Neoliberalism and the global financial crisis of 2008

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Abstract

This paper tends to analyze the link between the global financial crisis of 2008 and neoliberalism ideology. This crisis was, in all aspects, a multidimensional global crisis. Initially it began with the crisis of banks, credit and stock exchange, to end up in the economic recession and the disbelief of the free market models adopted in that period. It

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all started to emerge during 2007 as a financial crisis, which originated from bad loans in the US real estate market. Immediately, the crisis had global impact in Europe and other parts of the world.

The great impact and development of such a crisis raised great questions about the ways financial markets and stock exchanges were built and operate, even doubting neoliberal practices, if they were indeed the best model of economic development that countries could adapt. This paper argues this relation, if whether neoliberalism was the main cause of the crisis, taking into consideration the arguments of neoliberals and other specialists in economic and financial field.

Through inductive method used in the argument, it is concluded that global crisis of 2008 did not have a single cause, responsible for its birth and deepening, much less that it was the implication of neoliberal ideas in the economic field. It was a series of factors that inevitably led to its birth and deepening.

Finally, based on the conclusions drawn, some recommendations are given, which should be implemented to avoid such crises and phenomens in the future. The paper concludes with an appeal for companies for a higher corporate responsibility in protecting social groups affected by these crises.

Keywords: *neoliberalism, global crisis, liberalism, financial market, real estate market, financial bubbles.*

1. Introduction

"The year 2008 will be remembered as a year that was marked by a financial crisis, which occurs once in a century. The crisis caused unprecedented upheaval on Wall Street, brought the banking system to its knees and shook stock markets, but also brought about radical government intervention".
KATHLEEN MOORE, December 2008

This was one of the many comments made for 2008 crisis, which best describes the magnitude of its worldwide effects. It is considered the first crisis of its kind for the era of globalization, which began as a financial crisis, but soon turned into a global crisis, extending to all areas and countries of the world.

A study funded by OECD ("Financial Crises: Past Lessons and Policy Implications", Davide Furceri & Annabelle Mourougane, 2009) examines the financial crisis divided into two distinct phases: a period of limited spread from July 2007 to September 15, 2008, followed by the phase of total lack of trust, which led to the spread of the crisis worldwide.

Many analysts have blamed "the failure of the neoliberal model", especially because of its shape and impact during the Reagan administration in the US and

Thatcher in the UK. The neoliberal market economy model had its "heroes" and a relatively long period of economic growth. It is widely accepted that overconfidence in the neoliberal system gave rise to "glamorous philosophy", which led to luxurious life, as well as speculation in stock market and the birth of financial innovations.

But, naturally, we come up to the question "Was neoliberalism really the main cause of the crisis, or were it a series of factors that together led to its origin and deepening?"

Through this paper, I aim to answer this question by briefly analyzing neoliberal ideology, the financial crisis, and the "cause-effect" relationship between them.

Purpose

The purpose of this study is to analyze through a theoretical analysis, the link between neoliberalism and one of the greatest crises in history, which impacted the global economy.

The main objectives of the paper are:

- Description of neoliberal ideology and its implications on financial markets,
- General description of 2008 crisis and the factors that led to its birth,
- The relation between neoliberalism and the crisis, seen from the point of view of some of the most prominent personalities of economic field,
- Ending up to a conclusion, after carefully analyzing all the factors that influenced the crisis.

Research question

The main question raised in this paper is: Is neoliberalism the main factor that influenced the emergence and further deepening of the global crisis of 2008?

Hypothesis

The hypothesis of this paper is: "Neoliberalism and the implication of neoliberal policies are the main causes of the global financial crisis of 2008".

Methodology

The methodology used to validate the hypothesis is descriptive, argumentative and inductive analysis. Descriptive analysis is used to highlight the factors of the 2007-2008 financial crisis, neoliberal ideas and the implications of neoliberalism in financial markets. Argumentative analysis is used to identify whether neoliberal ideas were the main factors of the financial crisis.

The inductive method is the way of applying systematic conclusions. Based on separate and special facts, I have reached the conclusion for general judgment.

Also, I came to the general conclusions by studying seperate and concrete analyzes of various economists.

The thesis and its material are based on a very wide theoretical literature. Being a very beaten topic and analyzed by all specialists in the field, but not only, the wealth of literature has been considerable, enabling me to rely on numerous secondary sources.

I have widely relied on works of Professor Adrian Civic, related to the financial crisis of 2007-2008, and the neoliberal ideology. Among the works can be mentioned: "Anatomy of a financial crisis", "Economic liberalism", "Liberalism versus Statism" and "Monetary illusions".

