Opinion **Financial crisis anniversary**

Five surprising outcomes of the 2008 financial crisis

We learnt the dangers posed by 'too big to fail' banks but now they are even bigger

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The Citigroup building in New York: America's top five banks are getting even bigger © Bloomberg

Gillian Tett YESTERDAY

Predictions are difficult, especially about the future; or so the old Danish joke goes. But that has not prevented financial pundits from feverishly speculating this autumn about the future of finance — and debating who predicted the 2008 financial crisis.

As the postmortems pile up, there is another intriguing question to ask: how does the trajectory of finance look today, compared to what we expected a decade ago? My own answer is: "a bit surprising".

Most notably, if you look at how finance has evolved, there are at least five features that seem distinctly counter-intuitive — even odd — in light of the narrative of those panic-stricken days after Lehman Brothers collapsed.

What are these surprises? Start with the issue of debt. Ten years ago, investors and financial institutions re-learnt the hard way that excess leverage can be dangerous. So it seemed natural to think that debt would decline, as chastened lenders and borrowers ran scared.

Not so. The American mortgage market did experience deleveraging. So did the bank and hedge fund sectors. But overall global debt has surged: last year it was 217 per cent of gross domestic product, nearly 40 percentage points higher — not lower — than 2007.

A second surprise is the size of banks. The knock-on effects of the Lehman bankruptcy made clear the dangers posed by "too big to fail" financial institutions with extreme concentrations of market power and risks. Unsurprisingly, there were calls to break them up.

The big beasts are even bigger: at the last count America's top five banks controlled 47 per cent of banking assets, compared with 44 per cent in 2007, and the top 1 per cent of mutual funds have 45 per cent of assets. It is unclear whether any regulators have solved that "too big to fail" dilemma.

A third counter-intuitive development is the relative power of American finance. In 2008, the crisis seemed to be a "made in America" saga: US subprime mortgages and Wall Street financial engineering were at the root of the meltdown. So it seemed natural to presume that American finance might be subsequently humbled.

Not so. American investment banks today eclipse their European rivals in almost every sense (share of deals, return on equity and stock price performance), and the financial centres of New York and Chicago continue to swell as London is troubled by Brexit.

Then there is the issue of non-bank financial companies. A decade ago, investors discovered the world of "shadow banks", when they learnt that a vast hidden ecosystem of opaque investment vehicles posed systemic risks. Regulators pledged to clamp down. So did the shadow banks shrink? Not quite: a conservative definition of the shadow bank sector suggests that it is now $45tn in size, controlling 13 per cent of the world's financial assets, up from $28tn in 2010. A regulatory clampdown on the banks has only pushed more activity to the shadows.

A fifth issue to ponder is the post-crisis retribution. Back when lenders were falling over by the dozens, it seemed natural to presume that some bankers would end up in jail. After all, there were hundreds of prosecutions after the US savings and loans scandals of the 1980s. But while banks have been hit with fines in the past decade, totalling more than $321bn, (almost) the only financiers who have done jail time are those who committed crimes that were not directly linked to the crisis, such as traders who rigged the Libor rate.

Now, cynics might say that these five surprises show just how powerful the financial elite remains in the west; they might argue — as my colleague Martin Wolf observed — that they also reflect a failure of those elites and would-be reformers, to propose alternative ideologies. But these developments can be explained by a sixth counter-intuitive change: what has happened in the political sphere.

A decade ago, it seemed natural to expect that the crisis would lead to a resurgence of the political left. In 2009 the Occupy Wall Street movement initially gained support for its campaign against free market excess. But today it is largely rightwing parties that have grabbed the biggest electoral rewards. Even when these groups campaign under the mantle of anti-establishment rhetoric, they generally have limited interest in overhauling (or even talking about) the structure of finance.

Will that change in the coming years? Perhaps. But here is the key point: the past decade shows that predictions are best presented with a dash of humility — and the knowledge that what does not happen can sometimes be even more significant than what actually does.

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