# 2008-2009 Global Financial Crisis

During the year 2008-2009, globally a massive financial and economic hit had occurred. This Global Financial Crisis was coined as ‘The Great Recession.’  A recession means two consecutive quarters of negative economic growth.

The Great Recession was the most severe economic recession in the United States since the Great Depression of the 1930s.

The financial crisis greatly impacted firms all around the world, with a large number of individuals burning a hole in their pockets.

Financial institutions and banks started to sink, a lot many were absorbed by bigger organisations. The Government had to expend on its behalf to keep a lot many pivotal organisations afloat.

However, a theory to be noted is that this crisis, though shows its impact for 2008-2009, a lot of factors from the past had piled up and led to this downfall.

It all started due to heavy load of securities that belonged to high-risk categories. Naturally their defaults created a housing market bubble. This not only increased the default rate but also was a by-product of unregulated lending. The assurance of getting the principal value back lacked hundred percent surety.

According to the research available online,

**GDP:** The Great Recession, was one of the largest downturns since the Great Depression. **The real GDP fell by 3.1 percent, real personal income per capita fell by 8.3 percent, and the national unemployment rate saw a sharp rise from 4.6 percent to 9.3 percent**.

**Real gross domestic product (GDP) fell 4.3 percent from its peak in 2007Q4 to its trough in 2009Q2, which has been noted to be one of the sharpest decline post wars.**

The GDP consist of the following equation:

GDP = C + G + I + NX

Where,

* C=consumption;
* G=government spending;
* I=investment; and
* NX=net exports

**UNEMPLOYEMNT:** A lot of factors contribute to this fall in GDP, like the rise in unemployment rate inversely correlates with the fall in GDP. This led to a disparity, creating wider economic gap between the economically well off and poor class of people. This financial phenomenon drastically reduced employment for many workers in the United States, who were mostly people who were men, younger workers, and workers with lower levels of education.

Hence, the economy now witnessed two of its biggest challenges: spike in unemployment and poverty.

Unemployed workers had less income to spend. And needed financial assistance. Although the interest rates were lowered, they were backed by clauses, wherein the borrower had to keep their homes as a collateral. This disabled a major chunk of people from obtaining loans.

Hence, we see a sharp rise in unemployment during this period.

As against the effect of poverty, we can correlate it with inflation.

**INFLATION and PERSONAL INCOME:** When inflation is increasing, people will spend more money because they know that it will be less valuable in the future.  
But during the recession, there is a **very sharp fall in the inflation rate**. This can be intuitively deduced **due to lower demand for goods and services and lower economic activity.**

Many families had to cut their spending in order to sustain. This led to many organisations facing lack of demand leading to fall in profits. This led to workers being fired, contributing to a vicious unemployment cycle.

The drop in household income due to large unemployment led to lesser tax revenue collection. Economic downfall led to a 12% fall in personal income. Wages and salaries make up the largest source of personal income, which constituted 75% of the share of total income. Another contributor to income which saw maximum volatility was capital gains.

People from Business backgrounds, due to their financial strength were not impacted to a very large extent and people from middle-class income categories did.

**GOVERNMENT:** The government had to rely on several policy measures to curb the situation. Naturally, amendments were made in The Monetary Policy and The Fiscal Policy.

Monetary policy, consists of the actions taken by the Federal Reserve. It caters to manipulation of interest rates. These were kept low to facilitate spending and reduce the impact of unemployment in a recession.

Fiscal policy consists of activities that include government spending and tax regulations.

Therefore, these both policies, if used carefully, play a significant role in altering the impact of a recession. They were employed to increase demand, which in turn increased output and helped the economy recover.

Hence, we notice a rise in government expenditure and investments around this time period.

**UNEMPLOYMENT INSURANCE AND SNAP BENEFITS:**

Many families in the U.S. faced difficulty even maintaining their customary level of consumption. The two social safety-net programs—unemployment insurance and USDA’s Supplemental Nutrition Assistance Program (SNAP), were governments aids to alleviate the plights of the vulnerable.

Unemployment insurance is a Federal-State program that paid temporary weekly cash benefits to eligible workers as a partial income replacement to counter involuntary joblessness. This can again explain as to why we see a rise in government expenditure.

Supplemental Nutrition Assistance Program (SNAP) helped those with low-income brackets, to avail the benefits and take care of their nutritional requirements. In a recession, more people have incomes low enough to qualify for this scheme, which enabled them to pay for food.

We see that during the tenure of recession, there has been a surge in increasing the benefits of this scheme to US citizens.

**Impact on the Housing Market:**

The Great Recession boils down to the crisis instigated due to the housing market bubble.

This period saw:

* Rising home prices
* Irregular lending practices with lack of accountability
* Increased lending activities and easy credit

The mortgages that were backed by securities saw a collapse, people lost their homes, and the economy witnessed a period of stagnation.

Hence, we do see a rise real estate loans around this time frame. But since the housing market bubble burst, the ownership of these houses was at stake and were lost. This is again shown in the graphs, which highlights a steady decrease in owners of real estate equity. The lack of supply and the increased demand created a seller’s market in the real estate industry. More people were now chasing fewer homes, which increased home prices.

The Federal Reserve, lowered the interest rates to make lending an attractive proposal for the public.

Despite the historically low interest rates and unprecedented access to credit, the liquidity of loans was lower than the desired conversion rate. This led to creation of a void which could not fulfil the demands of an investor.

Lower interest rates did lead to credit expansion. But due to large volume of indebtedness, a fall in living standards, largely a consequence of income inequality, lead to a widespread provocation of public, which led to rise in demand for loans.

In order to persuade even more people to become homeowners, banks needed not only to continue offering low rates but also to relax some of their lending criteria. This was to be a critical factor in the subprime crisis.