What is a financial crisis? Perceptions, memories, analyses in a long-run historical perspective
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Financial Actors and Financial Crises, 1980s-2020s

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Introduction

Financial crises are complex phenomena, which have multiple causes, including prevailing economic and political conditions, on which bankers have little control. Theoretical and empirical works have established that bankers' over confidence and excessive risk-taking in boom times is one, but only one of the many factors leading to the outbreak of financial crises.[1] At the same time, financial actors are also, by definition, actors in the event, and their vision of financial crises necessarily includes their own part and/or that of the banking profession in financial crises.

However, we know very little about bankers' own views of financial crises, which have been shaped by personal experience, but also by cultural 'media', ranging from financial theory, not necessarily expected to be read by decision makers,[2] to think tanks' reports and newspapers' articles. This is clearly the case with financial crisis of 2008. A far greater attention has been paid to central bankers and policymakers who, admittedly, have been keener to publish their memoirs and reflections on the events.[3]

The object of this paper is to investigate financial actors' views of financial crises at the time of the global financial crisis of 2008 in order to better understand the crisis itself and its legacy. Financial actors are defined here as business leaders in financial services, primarily commercial and investment banking. Two moments are particularly important in that respect. The first concerns the years preceding the crisis: what knowledge, experience, memory of previous financial crises did financial actors have at the outbreak of the subprime crisis in 2007? The second moment concerns the years after the crisis: what have been the lessons, experiences and memories of the crisis? To answer these questions, one has to consider a period extending from 1980s – the first experiences of the financial actors in a senior position in 2008 – to the 2020s – about fifteen years after the shock, an appropriate time to assess the legacy of the global financial crisis.

We have of course some knowledge of commercial and investment bankers' views about the crisis. There have been interviews in the press, testimonies to inquiry commissions,[4] and they have been included in some of the numerous accounts of the crisis, such as Andrew Ross Sorkin *Too Big to Fail,*[5] as well as in banks' histories dealing with the period or specifically devoted to the event – HSBC, Deutsche Bank, RBS, Lloyds, Barclays, and possibly others.[6] However, the questions of experience,

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[1] Gerard Caprio and Patrick Honohan, 'Banking Crises', in N. Berger, Philip Molyneux, and John O.S. Wilson (eds.), *The Oxford Handbook of Banking* (Oxford, 2010).
[2] Jean Tirole, *Économie du bien commun* (Paris, 2016), p. 462.
[3] See for example Hank Paulson, *On the Brink*, (New York, 2010); Gordon Brown, *Beyond the Crash* (London, 2010); Timothy F. Geithner, *Stress Test* (New York, 2014); Ben S. Bernanke, *The Courage to Act* (New York and London, 2015); Mervyn King, *The End of Alchemy* (London, 2016); Ben S. Bernanke, Timothy F. Geithner, Henry M. Paulson, Jr, *Firefighting* (London, 2019);
[4] *The Financial Crisis Inquiry Report* (Washington, 2011)
[5] Andrew Ross Sorkin *Too Big to Fail* (New York, 2009).
[6] Richard Roberts and David Kynaston, *The Lion Wakes: A Modern History of HSBC* (London, 2015); Werner Plumpe, Alexander Nützenadel, Catherine Schenk, *Deutsche Bank: The Global Hausbank, 1870 – 2020* (London,

knowledge, memory are totally absent from these sources and studies. The only way to address them is to directly ask the key protagonists, by interviewing some of them and/or by conducting a broader survey among senior members of the financial industry.

Sources and methodology

The analysis carried out in this paper is based on two main sources. The first is the interviews of fifteen bankers holding a senior position (chairman, CEO, CFO, or CRO) in some of Europe's and America's leading banks in 2007-2008 and/or 2022-2024. The second source is a survey of senior individuals working in financial services in October 2023. These two sources are complemented by the available secondary literature.

Interviews

Interviewing senior bankers poses a number of challenges that go beyond the usual challenges encountered by researchers using oral history. There is the question of accessibility, in terms of both time and status. There is the fact that this is a group of people who 'do not like being put in the straitjacket of close-ended questions. They prefer to articulate their views.'[7] There is the issue of power relations: 'an interviewee, concerned with presenting his/her viewpoint may want to control and dominate the interview'.[8] The topic of the research itself is also of concern. Elites in general 'are often scrutinized by television and radio journalists and therefore can also feel threatened in an interview, particularly in contexts that are less straightforward to prepare for such as academic interviews (…) they consider the interview as some form of challenge or justification for what they do'.[9] This is particularly the case with senior bankers and financial actors who came under public scrutiny because of their actions during the Global Financial Crisis. We have been able to overcome these hurdles, though getting hold of senior bankers has proved the toughest challenge.

