

# The Financial Crisis: Who Is To Blame

2008 financial crisis

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The 2008 financial crisis, also known as the global financial crisis (GFC) or the Panic of 2008, was a major worldwide financial crisis centered in the United States. The causes included excessive speculation on property values by both homeowners and financial institutions, leading to the 2000s United States housing bubble. This was exacerbated by predatory lending for subprime mortgages and by deficiencies in regulation. Cash out refinancings had fueled an increase in consumption that could no longer be sustained when home prices declined. The first phase of the crisis was the subprime mortgage crisis, which began in early 2007, as mortgage-backed securities (MBS) tied to U.S. real estate, and a vast web of derivatives linked to those MBS, collapsed in value. A liquidity crisis spread to global institutions by mid-2007 and climaxed with the bankruptcy of Lehman Brothers in September 2008, which triggered a stock market crash and bank runs in several countries. The crisis exacerbated the Great Recession, a global recession that began in mid-2007, as well as the United States bear market of 2007–2009. It was also a contributor to the 2008–2011 Icelandic financial crisis and the euro area crisis.

During the 1990s, the U.S. Congress had passed legislation that intended to expand affordable housing through looser financing rules, and in 1999, parts of the 1933 Banking Act (Glass–Steagall Act) were repealed, enabling institutions to mix low-risk operations, such as commercial banking and insurance, with higher-risk operations such as investment banking and proprietary trading. As the Federal Reserve ("Fed") lowered the federal funds rate from 2000 to 2003, institutions increasingly targeted low-income homebuyers, largely belonging to racial minorities, with high-risk loans; this development went unattended by regulators. As interest rates rose from 2004 to 2006, the cost of mortgages rose and the demand for housing fell; in early 2007, as more U.S. subprime mortgage holders began defaulting on their repayments, lenders went bankrupt, culminating in the bankruptcy of New Century Financial in April. As demand and prices continued to fall, the financial contagion spread to global credit markets by August 2007, and central banks began injecting liquidity. In March 2008, Bear Stearns, the fifth largest U.S. investment bank, was sold to JPMorgan Chase in a "fire sale" backed by Fed financing.

In response to the growing crisis, governments around the world deployed massive bailouts of financial institutions and used monetary policy and fiscal policies to prevent an economic collapse of the global financial system. By July 2008, Fannie Mae and Freddie Mac, companies which together owned or guaranteed half of the U.S. housing market, verged on collapse; the Housing and Economic Recovery Act of 2008 enabled the federal government to seize them on September 7. Lehman Brothers (the fourth largest U.S. investment bank) filed for the largest bankruptcy in U.S. history on September 15, which was followed by a Fed bail-out of American International Group (the country's largest insurer) the next day, and the seizure of Washington Mutual in the largest bank failure in U.S. history on September 25. On October 3, Congress passed the Emergency Economic Stabilization Act, authorizing the Treasury Department to purchase toxic assets and bank stocks through the \$700 billion Troubled Asset Relief Program (TARP). The Fed began a program of quantitative easing by buying treasury bonds and other assets, such as MBS, and the American Recovery and Reinvestment Act, signed in February 2009 by newly elected President Barack Obama, included a range of measures intended to preserve existing jobs and create new ones. These initiatives combined, coupled with actions taken in other countries, ended the worst of the Great Recession by mid-2009.

Assessments of the crisis's impact in the U.S. vary, but suggest that some 8.7 million jobs were lost, causing unemployment to rise from 5% in 2007 to a high of 10% in October 2009. The percentage of citizens living

in poverty rose from 12.5% in 2007 to 15.1% in 2010. The Dow Jones Industrial Average fell by 53% between October 2007 and March 2009, and some estimates suggest that one in four households lost 75% or more of their net worth. In 2010, the Dodd–Frank Wall Street Reform and Consumer Protection Act was passed, overhauling financial regulations. It was opposed by many Republicans, and it was weakened by the Economic Growth, Regulatory Relief, and Consumer Protection Act in 2018. The Basel III capital and liquidity standards were also adopted by countries around the world.

## Financial crisis

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A financial crisis is any of a broad variety of situations in which some financial assets suddenly lose a large part of their nominal value. In the 19th and early 20th centuries, many financial crises were associated with banking panics, and many recessions coincided with these panics. Other situations that are often called financial crises include stock market crashes and the bursting of other financial bubbles, currency crises, and sovereign defaults. Financial crises directly result in a loss of paper wealth but do not necessarily result in significant changes in the real economy (for example, the crisis resulting from the famous tulip mania bubble in the 17th century).

