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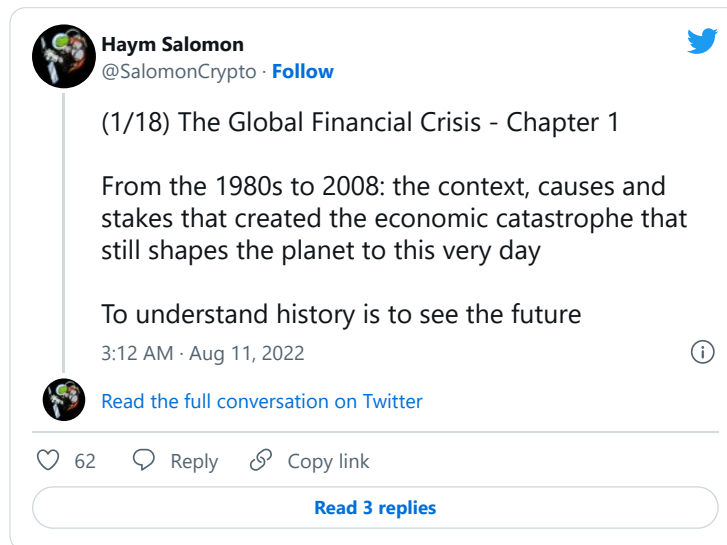
(1/26) The Global Financial Crisis

The 21st century: a unipolar world. The United States of America has begun a rapid expansion of its prized possession, the Western financial system.

This is the story of economic cataclysm, high stakes triage and the remaking of the world.

(2/26) The REAL seeds of the Global Financial Crisis were sown centuries ago, but we'll locate the beginning point in the 1970s & 1980s.

A series of regulatory changes transformed the American residential real estate market into the growth engine of the global economy.



(3/26) By 2000, the flywheel was up and running; originators were writing \$100-200B of mortgages/year, sending them to Wall Street to be turned into exotic, "safe" investment products (mortgaged-backed securities - MBS)

By 2006, it had increased to \$600B/year. >20% were subprime

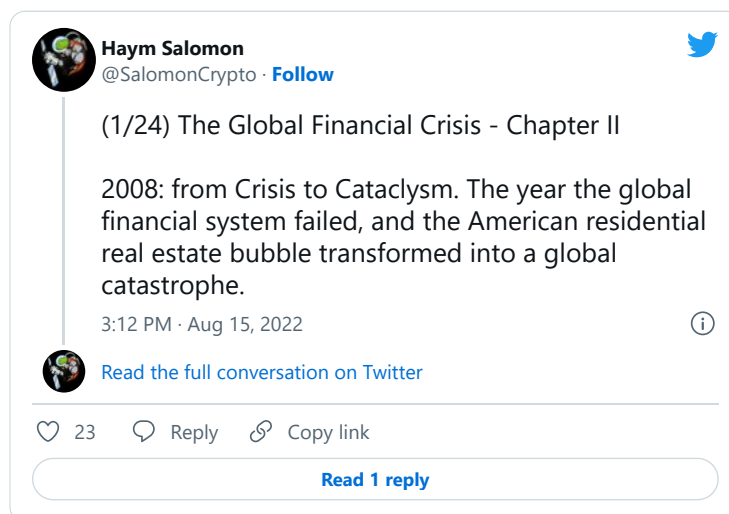


(4/26) The game of musical chairs began to slow down by 2006; by 2007 a crisis had begun to form.

Housing prices peaked, then the bankruptcies started. The value of the MBS declined in reaction. Dependent on financing from MBS, At least 100 mortgage companies folded during 2007

(5/26) By 2008, the fire had spread to America's core financial infrastructure. Bear Stearns fell first, but the damage was contained...

...until it wasn't. In one week in September, Fannie Mae, Freddie Mac, Lehman Brothers, Merrill Lynch and AIG all violently collapsed.



(6/26) Every American felt dread and uncertainty.

Those who saw the bigger picture worried that no part of the global economy would survive the conflagration.

Those whose attention was closer to home faced recession, foreclosure and financial ruin.

(7/26) In September 2008, the American Financial system stood face to face with obliteration.

Its troops (underwriters) had been swept away. Its generals (banks) had been decimated. Stripped bare, it braced against the onslaught.

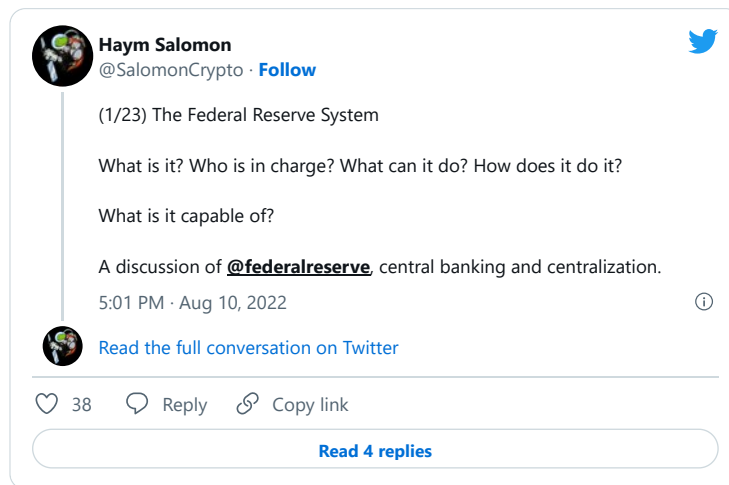
And the American Financial System stood firm.

