in the opulence, you can't help missing it.

The news, for instance, that high-end clothing stores like Saks Fifth Avenue are in serious financial trouble, or that Broadway musicals have to close because corporate expense accounts can't afford to spend \$200 on a ticket makes one unexpectedly sad. Where has all the grandeur gone?

The other day I was visiting a friend at UBS, on the thirtieth floor of the Met Life Building next to Grand Central Station. While I waited I looked out the window at the crush of magnificent skyscrapers that were built during the last 80 years — and which might not be built again for quite a while. The thought made me positively weepy. My city was the first to build these monuments; how dare they stop!

It was only then that I noticed that the big vase in the UBS waiting room that used to be filled with fresh flowers now was filled with artificial ones.

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