Many economists have offered theories about how financial crises develop and how they could be prevented. There is little consensus and financial crises continue to occur from time to time. It is apparent however that a consistent feature of both economic (and other applied finance disciplines) is the obvious inability to predict and avert financial crises. This realization raises the question as to what is known and also capable of being known (i.e. the epistemology) within economics and applied finance. It has been argued that the assumptions of unique, well-defined causal chains being present in economic thinking, models and data, could, in part, explain why financial crises are often inherent and unavoidable.

## 2008–2011 Icelandic financial crisis

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The Icelandic financial crisis was a major economic and political event in Iceland between 2008 and 2010. It involved the default of all three of the country's major privately owned commercial banks in late 2008, following problems in refinancing their short-term debt and a run on deposits in the Netherlands and the United Kingdom. Relative to the size of its economy, Iceland's systemic banking collapse was the largest of any country in economic history. The crisis led to a severe recession and the 2009 Icelandic financial crisis protests.

In the years preceding the crisis, three Icelandic banks, Kaupthing, Landsbanki and Glitnir, multiplied in size. This expansion was driven by ready access to credit in international financial markets, in particular money markets. As the 2008 financial crisis unfolded, investors perceived the Icelandic banks to be increasingly risky. Trust in the banks gradually faded, leading to a sharp depreciation of the Icelandic króna in 2008 and increased difficulties for the banks in rolling over their short-term debt. At the end of the second quarter of 2008, Iceland's external debt was 9.553 trillion Icelandic krónur (€50 billion), more than 7 times the GDP of Iceland in 2007. The assets of the three banks totaled 14.437 trillion krónur at the end of the second quarter 2008, equal to more than 11 times the national GDP. Due to the huge size of the Icelandic financial system in comparison with the Icelandic economy, the Central Bank of Iceland was unable to act as a lender of last resort during the crisis, further aggravating the mistrust in the banking system.

On 29 September 2008, it was announced that Glitnir would be nationalised. However, subsequent efforts to restore faith in the banking system failed. On 6 October, the Icelandic legislature instituted an emergency law which enabled the Financial Supervisory Authority (FME) to take control over financial institutions and

made domestic deposits in the banks priority claims. In the following days, new banks were founded to take over the domestic operations of Kaupthing, Landsbanki and Glitnir. The old banks were put into receivership and liquidation, resulting in losses for their shareholders and foreign creditors. Outside Iceland, more than half a million depositors lost access to their accounts in foreign branches of Icelandic banks. This led to the 2008–2013 Icesave dispute, which ended with an EFTA Court ruling that Iceland was not obliged to repay Dutch and British depositors minimum deposit guarantees.

In an effort to stabilize the situation, the Icelandic government stated that all domestic deposits in Icelandic banks would be guaranteed, imposed strict capital controls to stabilize the value of the Icelandic króna, and secured a US\$5.1bn sovereign debt package from the IMF and the Nordic countries in order to finance a budget deficit and the restoration of the banking system. The international bailout support programme led by IMF officially ended on 31 August 2011, while the capital controls which were imposed in November 2008 were lifted on 14 March 2017.

The financial crisis had a serious negative impact on the Icelandic economy. The national currency fell sharply in value, foreign currency transactions were virtually suspended for weeks, and the market capitalisation of the Icelandic stock exchange fell by more than 90%. Iceland underwent a severe economic depression. Its gross domestic product dropped by 10% in real terms between the third quarter of 2007 and the third quarter of 2010. A new era with positive GDP growth started in 2011, and has helped foster a gradually declining trend for the unemployment rate. The government budget deficit has declined from 9.7% of GDP in 2009 and 2010 to 0.2% of GDP in 2014; the central government gross debt-to-GDP ratio was expected to decline to less than 60% in 2018 from a maximum of 85% in 2011.

### Financial crisis of 33

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A financial and economic crisis occurred in 33 AD in the Roman Empire, during the reign of Emperor Tiberius. After a shift in government policy and a series of confiscations reduced the Roman money supply, the crisis was triggered by the invocation of an old law which resulted in the early recalls of loans given, a credit crunch, and a crash of real estate prices. The crisis was eventually resolved with a liquidity injection in form of interest-free loans.

