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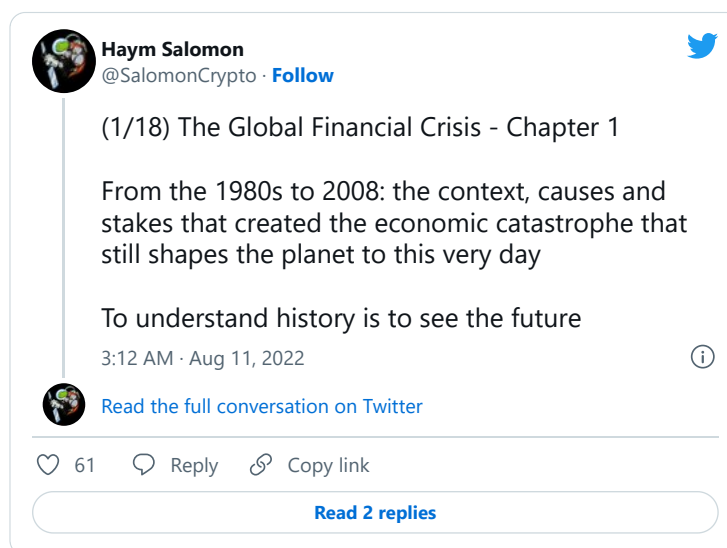
(1/26) The Global Financial Crisis - Chapter III

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."

(2/26) The seeds of the Global Financial Crisis were set in the US financial system during the deregulation and financialization of the 1970s and 80s.

The system, always centered around residential real estate, was supercharged beyond anyone's imagination.



(3/26) As home prices rose and access to capital became easier, an asset bubble began to form in real estate.

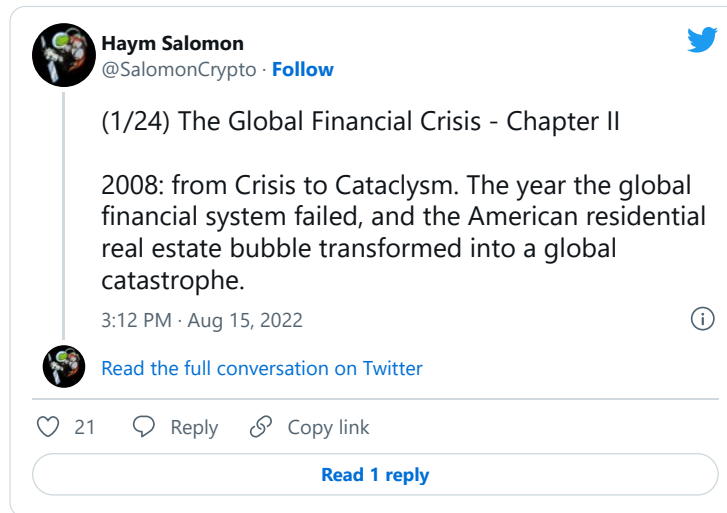
Unfortunately, no one noticed (read: cared) before it was too late; the entire global economic system was built on top of the American residential real estate market.

(4/26) In 2007, a shift in the macro-economic winds led to a cascade of defaults for the most risky and ill-advised mortgages (subprime mortgages).

By 2008 it was clear that the subprime mortgage crisis would metastasize into a full banking and financial sector meltdown.

(5/26) 2008 opened with the forced sale of Bear Stearns, one of the oldest and largest institutions on Wall Street. Everyone hoped the damage could be contained, but by summer all hope was lost.

In September, the crisis exploded and the system collapsed.



(6/26) One week in September 2008, everything changed... The system failed.

Fannie Mae and Freddie Mac were nationalized to avoid catastrophe.

Lehman Brothers failed, Merrill Lynch was "saved" in a fire sale.

The government effectively wrote a blank check to backstop AIG.

(7/26) This is the peak of the Global Financial Crisis. First the decades of bubble-building, then the last year of fighting off disaster, all building up to this moment.

When it came time for Wall Street to confront the monster it created, Wall Street crumbled with a whimper.

(8/26) At this point, our attention must shift from the bankers to the government. Both are responsible for getting us into this mess... but only one has any firepower left to pull us from the edge of ruin

And so, after triaging the collapse, the US government took center stage

(9/26) By the end of 2008, Congress had created two MASSIVE new programs:

- Troubled Asset Relief Program (TARP) - \$700B to remove toxic assets from the financial system
- Term Asset-Backed Securities Loan Facility (TALF) - \$200B to provide capital/liquidity for consumer lending

(10/26) At this point, the destruction of Global Financial Crisis is growing outside of the financial system.