Finally, all testimonies are necessarily biased by personal considerations, some aspects are neglected, others over-emphasised, some facts are inaccurately related, others entirely forgotten. However, such biases are of little significance in an analysis of the memory of financial crises, as we are working here on the representation of the crisis. Subjectivity is no longer a problem but, on the contrary, the very object of study, and the reasons for distortions of the truth, oversights, selective memory have to be properly analysed.[10]

Survey

The survey of senior individuals working in financial services was done in collaboration with YouGov. It was conducted online and run for about two weeks, between the 25th of October and the 9th of November 2023. The sample includes 150 business leaders from the US (77), the UK (36), Germany (25), and France (12). They were all leading large companies with more than 1,000 employees, across all financial services: banking (50 per cent), including commercial banking, investment banking and private banking; insurance (23 per cent); accounting (13 per cent); asset management (9 per cent); and others (5 per cent, including brokerage, hedge funds, and private equity). Senior executives made up roughly two-thirds of the sample, with CEOs (16 per cent), managing directors (33 per cent)

2020); Iain Martin, *Making It Happen: Fred Goodwin, RBS and the Men Who Blew Up the British Economy* (London, 2013); Ivan Fallon, *Black Horse Ride: The Inside Story of Lloyds and the Banking Crisis* (London, 2015); Philip Augar, *The Bank That Lived a Little: Barclays in the Age of the Very Free Market* (London, 2018).

[7] Aberbach, J. D., & Rockman, B. A. (2002). Conducting and Coding Elite Interviews. *PS: Political Science and Politics*, 35(4), 673–676 [p. 674].

[8] Richards, D. (1996). Elite Interviewing: Approaches and Pitfalls. *Politics*, 16(3), 199-204 [p.201].

[9] Harvey, W. S. (2011). Strategies for conducting elite interviews. *Qualitative Research*, 11(4), 431-441 [p.433].

[10] Portelli, Alessandro. 1981. On the Peculiarities of Oral History. *History Workshop Journal*, 12: 96-107.

and other managers/directors at board level (16 per cent). Owners/proprietors and partners made up 16 per cent of the sample, chairmen 7 per cent, and non- executive directors 11 per cent.

Participants in the survey were part of the YouGov's Global Panel, and therefore self-selected, that is, the survey features a non-probability sampling design, where the probability of selection is not known or equal to zero for some sample units. With the rise of the internet, these non-probability online panels became more and more widespread: they are 'large databases of units, which initially agreed to cooperate, provided background information and were recruited to serve for occasional or regular selection into specific sample surveys addressing related or unrelated topics'.[11] Non-probability sampling techniques tend to present some issues in relation to the accuracy and representativeness of the survey estimates. However, an exhaustive overview of non-probability samples found that 'professional online panels often provide results, which rarely differ significantly from the corresponding benchmarks'.[12] There are other factors that we had to take into account and worked in favour of running an online panel for our research, not least the fact that this is a hard-to-reach population and that the potential difference in the survey estimates is outweighed by the dramatic difference In survey costs.

Preliminary results

Senior bankers' memory of financial crises in 2008

Assessing what experience, memory and knowledge of previous financial crises senior bankers had at the beginning of the 'credit crunch' in summer 2007 is no simple task.

First, the concept of memory appears rather abstract to bankers, they usually recall the financial crises that took place in the course of their career, but in many cases, this is simply a list, without further elaboration about the significance of these crises, whether in general terms or, more importantly from our perspective, for their own experience.

In addition to the rather abstract character of memory, there is the simple fact that no systemic financial crisis had taken place during the career of the leading banks' senior executives before 2007. Most of them were too young to have personally known the International Debt Crisis of 1982, which was anyway forgotten in the following decades. The Savings and Loan Crisis was an American affair. The Asian Financial Crisis of 1997 was closely watched but, with a few exceptions, from a distance, and with a certain complacency about 'Them and Us'. The collapse of LTCM in 1998 was not a systemic crisis.

A senior banker in his mid-to-late fifties in 2007 recalls that the active part of bankers of his generation took place during the 'Great Moderation'. Another makes a clear difference between 'idiosyncratic' crises and systemic 'crises'. A third candidly admits that there was not much of an institutional memory of financial crises in the City of London. The same can safely be assumed for the other major financial centres.

Interestingly, the rise of financial instability after Bretton Woods, abundantly discussed in the literature, hardly had any impact on the experience and memory of financial actors. Some bankers, especially central bankers, such as Ben Bernanke, the Chair of the Federal Reserve, or Mervyn King, the Governor of the Bank, did have a wide historical knowledge of financial crises,[13] but this is not the same as a personal experience of such crises.

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[11] Vehovar et al. (2016). 'Non-probability Sampling', in Wolf, C., Joye, D., Smith, T. W., & Fu, Y. (2016). *The SAGE Handbook of survey Methodology*. SAGE Publications Ltd [p.336].
[12] Ibid., p. 337.
[13] Bernanke, *The Courage to Act*; King, *The End of Alchemy*.

