

The Global Financial crisis

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The global financial crisis

- Real estate bubble
- Home prices up 60% 2000-2006
- Subprime loans
- Securitization
- Crisis goes global

But why did it happen?

- What would Marx, Keyens (not really relevant until maaybe the recovery! Unnamed institutionalist instead) or Friedman say?
- Inevitable consequence of the system. Capitalists seeking profits but the rates of profits are getting ever smaller! This also explains why the crisis became so big.
- Lack of regulation! Investment bank subject to less oversight than regular banks and who polices the police? (insurance)
- Government programs encouraging home ownership, Fed too low interest rates (until sudden increase) + increasing housing prices + other technicalities (market to market accounting). Wesbury (a bit on the extreme).

Response

- \$200 billion injected into the market by the Fed, the ECB and the Bank of England % Keynes!
- Expansionary monetary policy → low interest-rates
- United States continued stimulus in the range of \$800 billion
- ECB turned to fiscal discipline
 - Sovereign debt

The problem of diversity

- What is appropriate for Germany may not be appropriate for certain other EU countries
- And vice-versa
- The United States has this problem too!
- However, it is easier to get Americans to bail out fellow Americans

Who do you think fared better?

Lazy Southern Europeans or draconian Germans?

- Discuss

Some perspectives

- Piketty: “Germany has never repaid its debts. It has no right to lecture Greece.”
 - Two ways to repay debt:

- * Strict budgetary discipline over 100 years
- * Inflation, tax on private wealth, debt relief
- Krugman: Eliminating deficits during a crisis is a recipe for depression. Leave the Euro.
- Ferguson: Clean slate makes no sense if the problem is structural (see Fukuyama ch6 for account of some of Greece's structural problems)

Greeceland

- Krugman might have a point!
- But, did Iceland really escape austerity? Imports did not catch up to pre-crisis levels until 2017. Self-sufficient in aluminium and fish...

Lenders of last resort

- IMF, World Bank, ECB (Germany)
- If not these then who?
 - EU economy or already high inflation
- Moral hazard -Ferguson

Is the west going the way of Japan?

- No/low growth, little/no inflation, low/negative interest rates
- Youtube video if time