### Subprime mortgage crisis

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The American subprime mortgage crisis was a multinational financial crisis that occurred between 2007 and 2010, contributing to the 2008 financial crisis. It led to a severe economic recession, with millions becoming unemployed and many businesses going bankrupt. The U.S. government intervened with a series of measures to stabilize the financial system, including the Troubled Asset Relief Program (TARP) and the American Recovery and Reinvestment Act (ARRA).

The collapse of the United States housing bubble and high interest rates led to unprecedented numbers of borrowers missing mortgage repayments and becoming delinquent. This ultimately led to mass foreclosures and the devaluation of housing-related securities. The housing bubble preceding the crisis was financed with mortgage-backed securities (MBSes) and collateralized debt obligations (CDOs), which initially offered higher interest rates (i.e. better returns) than government securities, along with attractive risk ratings from rating agencies. Despite being highly rated, most of these financial instruments were made up of high-risk subprime mortgages.

While elements of the crisis first became more visible during 2007, several major financial institutions collapsed in late 2008, with significant disruption in the flow of credit to businesses and consumers and the onset of a severe global recession. Most notably, Lehman Brothers, a major mortgage lender, declared bankruptcy in September 2008. There were many causes of the crisis, with commentators assigning different levels of blame to financial institutions, regulators, credit agencies, government housing policies, and consumers, among others. Two proximate causes were the rise in subprime lending and the increase in housing speculation. Investors, even those with "prime", or low-risk, credit ratings, were much more likely to default than non-investors when prices fell. These changes were part of a broader trend of lowered lending standards and higher-risk mortgage products, which contributed to U.S. households becoming increasingly indebted.

The crisis had severe, long-lasting consequences for the U.S. and European economies. The U.S. entered a deep recession, with nearly 9 million jobs lost during 2008 and 2009, roughly 6% of the workforce. The number of jobs did not return to the December 2007 pre-crisis peak until May 2014. U.S. household net worth declined by nearly \$13 trillion (20%) from its Q2 2007 pre-crisis peak, recovering by Q4 2012. U.S. housing prices fell nearly 30% on average and the U.S. stock market fell approximately 50% by early 2009, with stocks regaining their December 2007 level during September 2012. One estimate of lost output and income from the crisis comes to "at least 40% of 2007 gross domestic product". Europe also continued to struggle with its own economic crisis, with elevated unemployment and severe banking impairments estimated at €940 billion between 2008 and 2012. As of January 2018, U.S. bailout funds had been fully recovered by the government, when interest on loans is taken into consideration. A total of \$626B was invested, loaned, or granted due to various bailout measures, while \$390B had been returned to the Treasury. The Treasury had earned another \$323B in interest on bailout loans, resulting in an \$109B profit as of January 2021.

#### 1919–1922 Philippine financial crisis

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The 1919–1922 Philippine financial crisis resulted as a consequence of an economic crisis which began in 1919 along with the mismanagement of the Philippine National Bank. Due to the Wood-Forbes Mission in 1921, there were questions among Filipino politicians on who should take responsibility.

Because of this, the Philippine Legislature experienced a leadership crisis resulting in the resignation of House Speaker Sergio Osmeña on December 17, 1921, and Senate President Manuel L. Quezon on January 10, 1922.

Economic reforms implemented during the administration of Governor General Leonard Wood helped the Philippine economy recover from the crisis. By 1923, the Legal Reserve Fund of the Philippine government was restored. The cabinet crisis of 1923 fundamentally broke out as a result of disagreements between Philippine government officials and the government reform agenda of the governor general.

#### Euro area crisis

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The euro area crisis, often also referred to as the eurozone crisis, European debt crisis, or European sovereign debt crisis, was a multi-year debt crisis and financial crisis in the European Union (EU) from 2009 until, in Greece, 2018. The eurozone member states of Greece, Portugal, Ireland, and Cyprus were unable to repay or refinance their government debt or to bail out fragile banks under their national supervision and needed assistance from other eurozone countries, the European Central Bank (ECB), and the International Monetary Fund (IMF). The crisis included the Greek government-debt crisis, the 2008–2014 Spanish financial crisis,

the 2010–2014 Portuguese financial crisis, the post-2008 Irish banking crisis and the post-2008 Irish economic downturn, as well as the 2012–2013 Cypriot financial crisis. The crisis contributed to changes in leadership in Greece, Ireland, France, Italy, Portugal, Spain, Slovenia, Slovakia, Belgium, and the Netherlands as well as in the United Kingdom. It also led to austerity, increases in unemployment rates as high as 27% in Greece and Spain, and increases in poverty levels and income inequality in the affected countries.

