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# Financial Whodunwhats?/ Morgan Stanley recession alert

BySpeculative Identity / (Why Didn’t They Ask) Ambrose (Evans)-Pritchard

As after a violent crime, when detectives set upon the forensic residues of a now absent conflict, we may approach the papers as the scene of a financial trauma and comb their entire surface arrears (a typo - but a symptomatic one which reinforces my argument!) for clues, signs of fiscal stress and its overflow into the collective imagination.

The number of typos in the below appended article correlates with the startling increase in such errors I have noticed on the front cover of the FT since the credit crisis set in. Coincidence? It is, anyway, interesting to read how grim Morgan Stanley are being about the crisis - they don’t see this as a mere correction anymore. Is this the reason for the decline in proof reading? The end of correction per se? Or have the papers simply laid off their proof readers and bought gold with the spare cash?

All this in addition aside, is it really possible that the crisis is not heading way beyond a ’98 style correction? I don’t remember any such doomy pronouncements back then, especially not from major banks. I also don’t see how anyone can claim the credit crunch is not affecting the real economy as cancerously financialised businesses such as car companies are already beginning to shift from hyper-liquidity to liquidation. Given the highly leveraged, enron style structure of most American companies (cf Adam Barth’s old article about Fortune 500 companies as inverted credit pyramids balancing on small capital bases), can it be that these problems will remain confined to automotive concerns? And as was reported widely last week, the UK ’real economy’ - i.e. Australian theme bars, gourmet burger restaurants - is also already reeling from the subprime fallout. Doesn’t the same slide into recession look well underway here? Or is it just the Independent and Telegraph trying to come up with stories able to hold their own in capturing ad-grazing eyeballs alongside reappearing disappearing canoeists, missing girls and interracial sexual murders?

In a bid to establish the overdetermination of capitalist culture by the crisis beyond the micro-level of typos to the molar level of narrative, it is tempting to hazard that these latter stories all allegorise and act as psychic reaction formations for the credit crisis and its fallout. Tabloidal deflection of the financial Real into lurid symbols of fiscal anxiety and trauma. They simultaneously restage the same logic as fictitious capital and its disappearance, the pseudo-productivity of the virtual, while inchoately meditating on the possible outcomes of vanishing as opposed to producing.

Sounds crazy? Just look at this matrix of respectively enigmatic major news soap opera stories running in parallel over the credit crunch months as if tracking the base rate to some ever-receding point of financial-narrative reality:

1.Canoe man disappearance/return and busted scam. Moral: You can’t announce your own death and hide in a cupboard wearing a false beard and get away with it forever, not even if you, like finance capital, seek refuge in emerging markets (Panama). Fiscal meaning: Fictitious capital doesn’t work, it really is a fiction although it has real material effects until it’s nullity is exposed. In the end Ponzi schemers get caught or find that they are the Greatest Fools. Also, the stinging detail for readers, it was all so unnecessary - they should just have purchased a flat on their credit card back in 98, done it up and flipped it over a few times and they could have retired to Panama, no mufti required. Incidentally, the recursiveness of the narrative as at once a fantasy screen for the crisis (i.e read about this lurid shit, not the reality of your disintegrating material condition!) and its extenuation (i.e. oh no, it reminds me of my mortgage!) is reminiscent of David Lynch’s ’Lost Highway’ where the protagonist’s ’escape’ from horrible reality leads inexorably back to it as the fantasy secretes its own trauma at a higher level.

2. Maddy kidnapped and killed or killed and the killing covered up. Is this disappearance a pathetic tragedy or an evil and cynical scam, a terrible loss or a way of displacing responsibility for a terrible taking of life? Fiscal meaning: Fictitious capital disappears suddenly and then you can't work out why, how, or who to blame. Did it disappear or was it disappeared? If it is a cover up and the victims in fact coldblooded ruthless perpetrators of the crime seeking to be rewarded in turn for their turpitude, is this not redolent of the US financial houses, Northern Rock, etc going cap in hand to the central banks after lavishly looting the world for a decade or more? Less allegorically, the CSI style drip drip of forensic detail has the same car crash fascination gripping those who can drag their eyes away from the soap story and on to the mystery of the vanished/murdered billions in the credit markets.

