The 2008 Financial Crisis

The 2008 financial crisis was the worst economic disaster in the U.S. since the Great Depression. The national impact was massive, as almost $8 trillion evaporated from stock value. Beyond Wall Street, Americans lost approximately $9.8 trillion in home and retirement account value and an estimated total of $30 trillion of worldwide wealth was destroyed. The crisis was the result of deregulation and a lack of oversight in the financial and real estate sectors.

Between the years of 1990 and 2007 low interest rates and government tax cuts on mortgage interest led to a surge in home buying. At the same time, banks were trading hedge funds with mortgage backed derivatives which drove banks' demand for more mortgages. More mortgages meant the price of loans was lower and therefore affordable to people who would otherwise be unable to afford their homes. An untimely rise in the federal funds rate spurred an increase in home building which vastly outpaced the demand. This switch left homeowners with increasing mortgage payments they could not afford and no market to sell their homes. Finally, the derivatives which banks had aggressively marketed for almost two decades lost their value and ultimately sparked the financial crisis and later recession.

The 2008 financial crisis officially began on September 15, 2008 when the investment bank Lehman Brothers filed for bankruptcy. The filing caused wide-spread financial panic. In order to stop the entire U.S. financial system from crashing, the treasury secretary and the chairman of the Federal Reserve urged Congress to grant a massive $700 billion bailout. The plan briefly stabilized the economy and guarded against the worst possible outcomes of the crash. However, the lasting impact of bailing out greedy banks with tax-payer money resulted in an overwhelmingly negative reaction including protests and social upheaval.

After the U.S. government bailed out the banking industry, the public sought punishment against those responsible for such large financial losses. Even after dozens of indictments, only $190 billion in fines have been paid to U.S. public offices. All such fines came from shareholders and were written off as corporate expenses as banks were indicted rather than individuals. Additionally, only one banker has ever served jail time for their part in the economic crisis.

Written by Logan Cort '22 Clarke Forum Student Project Manager

Information sourced from Renae Merel's"A Guide to the Financial Crisis – 10 Years Later," in *The Washington Post*, Sept. 10, 2018; Brian Duignan's "Financial Crisis 2007-2008" in *Encyclopedia Britanica* (Britanica, 2012); John Cassidy's"The Real Cost of the 2008 Financial Crisis," *The New Yorker* Sept. 10, 2018; "Causes of the 2008 Global Financial Crisis," The Balance (www.thebalance.com); "Why Didn't Any Wall Street Banks Go to Jail," Market Place (features.marketplace.org); William Cohan's "How Wall Street's Bankers Stayed Out of Jail," *The Atlantic*, Sept. 2015; Shrestha, M., & Marini, M.'s "Quarterly GDP Revisions in G-20 Countries : Evidence from the 2008 Financial Crisis (International Monetary Fund, 2013); Song & Wang's "Do Institutional Investors Know Banks Better?" in *Journal of Accounting*, vol. 35, issue 4, 2020.