

## The 2008 Financial Crisis Cost Every American \$70,000

### News:

According to Bloomberg, 13<sup>th</sup> of August, 2018, "America never made up the growth it lost in the 2008 global financial crisis and the recession it triggered. A decade later, U.S. households are still counting the cost.

Gross domestic product remains well below what its 2007 trend would have implied and it's unlikely the economy will ever make up that lost ground, according to research from the Federal Reserve Bank of San Francisco published Monday. The hit will cost the average American \$70,000 in lifetime income, they estimate."

### Comment

This year marks the tenth anniversary of the global financial crisis of 2008, which is considered to be the second major financial crisis of the modern era to cause a general collapse in financial market values; the bursting of the so-called 'dot-com' bubble between 2000 and 2002 was not a general collapse, but specific to the newly burgeoning IT industry that was promising much more at the time than it could deliver. Black Monday, on the 19<sup>th</sup> of October 1987, saw the greatest percentage crash in Wall Street history. What 1987 and 2008 had in common was that the crashes were not confined to specific markets, but rather were systemic and hit stocks, bonds, gold and commodities and swiftly caused worldwide panic. If 2008 seems a long time ago to some, the report from the Federal Reserve Bank of San Francisco shows that the effects are still with us, and while the report tabulated the cost to Americans, the whole world suffered and still suffers from capitalism. Europe's debt crisis was triggered by the crash and threatened to bring down the European Union and the single currency, and still the danger lingers on.

The catalyst for the 2008 crisis was the collapse of Lehman Brothers, which caused shock and fear by showing that US banks were not "too big to fail". Within a month, the global financial system forced governments to inject capital into their banks to prevent them collapsing. Then with Europe's debt crisis, it became evident that even wealthy Western countries could also become bankrupt and they too had to be bailed out.

The interconnectedness of the various financial markets and the ease with which money can move in and out of these asset classes are considered to be the reason for the modern systemic dangers of capitalism. Related to this is the interconnectedness of the world's economies through these capitalist forms of trade and the consequent global risks. A footnote to 2008 is the world food price crisis that doubled and tripled the price of staple foods across the world that year as a result in part of speculation in commodity markets as biofuel started to attract investor interest.

Regulation has been offered as the answer to address the risk of future market collapse. Swift action in 2008 stopped a domino effect of US bank collapses, but the cost of bailing out these banks was borne initially by the tax-payer and the Dodd-Frank legislation in 2010 sought to prevent the US taxpayer from being burdened with future bailouts, but riding the bulls and bears of capitalism's own making is an ongoing experiment, and the Trump administration succeeded last year, after bitter debate, in replacing Dodd-Frank with the Financial Choice Act, which its authors hope will save them next time. President Roosevelt once said: "The country demands bold, persistent experimentation. It is common sense to take a method and try it: If it fails, admit it frankly and try another. But above all, try something."

Now the US is trying something new, with the Financial Choice Act, to handle a repeat of 2008. However, the market and technological innovations are not standing still. Black Monday, the great crash of 1987, is thought to have been made much worse by the greater speed with which market transactions could be processed by the employment of computer technology to speed up transactions. The financial markets of 2018 are not the same as those of 2008, and more changes are expected. The Federal Reserve Bank of Chicago published a report last year about 'blockchain' technology, otherwise known as distributed ledger technology. This is what the crypto currency called bitcoin is built upon. Regardless of bitcoin, the Federal Reserve Bank of Chicago predicts that: "*Blockchain* technology is likely to be a key source of future financial market innovation." Innovative technology needs not be a cause for fear, but anything that oils the wheels of the interest-based trade threatens to bring capitalism's dreams back down to the ground again with a heavy thud, and everyone may have to pay a price for that.

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