Again this 'story' has a meta- but also absoutely immediate financial significance in itself. The very prolonged status of the Maddy investigation and the self-elaborating narrative-economic nexus generated by it suggests that all such serialised 'Blow Up' style stories (missing bodies, proliferating suspects, epistemolgical hysteria, etc) represent coping strategies for the news media in their own economic crisis, in short a better, easier, cheaper way to sell papers than actually having to research and reproduce actual news on a daily basis. A slide into fiction as a symptom of the non-reproduction of the capitalist media per se? Are we reaching 'peak' absence-as-presence?

3. Meredith sex game murder = UK capital may be destroyed by US in its fascination with extreme financial experiments and America will probably try to blame Europe and/or Africa while insisting she had nothing to do with it. This final mystery in the creepy triad, the most lurid, is different in that the police always had a body rather than just a haunting absence or a living dead person, and as such it may deal with the ghastly materiality of the crisis - not loss or undeath but the horrible physical reality of death and responsibility. After the end of the high financial party, someone will be left holding the lethal financial instrument. While the American girl protests her innocence in purple prose, the public is invited to wonder in a repulsed/fascinated way if she did it alone or whether it was indeed an, emblematically globalised, conspiracy.

And now back to the 'real' 'world'...

Morgan Stanley issues full US recession alert
By Ambrose Evans-Pritchard, International Business Editor
Last Updated: 1:24am GMT 11/12/2007

Morgan Stanley has issued a full recession alert for the US economy, warning of a sharp slowdown in business investment and a "perfect storm" for consumers as the housing slump spreads.

Fed chairman Ben Bernanke will be hoping he can keep the US economy from recession
In a report "Recession Coming" released today, the bank's US team said the credit crunch had started to inflict serious damage on US companies.

"Slipping sales and tightening credit are pushing companies into liquidation mode, especially in motor vehicles," it said.

"Three-month dollar Libor spreads have jumped by 60 to 80 basis points over the last month. High yield spreads have widened even more significantly. The absolute cost of borrowing is higher than in June."

"As delinquencies and defaults soar, lenders are tightening credit for commercial, credit card and auto lending, as well as for all mortgage borrowers," said the report, written by the bank’s chief US economist Dick Berner. He said the foreclosure rate on residential mortgages had reached a 19-year high of 5.59pc in the third quarter while the glut of unsold properties would lead to a 40pc crash in housing construction.


"We think overall housing starts will run below one million units in each of the next two years -- a level not seen in the history of the modern data since 1959," he said.

Although the US job market has apparently held up well, an average monthly fall of 138,000 in the number of self-employed workers over the last quarter suggests it may now be buckling. "Consumers face what could be a perfect storm," said Mr Berner.

The partial freeze on subprime mortgage rates announced last week by US treasury secretary Hank Paulson may help cushion the blow for some banks, but it could equally backfire by adding a "risk premium" that drives even more lenders out of the mortgage market.

Like Goldman Sachs, and Lehman Brothers, the bank no longer believes Asia and Europe will come to the rescue as America slows.

It has slashed its 2008 growth forecast for Japan from 1.9pc to 0.9pc, and warned that credit stress will weigh heavily on the eurozone.

Mr Berner said US demand is likely to contract by 1pc each quarter for the first nine months of 2008, but the picture could be far worse if the Federal Reserve fails to slash rates fast enough. It is betting on a quarter point cut this week, with three more cuts by the middle of next year. "We expect the Fed to insure against the worst outcome," he said.

Morgan Stanley is the first major Wall Street bank to warn that it is may now be too late to stop a recession, though most have shifted to an ultra-cautious stance in recent weeks.

The bank at first treated the August crunch as a "mid-cycle correction", much like the financial storm after Russia’s default in 1998. But the collapse of the US commercial paper market has now continued for seventeen weeks, suggesting a "fundamental deleveraging of the banking system."

Mr Berner -- known at Morgan Stanley as the "resident bull" -- is one of the most closely watched analysts on Wall Street. While he began to turn bearish last April as the credit markets turned nasty, the latest report is written in tones that may is rattle the fast-diminishing band of optimists.