Of particular interest have been various economic articles, which have been published in newspapers and magazines, globally known for their variety of research materials. To be continued, I can mention articles from the newspaper "Liberale", materials from "Encyclopaedia Britanica", "New York Times", "The Economist" etc.

2. Literature Review

Crises in economic theoretical thought

The concept of "financial crisis" includes banking crises, financial markets and stock markets. The crisis can be imagined as a situation where banks are in lack of liquidity and solvency with depositors and their customers, or in a situation of bursting speculative bubbles and a crisis of confidence (Civici, 2018). It is widely accepted in theory and in economic thought, that economic crisis is a situation when we have negative economic growth in two consecutive quarters.

Economists like Karl Marx, Knut Wicksell, Irving Fisher, Frank Knight, Joseph Schumpeter, John Maynard Keynes, and Hyman Minsky offer an enlightening analysis of characteristics of crisis as they all articulate some of the core relationships between money, credit, finance, and level of economic activity.

Neoclassical viewpoint of the crises

The first theory was developed by Knut Wicksell at the end of the 19th century. According to him economic growth is the result of the interaction of two processes: the creation of credit, and the creation of productive capital. In every given moment, their yields differ because their determinants and time horizons are not the same. As a result, growth and inflation occur when the monetary interest rate is lower than the capital's real rate of return, and contraction and deflation occur if the opposite is true. (Wicksell 1898/1936).

The interest rate applied to credit depends on the behavior of the banks, which are themselves dependent on the actions of the Central Bank and the financial system's regulatory organization. For example, the interest rate can be subject to discretionary variations caused by monetary policy. According to Wicksell, when the credit rate is low, capital formation increases, and the mechanism can operate over several periods before a rebalancing of the two rates begins to occur.

Not only did the very low interest rates maintained by the US Central Bank encourage the accumulation of capital first in the new technologies and then in the residential real estate sectors, but they also allowed the development of financial strategies based on the permanent availability of significant leverage effects.

Hedge funds, for example, were past masters at adopting very high debt ratios in order to attain unprecedented rates of return on their own capital. As regards the modern period, inflation in financial assets has very largely replaced inflation measured in reference to goods and services and the consumer price index. In accordance with this extension of Wicksell's model, a downturn occurs when overproduction of housing begins and speculation on derivative products ends (The Economy in Crisis: The Cost of Forgetting Economics, 2010).

Fisher's theory of the crises

Irving Fisher is recognized as a major theorist from a typically neoclassical viewpoint. We will use his analysis of depressions and deflation triggered by economic agents attempting to clear debt when faced with a downturn in a situation that was highly favorable due to the abundance of available credit (Fischer 1933/1988).

According to Fisher, if neoclassical theorists persist in analyzing only stable equilibriums, the only two explanations for crises are the occurrence of major exogenous shocks or temporary irrationality that grips the actors in a market. Irving Fisher boldly challenged the hypothesis of an automatic return to equilibrium as the desire to reduce debt leads to distress selling and a fall in prices, which increases the size of the debt in real terms. Under certain conditions, a vicious circle can then start. Fisher's model of depression thus links up with the ideas of the Swedish school and with those of Keynesian theory.

Keynesian model of crises

Keynes is the great theorist who supports full-employment and the satisfaction of social needs. He demonstrates that modern financial markets fall short of ensuring the effective allocation of capital, which means that public intervention is an essential component of modern capitalism.

Minsky (1975, 1982) can be credited with extending and updating Keynesian theory to the analysis of cycles triggered by credit expansion and therefore of the possibility of major crises occurring within a capitalist system dominated by large companies using all the means offered by finance. Minsky also helped explain Ponzi strategies which, as the scandals that occurred between 2008 and 2009 show, are widespread during periods of unbridled speculation.

Minsky re-interpreted the General Theory as a description of an economy in which large economic and financial groups seek to use their access to credit to obtain the highest financial yields possible. This dynamic of cash flow creation, which consists of obtaining credit and repaying it, is a departure from the benchmark of short-term static equilibrium in the direction of a definition of the profile of macro-economic developments in financial capitalism.

At the beginning of an economic boom, companies are prudent about debt since they align their request for credit to their anticipation of profits in order to repay principal as well as interest. As growth picks up, companies become more confident and accept a higher rate of indebtedness. They become speculators relying on the easy renewal of credit and believe that they will only have to pay back the interest.

