In this book I’ve summarized what happened during the fateful crisis period that came to the forefront in August 2007 – but which had been percolating for at least several years before that. I’ve mentioned some of the people that got it wrong (along with a very few that got it right), and examined who fell on the sword and who ran for the hills. In the last chapter I’ve also described some of the “fixes” that have either been put in place or proposed as a way of making sure this never happens again.

So, where does all of this leave us? What’s next? Are their new rules going to help us out? Have the bankers and regulators been sufficiently chastened that behaviors will change? Will politicians be more constructive in the future? Have we seen the worst that will ever happen to the global financial system and the world’s economies, and is it all sunshine and blue skies from now on? Or will we have another episode – when our luck runs... out?

While it’s difficult to read what lies ahead, on this issue I am convinced that, despite all of the financial and emotional pain we’ve just been through, we will experience a similar event at some point in the (not-too-distant) future. We should get ready for the next one, because there will be a next one. Unfortunately, I’m not the only one with this view. IMF’s Strauss-Kahn has said that “[c]rises never end. You are always dealing with the consequences of the previous crisis until you reach the next crisis.” CLSA’s Mayo observed that “these once-in-a-lifetime events happen every couple of years.” And, from King: “I am rather doubtful if the need for future inquiries will ever disappear because banking does run these risks that every now and then there is a crisis.” More generally, Peter Solomon supplied an intriguing analogy: “Groundhog. We wake up every day and it’s the same thing...[t]his is like recurring non-recurring losses.” Roubini was of the same mind: “Current efforts to reform financial regulation are ‘cosmetic’ and won’t prevent another crisis... The way I think about this crisis is not in terms of black swans (a sudden, rare event), but white swan events. Crises are much more...
“Financial crises may be an unavoidable aspect of modern capitalism, a consequence of the interactions between hardwired human behavior and the unfettered ability to innovate, compete, and evolve.”

Turner agreed that another problem will invariably arise, though his timeline is longer than mine: “We are very susceptible to those intellectual fashions and assumptions that the world has changed. The best we can do is structure intellectual challenges into the system that try to guard against it. I think that is a risk in 15 years’ time rather than the next five years. I am pretty confident that we shall be very much on our guard against that sort of conventional wisdom for at least five or 10 years.” I hope he’s right, but I think he’s being optimistic. Japan FSA’s Sato gave his unique home country view: “Given the seriousness of the impact it has had on the global economy, it is not without reason that the current financial crisis has been labeled as ‘once-in-a-century.’ As you all know, however, it was not so long ago that Japan experienced the last serious crisis. Remembering my own experience in the financial regulatory authority ten or so years ago, my feeling is rather that the current financial stress is the ‘second-in-a-decade’ in my country.” So, once every five years! Former Fed official Alan Blinder noted that “[w]e shouldn’t delude ourselves into thinking we are going to build a panic-proof system...[b]ut there are choices between less and more panics, more virulent ones, less virulent ones, and that is the way we want to push the system.” Certainly – but can we? Finally, from Bafin’s Sanio, a very honest comment: “The bold assumption that crises can be prevented once and for all would betray an exaggerated opinion of our own capabilities.”

So, there is little doubt in my mind – and apparently in the minds of others – that we will continue to have big financial crises. The obvious questions? Why and when, and in what form.

Why?

Even a casual review of financial history shows that dislocations aren’t actually that unusual, even the nasty variety we’ve just been through. If you’re not a fan of financial history, it’s kind of boring listing all the episodes, dates, and causes, so I won’t go through that exercise. But if I was to rewind to, say, the seventeenth century, I could list literally hundreds of events, including dozens that might be classified as very severe. Some of these occurred because speculative bubbles burst, or because bank runs caused the man and woman on the street to lose confidence in the banks. Others happened because the financial system was mismanaged, or because of regulatory malfeasance, political stumbling, or failed risk management. Whatever the specific drivers, the historical record is clear: financial crises happen more frequently than