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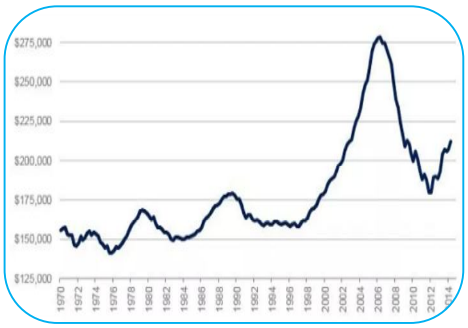

AN IMPORTANT DIMENSION OF CRISIS OF 2008

Himanshi Kalra

Assistant Professor, Dyal Singh College, University of Delhi.

ABSTRACT:

Crisis is generally a period or a time frame which shatters most of the activities and operations in an economy. This is what happened at the time of subprime crisis. As the name itself suggests, it was a havoc created out of sub standards mortgage. These were given recklessly to anyone without proper collateral and credibility. As a result, real estate industry boomed which hiked the asset values. This unnecessary boom created a bubble that burst in 2008. This was the time when advises and suggestions of many great economists were looked into. One of them was Hymen Minsky whose works became popular after he died. His suggestions and theories are still alive in various texts. The following article talks of this crisis from Minsky's perspective.

KEYWORDS: *activities and operations , economy.*

INTRODUCTION:

Global financial crisis shook the major economies of the world that were dependent on USA for some reason or the other. It was not only a failure of banks and financial system but a failure of government at that time. It was a fiasco that ailed many emerging and developed economies and caused a financial contagion. Such transportation of crisis from one country to another was also seen in great depression of 1933, French crisis of 1994 and German crisis of 1977 among others. But this was unique as this crisis not only brought to light various fallacies in the market structure, political lobbying and financial regulations but also some stories that stayed in luster prior to 2007-08.

Since US was a locomotive of the entire globe in the sense that trades, investment flows across nations were routed and ruled by USA. Most payments were made in dollars. This made USA a financial driver of the globe. When it was hard hit by the inbuilt faults of the economy, the tremors were felt by many neighboring and trading nations. These were dependent on USA for some reason or the other (Chor & Manova, 2012).

FIFTY YEARS JOURNEY OF CRISIS:

A great economist who identified the tremor much before it became evident was Hyman Minsky. He started warning the big shots in but was overlooked by many. His finding, theories and evidences were taken seriously after he died in 1996 and this US financial crisis was named after him as Minsky crisis. He gave a financial instability argument that focused on mortgages and its accumulation over years. He modified the theories given by Irving Fisher (Kindleberger, 1978). He said as debt burden increases, the interest payment is first paid out of income and then borrowings which make most financial units ponzi units and eventually spread this bankruptcy to the entire economy (Taylor & O'Connell, 1985). This happens because financial institutions refrain from giving more money to these units which ultimately leads them into trouble. Their lenders are badly suffered (Wray, 2016). This leads to failure of big banks as well as big governments. This was the time when the predictions of Minsky about debt depression and real estate bubble came to light. With this many regulators and other in power began referring to his works and theories. This was done almost after 50 years and became the minsky moment (Cassidy, 2008).

Asset bubbles are considered to be one of the major causes of 2008 burst. All this started with reckless lending by banks in US. Such loans were sub standard and induced people to buy homes irrespective of their paying capacity. Theses risky assets of banks were further sold to other banks after being rated by credit agencies. This made banks and institutions in US rely on risky derivatives. All this added upward pressure on real estate values. As a result, single default created a chain of defaulters. This put pressure on banks and financial institutions to get the amount. Such credit defaults made most of the borrowers homeless and regulators hopeless. Such situation soon resulted into the greatest havoc of all times. With this prices came down and asset bubble burst. Another reason for this crisis as pointed out many was weak regulation (Wray, 2016). Evidences prove that filthy rules and regulations over these institutions led to another major fault. This was capitalism of mangers. This means fund managers, bank officials and other regulators take unnecessary risk because of the safety net given by the lender of last resort. They indulge in gambling activities (Wray, 2009). This further endangers the market and the structure.

Such issues have also been raised in many other country or government crises. For instance, Greek crisis was one of the biggest European crisis in which people weaken the financial infrastructure by continuous bank runs. The perpetual bail outs and debt accumulation eroded the entire economy. Similar situations were found during European debt crisis and Asian crisis. Such lethal events destroy the entire economy and therefore, some of the policy changes recommended by economists are written below.

POLICY CHANGES:

Economists suggested that policy makers need to vigilant about the regulations and must ensure new and better regulations whenever faced with a situation where loopholes can be used by money makers. There has to be a shift from deregulation and negligence to tight oversight and better control. Strict supervision of banking and financial institutions' activities is a must. Also, the policy makers must act in advance of a crisis and take measures to prevent it rather than to curb it. The last think that many economists focused on is the employer of last resort. Everyone should be given a suitable job so that there is no problem associated with credit for consumption. This point was emphasized as many households were accused of taking loans to meet their consumption need and were eventually over burdened with loans. Therefore, development of an economy must focus on jobs for all agenda.

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