In the second phase, the possibility arises that cash flow effectively freed over a period no longer allows interest to be repaid, and companies now stop investing. As the banks reconsider their policy of easy credit, there begins a run to liquidity through a fire sale of financial or productive assets (a mechanism suggested by Irving Fisher). Here, the bursting of the Internet bubble comes to mind. When most businesses in the new economy had destroyed all the capital entrusted to them, the turn down in the economy was brutal.

Behaviour model

What is new is that finance theorists themselves make reference to the succession of speculative booms to construct models that attempt to explain the inefficiency of markets through modifications regarding either the assumption of rationality (Shiller 2000). This led to the development of behavioral finance which argues that when making financial decisions like investing, people are not nearly as rational as traditional finance theory predicts.

The idea that psychology drives stock market movements flies in the face of established theories that advocate the notion that financial markets are efficient. The efficient market hypothesis (EMH), for instance, claim that any new information relevant to a company›s value is quickly priced by the market. As a result, future price moves are random because all available (public and some non-public) information is already discounted in current values.

However, for anyone who has been through the Internet bubble and the subsequent crash, the efficient market theory is pretty hard to swallow.

Neoliberalism

As mentioned earlier in this paper, the adaption of neoliberal policies has been known as the root cause of the crises of 2008. To understand how this economic thought branch was born and how it was implicated in financial markets, we must first get to know its roots. It is part of the larger family of economic liberalism.

Economic liberalism is based on the freedom of individual action in the economic sphere (freedom of enterprise, free choice of consumption, labor, etc.), where state intervention should be as minimal as possible (Walther, 1984: 178-207).

Supporters of economic liberalism were divided in two groups. The first liberal group, called classical liberalism appeared in the 19th century. Representatives of this economic thought branch (Smith, David Hume, Ricardo, Say, John Locke, Turgot, Malthus, Mill, Bastiat) aimed to create universal, general principles that can be applied equally to every field, place and time (Civici, 2015: 58).

In 1870, this economic thought was further developed by the Austrian school of economics, with key representatives Menger, Mises, Hayek and Rothbard. They pointed out that freedom of action and freedom of enterprise is the instrument that leads to greater overall satisfaction and well-being.

The second phase of the evolution of classic liberalism has been described by scholars of liberal doctrine in economics as "neoliberalism" (Civici, 2015: 59). The neoliberal revolution emerged as a "success story" of a new generation of liberal-conservative economists, who became the initiators of free market-oriented economic policies, minimal government, and an individual initiative without obstacles.

Civici (2019) states that the notion of "neoliberalism" has constantly evolved in function of economic and political developments.The development of neoliberal school and its rise to the pedestal during the second half of the twentieth century came as a result of several factors, each with a significant contribution.

The first factor relates to the "explosion of liberal-conservative think tanks" in the late 1970s. Utilizing media and economic press independent from public funds, they transmitted their political and economic ideas in support of free market practices.

The second factor relates to the effects of monetary and financial crisis on the world economy in the 1970s. Effects such as high inflation related to the oil crisis, speculation in financial markets, union pressure to raise wages, high unemployment, led to an abandonment of Keynesianist policies applied at the time.

Hence, the stagflation of the 1970s restored neoliberal ideas and practices, to fight inflation, to protect currencies from frequent fluctuations, to reduce speculations in exchange rate, and to guarantee the conditions for economic growth and employment. In this context, neoliberalism aimed to reject any policy that created inflation or legitimized financial speculation in national and international economies.

Third factor of neoliberalism has to do with the ideas spread in that timr, regarding the inefficiency of socialism as an economic-social system, as it led to a series of visible and hidden crises in the socialist camp, around the Soviet Union.

The concepts of "collectivization", "state intervention", "state property", according to Hayek, were the complete submission of the individual to totalitarian systems, which would lead these countries to an economic and social catastrophe. This formula was confirmed in the 1990s, with the fall of the Berlin Wall and the collapse of the east socialist bloc.

Hayek also modernized Adam Smith's concept of the invisible hand, explaining it through spontaneous order theory, according to which, market is created by individual activity, without need for prior planning by centralized individuals or institutions. According to him, state intervention in the economy in the name of social justice, leads to results contrary to its goals, giving birth to totalitarianism. This was also reflected in the crisis of the 1970s and 1980s, when negative consequences of Keynesian policies became more apparent, giving undesirable results.

