REVIEW

Lehman Brothers: A crisis of value

Oonagh McDonald

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Many of us will remember the news shots of Lehman staff leaving their gleaming towers in New York and Canary Wharf on Monday 15 September 2008, boxes of personal belongings in their hands. The Friday before, Lehman had been valued at $639 billion. On Monday it was worth nothing.

Oonagh McDonald, Liveryman, in the first half of her book, charts Lehman's apparently astonishing demise, and especially that 'fateful weekend'. In the second half, she attempts to analyse the conundrum of value: what it is, how it is created and how it can be measured. In all the teeming detail of the events and analysis, she writes with clarity in a wonderfully reader friendly style which will appeal to the professionals but, importantly, the general reader who will, like me, find it utterly gripping.

Many believe that the collapse of Lehman was the seminal event which triggered the Great Financial Crisis. Throughout her book Oonagh McDonald uses primary sources to put the reader in the middle of the action. She uses them well to explain why, battered by the conservatorship of Fannie Mae and Freddie Mac and the bail-out of AIG which took place the day after Lehman, Paulson, Bernanke Geithner et al decided not to bail-out Lehman. They seem to have treated Lehman as a Wall Street problem, rather than a global one. Perhaps the fact that there was no clear regulator of the five great investment banks meant that nobody in officialdom sector really understood what was going on.

What was going on for me, as a risk person, was the astonishing contrast between the constant statements by Dick Fuld and his senior lieutenants right up to the end that 'I expect everybody in the firm to be a risk manager . . .It's all about risk management' and the practice. Risk limits became mere guidance; the Board was kept in ignorance, even about the sacking of the CRO who had dared to raise objections to the growth strategy. The risk management structure and the hundreds within it were effectively there to impress investors, regulators and rating agencies.

But the basic lesson was spelt out by Walter Bagehot in the late nineteenth century:
'The peculiar essence of our banking system is an unprecedented trust between man and man. . . . a great accident may almost destroy it.' (*Lombard Street*)
Nobody in the markets or regulators seemed to spot the signs. As Dr McDonald says in her final chapter, sadly for the global economy they were chasing chimeras.

John Thirlwell