As a result, bankers had a diversity of experiences, and thus of personal memories, of financial crises before 2007, depending on their age, career, country, and firm. The best-known crises include the junk bonds crisis of 1990; the real estate crisis of the early 1990s (in various countries); the Asian crisis in 1997; the Japanese banking crisis of 1998; the dotcom bubble crash in 2001; 9/11/2001. Significantly, none of them ever made any reference to the Great Depression, despite the press coverage and the repeated assertion that the Global Financial Crisis was the worst since the Great Depression. However, the Great Depression was of greater interest to central bankers. Timothy Geithner, for example, mentions that he started reading Liaquat Ahamed's *Lords of Finance*.[14]

But more importantly, the most significant crises experienced by senior bankers were those taking place at a micro rather than a macro level, in other words crises affecting their own firm. Douglas Flint, HSBC's Chief Financial Officer in 2008, remarked that 'we always seem to be in a crisis somewhere', adding 'actually, I think it's a strength'.[15] For other bankers, it could be a personal experience of crisis management at a particularly stressful time. The notion of 'crisis' can vary considerably.

This also means that the prime concern of managers during a financial crisis is the firm, not the economy at large: how to make the most of the crisis if things are not going too badly, how to save the firm if things take a turn for the worse. This is perhaps best encapsulated by what Hank Paulson (Secretary to the Treasury) told John Mack (CEO of Morgan Stanley) in early October 2008 when John Mack repeatedly refused offers to sell his firm, waiting for a better opportunity: 'Look John, it's not about Morgan Stanley. It's about financial meltdown on a global basis'.[16]

This has implications for the lessons drawn from financial crises – and in the case of financial crises, memory cannot be entirely separated from lesson-drawing. Can the same lessons be drawn from different crises – different in intensity, duration, geographical spread, and so on? Possibly, given the extremely general character of the lessons drawn by the interviewees: one crisis is never the same as the previous one; the paramount importance of liquidity; and the wisdom gained from the experience of facing serious problems.

The memory of the Global Financial Crisis in 2023

Assessing what memory of the Global Financial Crisis had survived fifteen years after the event is no simple task either. Of course, the crisis was still widely remembered. The question is how it was remembered and what it actually meant for financial actors to remember it.

The survey of 150 senior executives conducted in October 2023 confirms that the crisis had not been forgotten, even if its precise memory might have been starting to fade away; its significance had been fully understood; and its impact was still strongly felt.

These memories manifested most commonly in changes to firms' approaches to risk management (half the respondents), but also in changes to firms' business models (one in three) and exit from certain markets (one in four) – still a sizeable number in 2023. The persistence of these memories can also be seen in discussions at board level, internal documents, and, to a lesser extent, lectures by guest speakers.

[14] Geithner, *Stress Test*, p. 3.
[15] Roberts and Kynaston, *The Lion Wakes*, p. 605.
[16] John Mack, *Up Close And All In* (2022).

It is equally significant that for seven out of ten senior executives in financial services, 2008 was the worst financial crisis in the previous twenty years – though for one dissenter from the UK, 'Brexit is harming this country more than all the financial crises combined'; and that 75 percent regarded the Global Financial Crisis as a 'traumatic event', thus with lasting aftereffects.

There were some signs that memories of the crisis had been obscured by the Covid pandemic (two-thirds of respondents thought so) or had simply faded away (just over half). But only to a certain extent: four in ten discussed it within their organisation during the Covid crisis. And its memory was reactivated a couple years later, with more than half discussing it during the financial turbulence of early 2023, marked by the collapse of Silicon Valley Bank (SVB) and the takeover of Credit Suisse by UBS – a more significant moment for senior people in financial services as it concerned the risks of bank failures, whereas banks were no longer the problem during the Covid crisis.

An essential legacy of the Global Financial Crisis has been the regulatory measures introduced in its wake. Somewhat surprisingly, given the backlash against their burdensome character, 70 per cent of respondents or more considered at the time that such measures as higher standards for risk reporting, stronger supervision, more explicit resolution and recovery frameworks, and stricter capital and liquidity requirements had a positive or very positive effect; stress-testing (67 per cent) and bail-in-mechanisms (59 per cent) were also approved, though a little less enthusiastically. Even more strikingly, four in five thought these measures should either be maintained or tightened, and that they had worked as an effective reminder of the ill-advised risks that were taken by the sector before the music stopped in 2008. 'Markets', as one participant observed, 'have short memories and new generations reinvent old practices.'

Fifteen years after the shock, senior executives in financial services were thus still aware of the persisting risks to financial stability. This is encouraging and could help prevent, at least for a while, the recurrence of a systemic crisis on the scale of the Global Financial Crisis. There are, however, reasons to question the persistence of this memory over the longer term. Asked about what was left of the memory of the Global Financial Crisis fifteen years after Lehman, all interviewees answered that it was still very present because the people in charge had been through the crisis and had a deep understanding of it. And indeed, two-thirds of the respondents to the survey had been working in the financial sector for more than ten years (and 45 per cent for more than fifteen years), with more than half of them at senior level.

If the memory of the Great Depression is anything to go by,[17] it is doubtful that the memory of the Global Financial Crisis of 2008 will survive another fifteen years – until the late 2030s.

[17] Youssef Cassis and Anna Knaps, 'The Memory of Financial Crises: The Great Depression and the Global Financial Crisis of 2008', in Youssef and Catherine Schenk (eds.), *Remembering and Learning from Financial Crises* (Oxford, 2021), pp. 18-38.