3. General overview

Neoliberalism characteristics

Neoliberalism is an ideology that emphasizes free market competition. Competition is seen as an important element, which brings benefits to the whole society, because when a nation becomes richer, wealth is distributed to the lower social strata. This is because competition encourages investment, which in turn creates jobs and prosperity (Beder, 2009: 17-21).

This branch of economic thought emphasizes the minimal role of state in economic and social affairs. It supports the idea of privatization, the replacement of public functions and services with those of private firms operating in markets for gaining profits (Beder, 2006 b, chapter 4).

Three main characteristics of neoliberalism are:

1. denouncing the "welfare state", as a model state that interferes a lot in the economy, taxes at high levels, has great regulatory powers, implements large-scale social policies in the name of social justice and redistribution of wealth.
2. positive orientations: promoting a functioning market economy in the name of individual freedom and the ability of the free market to ensure higher economic efficiency.

3. Deregulation of markets: the ability to self-regulate through the functioning of free competition and "market laws", as well as the reduction of public sector in favor of private sector (Williamson, 1994: 17).

Neoliberal theories defend the argument that government regulation undermines the culture of entrepreneurship, and was therefore embraced by companies because it enabled them to follow their self-interest and generate profits from the expansion of activity (Garnaut, 1994: 53-54).

General description of global financial crisis

"The origin of this crisis is dedicated to real estate market, where for almost a decade there was a consumption orgy and not an investment boom" (Xhepa, 2010: 46).

The American Congress created in 1938 Fannie Mae and in 1970 Freddie Mac to solve the housing problem. Both of these federal agencies offered clients loans at lower interest rates than the market.

Other mitigation measures related to:

1. removal of payment of 30% of the house value, at the time of obtaining the loan,
2. exemption from taxes of any income up to half a million dollars generated from the sale of a house. That way, the buyers would have to pay more to be taxed less.
3. reducing the requirements for the documents required to obtain a loan.

The official date of the crisis is the autumn of 2008, accompanied by the increase of liquidity crisis, confidence in banking system, the shock of stock exchanges and serious consequences in real economy (Civici, 2018: 9).

In 2007, bad loans showed up and mortgage-based securities began to bring losses to investors. Systematic risk was being generated, which means that problems from one market are transferred to other markets too. For example, the disability of AIG caused disability of other firms, especially those banks that relied on the AIG's promise for security, in case of non-payment of mortgage loans (Bello, 2008).

In fall of 2007:

- House prices were significantly reduced,
- The number of non-payment of home loans increased,
- The stock market began to decline.

On September 7, 2008, two federal agencies Fannie Mae and Freddie Mac failed and were placed under the control of federal government. This event created panic in financial markets.

In second week of September, Merill Lynch was sold to Bank of America with government assistance.

"Lehman Brothers" started bankruptcy proceedings, a phenomenon which brought many negative consequences in financial market.

Banks were disabled, or unwilling to lend to customers. This led to decreasing lending levels and large and small companies were no longer able to finance their operations (Bello, 2008).

They were forced to reduce their productive activity, causing unemployment and recession.

So, "the turmoil in financial markets was transferred to the real economy. Main Street (the real economy) was merged with Wall Street (finance) "(Marcus, Kane, & Bodie, 2014: 22).

4. Empirical Analysis

In this part of the study are presented and argued in detail specific factors that caused crisis of 2008 and that led to its further deepening.

Causes that led to the creation of the crisis

The starting point of the crisis is the accumulation of high risk loans. In 2005, Krugman criticized Greenspan's idea of "free and easy money", predicting the bursting of financial bubbles as a result of monetary policy.

Greenspan Doctrine and its role

Alan Greenspan is one of the most well-known American and international bankers, who left his mark on the domestic economy, but not only (Tuccille, & Shrugged, 2002). He was in head of Fed for almost 19 years, from August 11, 1987, to January 31, 2006, the year that marks the end of his term as governor. After a few months, the financial crisis broke out, and took global dimension. His decisions as Fed governor were widely criticized.

His doctrine can be summarized:

1. Greenspan assessed that monetary policy has real sustainable effects if there is transparence by Central Bank.
2. The CB must maintain the balance between savings and investment through a neutral interest rate in the market.

3. The CB should have not only one objective: price stability through inflation control, but also two other objectives: employment and economic growth.
4. Low interest rates lead to an increase in money supply
5. In his book "Time of Turbulence" (2008), he underlines that "market interventions are harmful in most cases". Markets must be left to self-regulate.

J. Stiglitz points out that the real independence of Central Bank can be questioned from Greenspan's legacy. Macroeconomic policy can not be completely free from political influence.