Causes of the euro area crisis included a weak economy of the European Union after the 2008 financial crisis and the Great Recession, the sudden stop of the flow of foreign capital into countries that had substantial current account deficits and were dependent on foreign lending. The crisis was worsened by the inability of states to resort to devaluation (reductions in the value of the national currency) due to having the euro as a shared currency. Debt accumulation in some eurozone members was in part due to differences in macroeconomics among eurozone member states prior to the adoption of the euro. It also involved a process of cross-border financial contagion. The European Central Bank (ECB) adopted an interest rate that incentivized investors in Northern eurozone members to lend to the South, whereas the South was incentivized to borrow because interest rates were very low. Over time, this led to the accumulation of deficits in the South, primarily by private economic actors. A lack of fiscal policy coordination among eurozone member states contributed to imbalanced capital flows in the eurozone, while a lack of financial regulatory centralization or harmonization among eurozone member states, coupled with a lack of credible commitments to provide bailouts to banks, incentivized risky financial transactions by banks. The detailed causes of the crisis varied from country to country. In several EU countries, private debts arising from real-estate bubbles were transferred to sovereign debt as a result of banking system bailouts and government responses to slowing economies post-bubble. European banks own a significant amount of sovereign debt, such that concerns regarding the solvency of banking systems or sovereigns are negatively reinforcing.

The onset of crisis was in late 2009 when the Greek government disclosed that its budget deficits were far higher than previously thought. Greece called for external help in early 2010, receiving an EU–IMF bailout package in May 2010. European nations implemented a series of financial support measures such as the European Financial Stability Facility (EFSF) in early 2010 and the European Stability Mechanism (ESM) in late 2010. The ECB also contributed to solve the crisis by lowering interest rates and providing cheap loans of more than one trillion euros in order to maintain money flows between European banks. On 6 September 2012, the ECB calmed financial markets by announcing free unlimited support for all eurozone countries involved in a sovereign state bailout/precautionary programme from EFSF/ESM, through some yield lowering Outright Monetary Transactions (OMT). Ireland and Portugal received EU-IMF bailouts in November 2010 and May 2011, respectively. In March 2012, Greece received its second bailout. Cyprus also received rescue packages in June 2012.

Return to economic growth and improved structural deficits enabled Ireland and Portugal to exit their bailout programmes in July 2014. Greece and Cyprus both managed to partly regain market access in 2014. Spain never officially received a bailout programme. Its rescue package from the ESM was earmarked for a bank recapitalisation fund and did not include financial support for the government itself.

## 2023 United States banking crisis

*the history of the United States, respectively, smaller only than the collapse of Washington Mutual during the 2008 financial crisis.[failed verification]*

The 2023 United States banking crisis was a series of bank failures and bankruptcies that took place in early 2023, with the United States federal government ultimately intervening in several ways. Over the course of five days in March 2023, three small-to-mid size U.S. banks failed, triggering a sharp decline in global bank stock prices and swift response by regulators to prevent potential global contagion. Silicon Valley Bank (SVB) failed when a bank run was triggered after it sold its Treasury bond portfolio at a large loss, causing depositor concerns about the bank's liquidity. The bonds had lost significant value as market interest rates

rose after the bank had shifted its portfolio to longer-maturity bonds. The bank's clientele was primarily technology companies and wealthy individuals holding large deposits, but balances exceeding \$250,000 were not insured by the Federal Deposit Insurance Corporation (FDIC). Silvergate Bank and Signature Bank, both with significant exposure to cryptocurrency, failed in the midst of turbulence in that market.

In response to the bank failures, the three major U.S. federal bank regulators announced in a joint communiqué that extraordinary measures would be taken to ensure that all deposits at Silicon Valley Bank and Signature Bank would be honored. The Federal Reserve established a Bank Term Funding Program (BTFP) to offer loans of up to one year to eligible depository institutions pledging qualifying assets as collateral.

To prevent the situation from affecting more banks, global industry regulators, including the Federal Reserve, the Bank of Canada, Bank of England, Bank of Japan, European Central Bank, and Swiss National Bank intervened to provide extraordinary liquidity.