In September 2008, America's Big Three car companies (Ford, GM and Chrysler) began asking for bailouts; a \$25B loan was followed by a \$17.4B bailout before year's end.

(11/26) Alas, the measures were not enough, GM and Chrysler would go bankrupt by the end of 2009.

Closing the Big Three directly would result in the destruction of 3MM jobs, the loss of \$50B/year in tax revenue and (at least) -.2% GDP growth.

And so, the government saved them.

(12/26) In February 2009, Congress approved the American Recovery and Reinvestment Act (ARRA), a \$831B economic stimulus package.

ARRA's rationale: during recessions, the government should offset the decrease in private spending with an increase in public spending.

(13/26) The politics around the stimulus were extremely contentious, split across party lines.

On the left, the Democrats and the new President, Barack Obama.

On the right, the Republicans and the new movement, the Tea Party.

(14/26) The Republicans, fueled by the chaos of the collapse and the energy of the Tea Party, would go on to sweep the 2010 midterms.

They would then go on to use this control to reshape American politics. This is the genesis of the polarized disaster we see in Washington today

(15/26) Up until this point, every American had experienced the crises of 2007/2008 together. The chaos struck everyone with equal surprise and force.

Regardless if you were a Wall Street bank or a humble family buying a new home, everyone tumbled. Together.

(16/26) I think we can trace this dynamic up until March 6th, 2009. The Dow Jones hit its lowest level, a drop of 54% from its high 17 months before.

Beginning March 10th, the Dow Jones began recovering. And so, at least for some Americans, the crisis passed.

(17/26) On April 10th, Time magazine declared "More Quickly Than It Began, The Banking Crisis Is Over."

In June, The National Bureau of Economic Research (NBER) declared June 2009 as the end date of the U.S. recession.

(18/26) Over the next year, as the dust began to settle over the destruction, the economy began slowly recovering.

This was further bolstered in July 2010, when the Dodd–Frank Wall Street Reform and Consumer Protection Act was enacted.

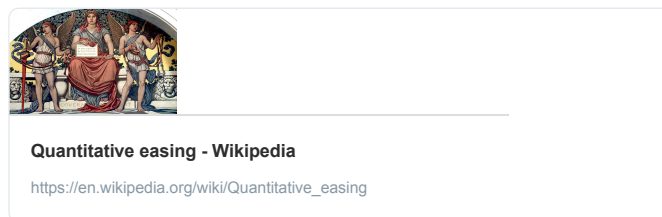


(19/26) Dodd-Frank overhauled regulation in the aftermath of the Global Financial Crisis, affecting almost every part of the financial system.

There is still debate on the effect of Dodd-Frank, but the truth is that it restored the confidence needed to restart the economy.

(20/26) The recession was "over," but the economy's growth rate was anemic. In November, the Fed announced another round of quantitative easing.

And so just like the next decade of politics was defined in reaction to the Crisis, so was monetary policy.



(21/26) It's 2010, and this chapter is closing.

The American government, media and financial system are all proudly congratulating themselves on vanquishing the financial crisis. They've even flipped on the money printer in celebration.

But how's everyone else doing?

(22/26) Well, for starters, the American people aren't doing great.

In early 2010, mortgage delinquency rates in the US peaked at 12%.

In 2011, median wealth had fallen 35% from 2005 highs.

In 2012, many homeowners still faced foreclosure and couldn't refinance their mortgages

(23/26) In Europe, the critical weaknesses of the eurozone were laid bare and exploited by the unfolding crisis.

Beginning with Greece, many member states were unable to repay/refinance government debt or bail out their banks without permission from the European Central Bank

(24/26) The crisis worsened the already tense relationships between well capitalized northern countries and financing-dependent southern countries.

The crisis directly led to the change of 10/19 eurozone governments and has threatened global confidence in the European project.

(25/26) The entire world was reshaped:

- Billions of lives were disrupted, their quality reduced
- Recessions and bank failures burned through the planet, particularly in Iceland, Argentina, Mexico, Hungary, Russia...
- The world turned eastward for financing
- And so much more

(26/26) The Global Financial Crisis was a distinct banking failure in late 2008, stemming from the Subprime Mortgage Crisis and leading to the Great Recession.

While its memory fades into the rear-view mirror, its presence is still loudly heard in politics, finance and society.

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A screenshot of a Twitter post from user Haym Salomon (@SalomonCrypto). The post is the first in a thread, indicated by '(1/26)'. The text discusses the 2008 financial crisis. The interface includes a profile picture, name, handle, follow button, tweet text, timestamp, and interaction options like 'Read the full conversation on Twitter', 'Reply', and 'Copy link'. A 'Read 1 reply' button is visible at the bottom.

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