According to William Buiter (Civici, 2015), if the argument "too big to fail" is applied, not only to commercial banks, but also to investment banks and large non-bank financial institutions, then all of them should be subject to the same surveillance rules. Fed, even though is not directly responsible for this, did not insist on such a legal framework of supervision.

Failure of Basel II rules

According to Basel II rules, banks must hold a reserve of 8% of their total assets. Hoping for high profits from the favorable monetary situation created by low interest rates, banks developed maximal lending and at the same time maintained the reserves created according to the rules of supervision. This caused a part of the loans to disappear from the balance sheets, transferring it in favor of other institutions, such as investment funds or SIV. In this way, banks increased lending by formally following the rules of supervision.

Non functioning of risk management schemes

Risk management models are based on two basic principles:

- Firstly, risks have a normal distribution, ignoring those cases that have a low probability and involve large losses'
- Secondly, the models of financial assets valuation are based on the principle "market to market", or fair value (the value of the asset is determined based on the current market price for that asset or similar assets). Since derivatives are not traded regularly, their value is often calculated based on past data. In this way, many firms use the help of financial models to boost the value of instruments and manipulate the financial market.

This problem was encountered in 2008 crisis, in two bad assets that caused it: CDO and CDS. So, "financial innovation aimed at reducing and redistributing risk, simply has been masking it" (Spence).

Entrepreneurship irresponsibility

Entrepreneurship irresponsibility is related to leaving senior executives (who are paid with significant commissions from business profits) out of control, without supervision. The problem of corporate governance lead the whole system to be oriented towards taking short-term risks, neglecting long-term liabilities. Business practices should be carefully monitored and supervised. For example, due to entrepreneurship irresponsibility, the English bank Northern Rock, which was bought by the government in 2007, offered loans to individuals up to 125% of the value of its assets.

Neoliberals' approach to crisis factors

According to neoliberals, the financial crisis is not directly related to the destabilization of monetary and financial markets. It is a consequence of decisions to lead markets towards political and social objectives rather than economic ones.

Neoliberals estimate that four main rules of these markets were among the main causes of 2008 crisis:

1. Two major mortgage institutions, Fannie Mae and Freddie Mac accepted bonds and high risk products .
2. Basel Agreement of 1988 obliges banks to hold minimum reserves of up to 8% of their capital. Instead of making money through lending, banks began investing in complex and risky derivatives.
3. The existence of "Market to Market" rule required banks to calculate the value of their assets based on market value, which can cause artificial amplification of the risks of financial crisis. The monopoly situation created for rating agencies from Stock Exchange Commission (SEC), made them give high AAA ratings to banks with different subprimes and derivatives.
4. Easy monetary policy of FED and some other banking institutions left monetary markets in a devastating euphoria of exceed liquidity.

The way Fed and Greenspan played with interest rates was very political, reflecting more Keynesian ideology (monetary policy can be used successfully to stimulate economic activity).

The "real reasons" of the crisis, according to Greenspan

He states that the origin of the subprime crisis (2008) is about:

- The fall of the communist regimes and their symbol, Berlin Wall. The capitalist system destroyed the relations between developed and developing countries, provoking a kind of merge between them.
- Decreasing of interest rates on a global scale, caused great incentives towards real estate speculation. In this way, he accepted the fact that policies he pursued to decrease basic interest rates stimulated real estate speculation.
- The great globalization of financial markets has limited Fed executives from the efficient use of their main instrument for modifying short-term interest rates, as long-term rates are determined by international factors and actors. His analysis of the effects of global economic forces focuses on the role of China and the BRIC countries and the purchase of US debt by these countries, especially China. This led decreasing short-term interest rates in the US over a long period of time.

Failure of the theory of "market self-regulatory capacity" (Posner)

Richard A. Posner, a professor at the University of Chicago, makes a specific analysis of the causes of global financial crisis. In his work "A Failure of Capitalism. The Crisis of '08 and the Descent into Depression "(2009), Posner explains that the financial catastrophe was the result of rational individual decisions, the goals and consequences of which were not integrated at the right time and right place.

The two main causes of the crisis, according to Posner, are: Alan Greenspan, for overconfidence in the Fed's ability to use monetary leverage to stop the speculative bubble burst, and George W. Bush, for his indifference to the financial sector , the weakening of federal market regulators, and the very delayed response to the first signs of a crisis.

Negligence of the regulatory and supervisory system (Krugman)

According to Krugman (2008), countries in crisis do not properly use their resources they own, making demand insufficient, while supply is abundant. In such a situation, the state is the only actor, which can spend massively until the private sector is able to resume its role as the engine of the economy.

