

Industry expert: Pre-recession financial behaviors are "creeping back in"

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Nov 14, 2017, 2:54pm EST

Gillian Tett, managing editor of the Financial Times in the U.S., believes troubling patterns that emerged before the 2008 financial crisis are coming back.

Tett addressed an audience of finance professionals Tuesday at an event put on by the World Affairs Council of Jacksonville. Tett's hefty résumé includes starting Financial Times' capital markets reporting team in 2004. As part of that team in 2007, she warned of an imminent financial crisis, despite the fact that traditional authorities like central banks were forecasting moderate growth.

"It seemed as if central banks were king; everything was in control," she said of the years leading up to the financial crisis. "But if you looked into the bowels of the system, into the financial weeds, you had a system drowning in money - essentially spiraling out of control."

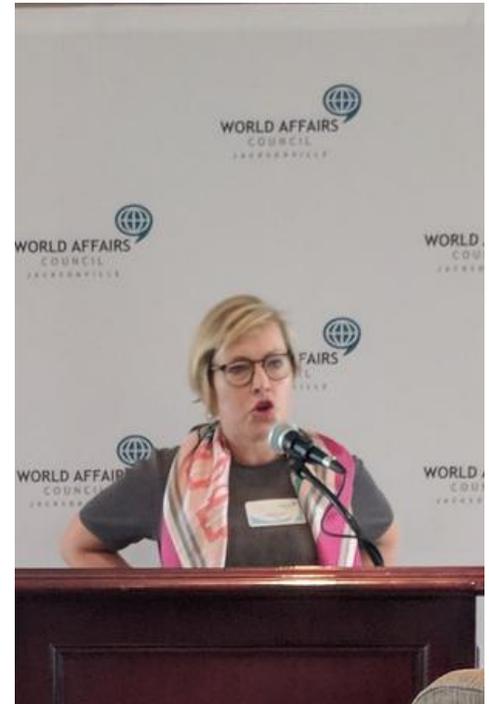
The problem, Tett said, was a schism between economists and financial professionals. Central banks and large corporate banks focused primarily on macro indicators, like GDP, unemployment and inflation. Those indicators painted a calm picture of the economic landscape, what bankers dubbed "the Great Moderation."

Financial professionals, on the other hand, had an intimate relationship with the details of the financial system. They knew, among other things, that the market was flooded in mortgage lending. They had a much less optimistic vision going into 2007.

Tett has a doctorate in cultural anthropology from Cambridge University, and she said it has served her well in the financial world.

"I was fascinated by these cultural patterns that nobody talked about," she said.

One such cultural patterns was that financial and economic professionals didn't talk to each other. Not only that, but the jargon of each group, or "tribe," kept anyone outside of the tribe from understanding their



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Gillian Tett, managing editor of the Financial Times in the U.S., at a World Affairs Council of Jacksonville event.

world. The result: "Most people, including central banks, had no idea what was going on until it was too late," she said.

Ultimately, the 2008 financial collapse, which was precipitated by unsavory mortgage loans and subsequent bets made on those aggregated loans, exposed that central banks and other institutions failed to account for economic factors like credit.

"The Great Moderation was a tremendous illusion," said Tett. "There was way too much credit in the world."

There is reason to fear a crisis once again, Tett said, though not in the immediate future and not in housing. She told the group of a recent meeting with Claudio Borio, head of the monetary and economic department for Bank of International Settlements, who warned of the 2008 crisis as early as 2005 and helped Tett understand the looming crisis in 2007. Borio is having déjà vu, Tett said.

As in the past, she said, financial and economic professionals have withdrawn to their tribes. Furthermore, debt hasn't contracted the way many believe it has, she added. The global debt-to-GDP ratio has risen from 175 percent in 2007 to 275 percent today.

Tett does not envision another housing crisis, noting that lightning rarely strikes the same place twice and that mortgage lending is down. However, she pointed to China's voracious borrowing, rising government debt, Venezuela's debt default and large corporations that are over-leveraged as opportunities for another bubble to burst.

Compounding the problem are insular circles of "geeky technicians" that monopolize information about things that affect us all, Tett said. She illustrated the idea with smart phones; although they are ubiquitous in the modern world, who but industry experts understand the minutia of how they work? The example paralleled the financial world in 2008, when only a small group of experts understood the intricacies of mortgage lending.

"There are tiny pools of people who have the knowledge we all depend on," Tett said.

One of the challenges of the modern world, according to Tett, is getting those pools to understand their impact in the larger world and empowering politicians and others to understand and access those pools.

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