

Suppose there was a global financial crisis and nobody noticed...

Well, it has happened before in the not too distant past – and it was a pretty massive crisis.

In August 1982 the Latin American debt crisis that had been building up for a decade came to a head. According to US federal regulators, on 12th August Mexico's minister of finance informed the Federal Reserve, the secretary of the US treasury, and the IMF that his country would be unable to meet its obligation to service its \$80 billion debt. This was followed by Brazil, Venezuela, and Argentina announcing the likelihood of defaulting on a further \$100 billion. Another 23 'developing countries' took the overall total of bad debt to \$240 billion, with more to follow. Around \$40 billion was owed to the eight largest U.S. banks, representing about 150 per cent of their capital and reserves. In effect, they all went bust more or less overnight. One prominent commentator has since proposed that by the end of the crisis these banks lost close to the total of all their past earnings – everything they made in the history of American banking, ever.

So did this cause a global financial meltdown? Was it the end of civilisation as we know it, with earnest-looking newsreaders and excitable pundits fretting over graphs and pie charts on our TV screens every night? Well no, not really. On the fateful Friday 13th, the chairman of the Federal Reserve made a few phone calls to central banks and finance ministries around the world apparently saying in each case "I need to speak to so-and-so right away. If you don't put me through there might not be any US banks left on Monday". Everyone agreed to cooperate, to not call in loans and to extend lines of credit. US regulations on liquidity and capitalisation were changed so that the banks weren't technically bankrupt. Everyone kept going as if nothing had happened. As Sir Brian Pitman, ex-Chairman of Lloyds TSB and an insightful commentator on our current problems until his untimely death in 2010, succinctly put it "all the banks went bust in 1982, but everyone was too polite to mention it". It took some of the US banks 13 years to get back into the black, and the banks in Europe and Japan not much less than this to recoup their funding of the recovery.

Why did nobody notice the crisis, then? Well of course some people were very aware of it – bankers, government officials, economists – it kept them busy for a decade and the recovery programme grew to such a scale that it was managed by, or at least refereed by, the United Nations. But the man in the street had no idea what was going on and soon it ceased to be news for the mainstream financial press. There are a number of reasons why the reaction to the situation was not as dramatic as in recent troubled times. Firstly, despite being in the midst of a substantial recession, global economies didn't seem to be as precariously balanced as they are now. Not in the developed world, at least – South American nations were plunged into a 'lost decade' of lack of investment and development but the rest of us were alright, Jack. Secondly, there was a widespread belief that banks and governments would generally do the right thing and had the capability to sort out the mess – probably not the general perception on both counts at the moment.

However, probably the biggest difference between then and now is the speed, ease and irreversibility of communication. On the basis of a few discreet phone calls, conversations behind closed doors and some high level financial and political agreements it was possible not only to minimise the causes of panic but also to keep a lid on the spread and prominence of information, to a large extent. In our current times of email, facebook, twitter and viral communications, as well as media and individual pundits desperate to make a crisis out of a drama, the days of discreet information management and damage limitation are long gone.

So is there anything that financial services companies need to learn from all this? Well, sadly it appears that the obvious lesson of "don't make bad loans" needs to be painfully re-learned by each generation of bankers. More practically, companies can take stock of how they operate within the new information universe. Here are a few points worth noting:

- You can't put the genie back in the bottle – instant communication and social networks are here to stay
- Try to use and take advantage of these developments, but don't kid yourself – your customers aren't going to become your friends and nobody is going to 'follow' you to the ends of the earth
- Make sure all your communications are honest. Being technically not dishonest is not good enough – you'll get caught!
- Remember the old adage that if something good happens you'll tell one person, if something bad happens you'll tell ten. Now that could be closer to ten million, and faster than you dare imagine – so take care.

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