By March 16, large interbank flows of funds were occurring to shore up bank balance sheets and some analysts were talking of a possibly broader U.S. banking crisis. The Federal Reserve discount window liquidity facility had experienced approximately \$150 billion in borrowing from various banks by March 16.

Soon after the bank run at SVB, depositors quickly began withdrawing cash from San Francisco-based First Republic Bank (FRB), which focused on private banking to wealthy clientele. Like SVB, FRB had substantial uninsured deposits exceeding \$250,000; such deposits constituted 68% of the bank's total at year-end 2022, declining to 27% by the end of March, as \$100 billion in uninsured deposits were withdrawn. Despite a \$30 billion capital infusion from a group of major banks in March, FRB continued to destabilize and its stock price plummeted as the FDIC prepared to take it into receivership and find a buyer on April 29. On May 1, the FDIC announced that First Republic had been closed and sold to JPMorgan Chase.

#### Russian financial crisis (2014–2016)

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The financial crisis in Russia in 2014–2016 was the result of the sharp devaluation of the Russian rouble beginning in the second half of 2014. A decline in confidence in the Russian economy caused investors to sell off their Russian assets, which led to a decline in the value of the Russian rouble and sparked fears of a financial crisis. The lack of confidence in the Russian economy stemmed from at least two major sources. The first is the fall in the price of oil in 2014. Crude oil, a major export of Russia, declined in price by nearly 50% between its yearly high in June 2014 and 16 December 2014. The second is the result of international economic sanctions imposed on Russia following Russia's annexation of Crimea, the war in Donbas and the broader Russo-Ukrainian War.

The crisis affected the Russian economy, both consumers and companies, and regional financial markets, as well as Putin's ambitions regarding the Eurasian Economic Union. The Russian stock market experienced large declines, with a 30% drop in the RTS Index from the beginning of December through 16 December 2014.

During the financial crisis, the economy turned to prevalent state ownership, with 60% of productive assets in the hands of the government. By 2016, the Russian economy rebounded with 0.3% GDP growth and was officially out of the recession. In January 2017, Russia had foreign currency reserves of around \$391 billion, an inflation rate of 5.0% and interest rate of 10.0%.

Following the 2022 Russian invasion of Ukraine, the country was hit with a new financial crisis.

#### List of recessions in the United States

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There have been as many as 48 recessions in the United States dating back to the Articles of Confederation, and although economists and historians dispute certain 19th-century recessions, the consensus view among economists and historians is that "the [cyclical] volatility of GNP and unemployment was greater before the Great Depression than it has been since the end of World War II." Cycles in the country's agricultural production, industrial production, consumption, business investment, and the health of the banking industry contribute to these declines. U.S. recessions have increasingly affected economies on a worldwide scale, especially as countries' economies become more intertwined.

The unofficial beginning and ending dates of recessions in the United States have been defined by the National Bureau of Economic Research (NBER), an American private nonprofit research organization. The NBER defines a recession as "a significant decline in economic activity spread across the economy, lasting more than two quarters which is 6 months, normally visible in real gross domestic product (GDP), real income, employment, industrial production, and wholesale-retail sales".

In the 19th century, recessions frequently coincided with a financial crisis. Determining the occurrence of pre-20th-century recessions is more difficult due to the dearth of economic statistics, so scholars rely on historical accounts of economic activity, such as contemporary newspapers or business ledgers. Although the NBER does not date recessions before 1857, economists customarily extrapolate dates of U.S. recessions back to 1790 from business annals based on various contemporary descriptions. Their work is aided by historical patterns, in that recessions often follow external shocks to the economic system such as wars and variations in the weather affecting agriculture, as well as banking crises.

Major modern economic statistics, such as unemployment and GDP, were not compiled on a regular and standardized basis until after World War II. The average duration of the 11 recessions between 1945 and 2001 is 10 months, compared to 18 months for recessions between 1919 and 1945, and 22 months for recessions from 1854 to 1919. Because of the great changes in the economy over the centuries, it is difficult to compare the severity of modern recessions to early recessions. Before the COVID-19 recession began in March 2020, no post-World War II era had come anywhere near the depth of the Great Depression, which lasted from 1929 until 1941 (which included a bull market between 1933 and 1937) and was caused by the 1929 crash of the stock market and other factors.

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