Haym Salomon @SalomonCrypto

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(1/25) The Global Financial Crisis - Chapter IV

In 2008, the global financial system violently collapsed. The failures were so large and systemic that they required unprecedented government action, completely reshaping the world.

These are the consequences of those actions.

(2/25) The Global Financial Crisis was the culmination of the development of the modern finance and the global domination exerted by the West.

In the USA in the 1980s, a series of regulatory changes would begin to snowball into an economic bubble unrivaled in human history.

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> (1/18) The Global Financial Crisis - Chapter 1
>
> From the 1980s to 2008: the context, causes and stakes that created the economic catastrophe that still shapes the planet to this very day
>
> To understand history is to see the future
>
> 3:12 AM · Aug 11, 2022
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(3/25) The bubble, which had gained an incredible amount of momentum since 2005, finally burst in late 2007. Although the Americans fought hard to contain the damage, too much had been built directly atop the bubble.

By September, the financial system collapsed.

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(1/24) The Global Financial Crisis - Chapter II

2008: from Crisis to Cataclysm. The year the global financial system failed, and the American residential real estate bubble transformed into a global catastrophe.

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(4/25) Fearing complete cataclysm, the US government (along with its peers around the globe) stepped in and bailed out the ENTIRE system.

After unleashing trillions of newly printed dollars into the system, by 2009 the US recession ended and the economy was "saved."

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(1/26) The Global Financial Crisis - Chapter III

In September 2008, the American financial system failed. Modern finance, the superpower of The West, had crumbled under the maelstrom it had unleashed upon the planet.

The story of wreckage and the subsequent "recovery."

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(5/25) It is hard to overstate the sheer economic cost of the 2008 financial crisis; the current consensus is the bailout and recovery costs the US government $2T.

A 2018 Fed study estimated it cost every American ~$70,000 in lifetime earnings.

**San Francisco Fed**

A decade after the last financial crisis and recession, the U.S. economy remains significantly smaller than it should be based on its pre-crisis growth trend. One possible reason lies in the large lo…

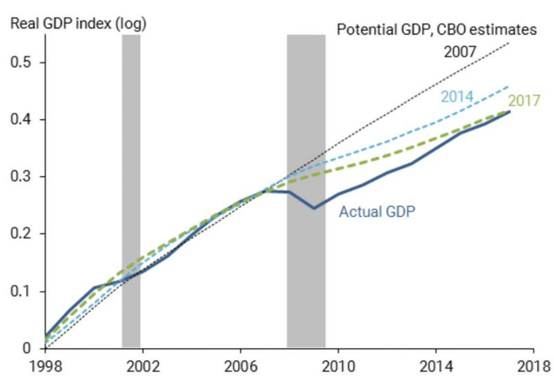
https://www.frbsf.org/economic-research/publications/economic-letter/2018/august/fina…

(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.

(7/25) The most amazing part? The most important effects of the Global Financial Crisis are probably political and social, not economic.

While the conflagration burned hottest in the West, the entire world was reshaped by the banking sector meltdown.

(8/25) The canary in the coal mine was Iceland. By January 2009, all 3 major banks had failed and been nationalized, Icelanders were in the streets and the government collapsed

Relative to its size, Iceland's banking collapse was the largest experienced by any country in history

(9/25) In Europe, the Global Financial Crisis immediately rolled into a more more difficult problem: the European Debt Crisis.

Stemming from the unique structure of the European Union and the Eurozone, the European Debt Crisis threatened the very concept of the European project.

(10/25) Debt accumulation across the eurozone was very unequal and reflected many of the macroeconomic difference between the countries.

In 1999, the euro was adopted. The economic union would bind the nations of Europe together, for better or worse.

(11/25) In general, northern European economies were more developed (slower growth, less inflation, more savings/investment) than southern economies.

Despite these differences, the European Central Bank had to pick ONE interest rate for the euro. And so, it favored the north.

(12/25) Over time, this led to southern European countries accumulating debt much faster than the north, particularly by the private sector.

Eurozone member states could have alleviated the imbalances in by coordinating national fiscal policies... but they didn't.

(13/25) Many countries, led by France and Germany, were using arcane accounting rules to mask their debt levels.

In 2009, after months of intense riots, a newly elected Greek government gave up these practices and restated their 2009 deficit forecast from 7% of GDP to 13%.

(14/25) From Greece, the European Debt Crisis exploded outward. Greece, Portugal, Ireland, Spain and Cyprus all defaulted in one way or another.

All 5 had to be bailed out from 2010-2012. Greece twice.

10 of 19 countries saw major government shifts as a result of the crisis.

(15/25) The crisis brought the fundamental question of the eurozone into question. The economic union, originally viewed as a celebration of capitalism and cooperation was seen in a new light:

The capture of Europe's financial system by the North, weaponized against the South.

(16/25) Throughout the 2010s, the European Debt Crisis was managed back to stability, but not without extracting a major toll.

The south saw economic ruin, the north felt responsible for bailing out its irresponsible neighbors, and ALL Europeans entered an era of austerity.

(17/25) Many people discussed breaking up the union (or at least leaving it). The Greeks wanted out ASAP to regain control of their central bank, but by 2011 even @Bloomberg was suggesting that Germany should consider skipping out because Greece and Ireland looked so toxic.

(18/25) And then one country actually did it.

Convinced by an incredibly well financed campaign of lies, on June 23, 2016 the citizens of the United Kingdom voted to Brexit and leave the European Union.

(19/25) For the UK the result was a disaster: October 2021, the UK government calculated that Brexit would cost 4% of GDP/year over the long term.

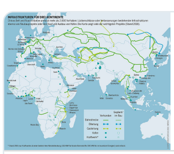
For Europe, the result was worse: The EU, an institution created to stop the European War Machine, has begun falling apart.

(20/25) Globally, the world's faith in Western finance was shaken, threatening America's global hegemony.

The destruction on the West spread across the Pacific, but Asia's financial sector weathered the storm much more gracefully.

(21/25) China, quickly industrializing and massively centralized, was the foundation of the economic resilience of Asia.

After 2008, the world (especially the global south) turned to China and away from the West, reshaping the global balance of power.



**Belt and Road Initiative - Wikipedia**

https://en.wikipedia.org/wiki/Belt_and_Road_Initiative

(22/25) And in the US? Well according to the National Bureau of Economic Research, the Great Recession was officially in June 2009.

And yet... almost no one agreed. This was the moment many learned just how different the world was than the one suggested by official statistics

(23/25) Your experience of the next decade was dependent on your net worth. Based on how much discretionary capital you had access to, it was either the most incredible boom known to mankind...

...or a daily struggle to keep a roof over your head and food in your family's mouth.

(24/25) For nearly 10 years, the rich and the poor diverged further and further... in fact it still is!

Eventually, a few people realized an opportunity. The economic inequality had created latent tension in the US population; tension that had built to alarmingly high levels.

(25/25) And so, we will close our story of the Global Financial Crisis in 2016:

In Europe, the postwar project to end World War forever has taken a mortal blow.

In America, Donald Trump was elected as the 45th President.

The fruits of 500 years of Western world domination.

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