For Krugman, the monetary policy pursued by Fed through lowering interest rates to near zero is dysfunctional because it boosted neither consumption nor investment.

He does not consider debt growth and confidence in the self-regulatory capacity of markets as the main causes of the 2007-2008 financial crisis. For Krugman, the main cause is the total neglect of the regulatory and oversight system established after the Great Depression crisis.

Financial and real estate market bubbles (Stiglitz)

In his analysis of 2008 crisis, Stiglitz points out that the cause of the crisis is not speculative financial actions. The origin of the crisis must be sought in real economy.

According to him, nowadays, the most important problem is the transition from industry to service economy. In the US, the demand for greater productivity and the effects of globalization have made the job cuts in the industry tremendous. During the period preceding the outbreak of the financial crisis, this phenomenon was masked by the bubbles of financial and real estate markets. Stiglitz claims that if we accept this assertion, the monetary policy of low interest rates finds it impossible to get us out of the crisis, hence it is needed the state intervention. The government should have as an objective not only the protection of the economy, but also the creation of a new economy.

Defects of regulatory institutions (Tyrol)

Jean Tirole (2002) points out that the crisis of 2008 has its origins in the defects of regulatory institutions: prudential and state supervision. High level of risk, assumed by financial and banking institutions was tolerated to the point that there was no longer any opportunity to change the situation.

According to Tirole, one of the problems that drives the outbreak of crises is the use of asymmetric information by economic agents. This information asymmetry further complicates the work and control of hedge fund managers, investment funds or banks by depositors.

The crisis of 2008 is a consequence of three factors:

1. lack of awareness of economists about the extent of risk taken by financial institutions;
2. rapid creation of derivative products,
3. a group of economists were exposed to conflicts of interest with financial markets and banks.

Tyrol claims that state should play a more active role, being more present in supervising financial institutions, especially those independent or completely decentralized. He underlines that this is not about more or less presence of the state in the functioning of financial markets, but about the qualitative improvement of its role in these markets.

Nouriel Roubini, the economist who predicted the financial crisis

He was a professor of economics in Stern School of Business at New York University when, during a conference hosted by the IMF on September 7, 2006, he warned of a beginning of financial crisis. But no one believed it, given that in that period everything seemed to be good in economic and financial field.

But further developments and the outbreak of financial crisis gave Roubin all the credit. In his analysis of the factors responsible for the failure of Anglo-Saxon model banks in times of financial crisis, he stressed the fact that the Anglo-Saxon model of supervision, in other words, the belief in the self-regulatory capacity of financial markets, is a failure.

He considers the idea of self-regulation markets and their ability to absorb bubbles, as a total lack of regulation. According to him, "market discipline can not exist in a context of euphoria and irrational exaltation." This behavior and preference for deregulatory practices or belief in market self-regulation created risk rating agencies, which had obvious conflicts of interest with banks.

5. Conclusions

Based on the above analysis, conducted in this paper, I come to the main conclusion that neoliberalism and the implication of neoliberal policies are not the main causes of the financial crisis of 2008. So, the main hypothesis is rejected.

In support of the main conclusion reached, other conclusions drawn from the paper are:

The starting point of the crisis was the accumulation of high risk loans "subprimes". Although they were seen as a product of neoliberal policies, they actually came as a result of public policies undertaken from President Roosevelt to help those in the middle and popular social strata who had housing problems.

The risk was made even higher by their trade by two state-sponsored federal agencies: Fannie Mae and Freddie Mac, who took the risk after believing they were "too big to fail". Even if they were on the verge of bankruptcy, FED would not allow their demolition.

6. Recommendations

Based on the above conclusions I would suggest some recommendations, which, in my opinion should be implemented in order for such crises not to appear in the future.

Firstly, due to the high level of integration and interdependence created in international markets, it is important to unify the rules globally and their supporting institutions, in order to avoid a possible instability of the markets. This can be achieved through new forms of self-government and democratic models, which by nature and methods are more social than political. Thus, we would no longer have "overcoming greed nor overcoming fear."

Secondly, in order not to allow any longer "speculation stories" like the one that led to the 2008 crisis, I would suggest that businesses today, especially financial institutions, not to be driven solely by greed to maximize profits, even in speculative ways, but also to stay faithful to social principles. Corporations today must guarantee the greatest possible benefits to humanity, by undertaking social responsibility policies, not just for their own interests.

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