(8/26) At the tip of the spear: Ben Bernanke and the US Federal Reserve.

The vanguard behind: Henry Paulson and the (mostly disciplined) US Federal government.

The muscle: the full faith and credit of the American people.

In the face of collapse, they began bailing out.



(9/26) First, they triaged September: Freddie Mac and Freddie Mac were nationalized, Merrill was folded into Bank of America, AIG was (basically) nationalized. Lehman was sacrificed to the Crisis.

Once the bleeding had stopped, the bankers and politicians began tending to wounds



(10/26) Between the Fed and the Treasury, the federal government pumped trillions of dollars of loans, liquidity and bail-out money into the global economy.

By June, the Great Recession was officially over!



(11/26) As the American financial class all proudly congratulated themselves for saving the world, the American people began a long, difficult journey of recovery.

A task that seemed more and more Sisyphean by the year.




(12/26) Now, in 2022 we can look back and assess the damage.

And, as enormous and horrific as the economic destruction was, the most important effects of the Global Financial Crisis may be political and social.



(13/26) It took a year and a half for the stock market to recover; If you were a player in the American financial system, the government did everything possible to ensure that you did not suffer consequences from the crash you caused.

Everyone else was an afterthought.

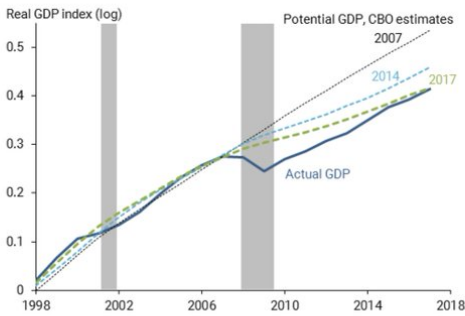
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(6/25) Per the study, without the financial shocks of 2007/2008, the behavior of GDP would have looked similar to the 1991 recession (declined 1.5%, recovered within a few years).




Instead, 10 years after the crisis GDP was 12% less than its pre-crisis trend.

Figure 1
U.S. real GDP before and after 2007–08 financial crisis



Note: Dashed lines show potential GDP estimated by the CBO in different years, measured in natural log terms, with the 2007 estimate of potential normalized to zero in 1998, such that subsequent changes are measured in fractional terms. Gray bars reflect NBER recession dates.

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(14/26) For example, when the government rescued American banks, it didn't restrict capital flows to executive pay, dividends, etc

In contrast GM and Chrysler were forced to fire their CEOs and cut unionized workforces pay

I'm not even sure the American tax payer was considered

(15/26) The eurozone, supported by an intricate web of debt, faced incredible stress as the Global Financial Crisis flowed from the USA.

When any debt asset declines in value, someone has to take the associated loss; it becomes a zero-sum game between lender and borrower.



(16/26) Greece, among others, entered 5 years of crises in which Greece's banks collapsed and unemployment reached nearly 26%

Germany, a creditor, took a hard line against the Greeks. "The Greeks took the debt, they should take the loss. It's only fair..."

...says the creditor.

(17/26) The Global Financial Crisis was a failure of the Western financial system. The less implicated your country was, the more you realized the flaws of the American way.

And the more likely you were to look to China as an alternative.



(18/26) Though it occurred in 2008, we can see the impacts of the Global Financial Crisis even today

The entire globe changed in one way or another, but the Anglo-sphere was remade

The USA and the UK who would be changed forever... even if it took 8 years for us all to see it



(19/26) When trying to understand the Global Financial Crisis, you should approach it from a few different angles.

First, you should understand 2008 as the logical conclusion to the Western financial system.

(20/26) 500 years ago, Europe was a backwater on the far tip of the Eurasian continent.

Born out of the battlefields of the Reconquista and the Elector Halls of the German princes modern finance would give the Europeans (and later Americans) the power to conquer the world.



(21/26) The secret: the concentration of private wealth and coordination with the nation-state.

And at its zenith, it failed.

But "thankfully, in the end it was so centralized that a handful of men could step in and save the whole thing.

(22/26) But there's another lesson in the Great Financial Crisis.

The Great Recession wiped out 8 million jobs more than 4 million homes faced foreclosure.

And yet, when the housing bust turned into a financial crisis, policy makers' first instinct was to save the lenders.

(23/26) Fundamentally, the American (and world) economy was crippled by the actions of the leaders of the American financial sector, and the U.S. government chose to "punish" those leaders by giving them enormous sums of money through bailouts.

(24/26) Justice is fairness. In a fair world, good behavior is rewarded, bad acts are punished

The bailouts may have been effective or staved off a bigger disaster (if you believe the people responsible)...

...but the bailouts were not fair.

And things only got worse since.

(25/26) Even if we accept the argument that focusing almost entirely on the health of the financial sector was the best way to handle the crisis, the actions corroded the bonds of trust required for the functioning of democracy.

And the corrosion has run DEEP.



(26/26) The Global Financial Crisis was an economic fire that burned hotter than humanity had ever seen; the world was remade in its crucible.

Fire is chaos. Fire is destruction. Fire is ruin.

But fire is also cleansing. It can open a path for something new.

Something better.



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