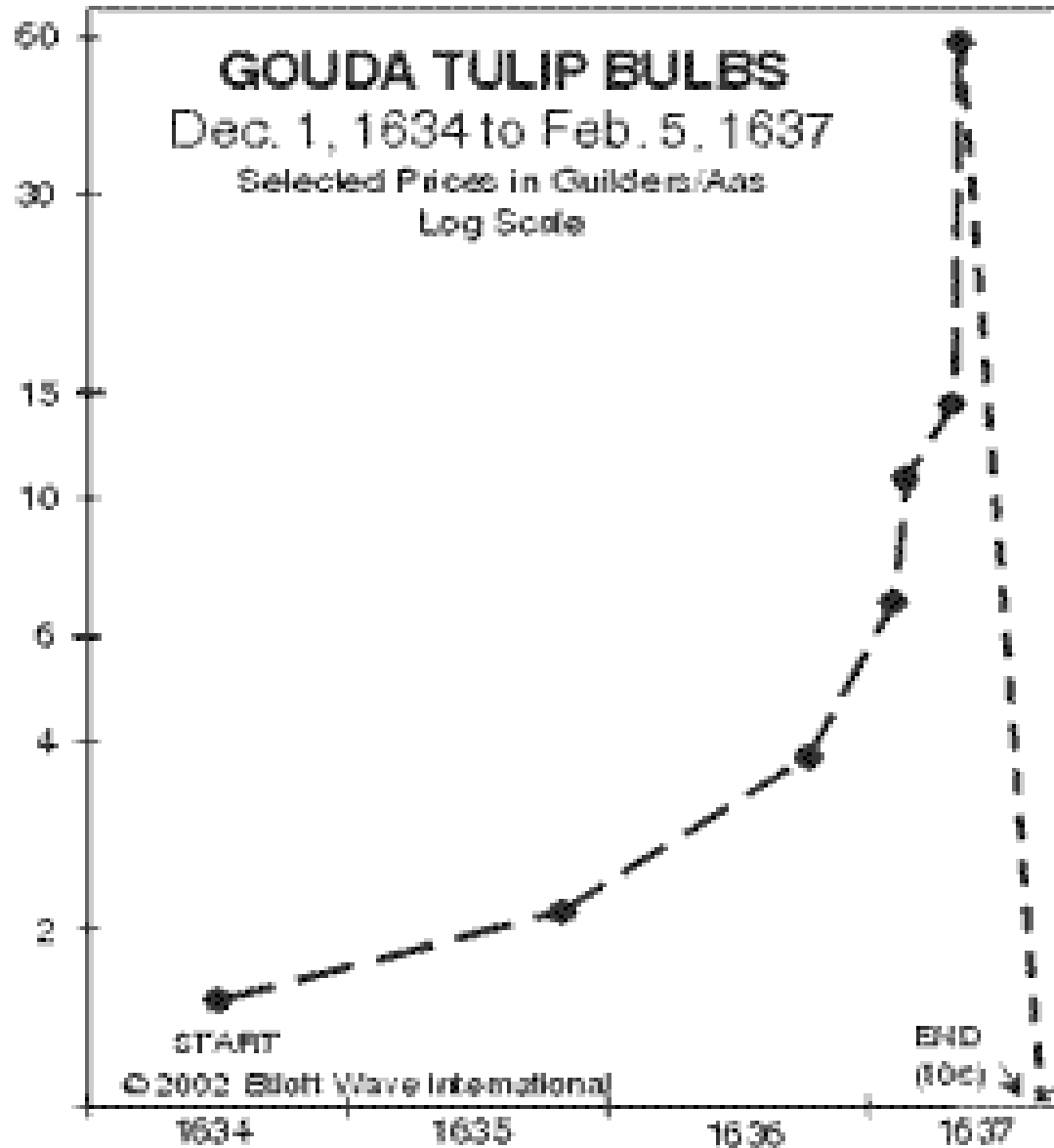


# ***Economic Crises: from Tulipomania to the Subprimes Crisis***

*Dr David Rees*

# Tulipomania. 1637



Tulipomania now refers to any economic bubble

## South Sea Bubble. 1720



South Sea Company has state monopoly for trade and takes on State debt. Share value 1720: Jan. £128, Aug. £1,000 Sept. £150



Friday, October 25, 1929

## Black Thursday. 1929

Easy credit

Removal of controls

Speculation leads to x4 values

Share prices don't reflect real values

Banks had lent beyond their resources

1933 25% unemployment



Tuesday, September 30, 2008

ED FISHER



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1932. Roosevelt  
The New Deal.



# Black Wednesday, UK, 1992

UK was in the ERM (European Rate Mechanism)

George Soros made £1bn

Bank of England lost £3.3bn

Could have made a £2.4bn profit by keeping foreign currency reserves



## Subprimes crisis, USA, 2007 & 2008

Traders earn bonuses on profit

Use 'no doc' lending based on increasing house values

(Ninja credit – No income, no job, no assets)

Use of 'teaser rates' to tempt people to take credit

Bad credit hidden in complicated schemes

Restructuring to resell

HIGH RISK	MEDIUM RISK	LOW RISK	
50%	30%	20%	A Bonds
40%	30%	30%	B Bonds
30%	30%	40%	C Bonds
20%	30%	50%	D Bonds

Borrowers cannot repay increasing interest rates

Too many houses on the market – houses lose value

Other householders lose 'potential' asset credit

Bankers sell hard to clear bad debt



## **Causes**

**Human greed**

**Easy credit (cheap – few controls)**

**Speed of transactions (use of computers)**

**Complexity of funds and capital / debt ratio**

**Deregulation (and difficulty to regulate)**

**Political power of banking sector**

**Globalisation (liberalisation)**

**Demand for 10-20% profit p.a.**

**Remuneration system (40-50m\$ per manager!)**

**Traders make money from fluctuation, not stability!**

**If banks know they will be saved, keep taking risks**

**Will we see a new Bretton Woods?**

**Loss of Stability Pact and resultant debt and deficit. How to get back to normal?**

**Frequency of crises increasing, rapidity increasing, effect world-wide**

### **Solutions**

**Separate bank functioning and ban tax havens**

**Capital fund levels (Cooke ratio: 8%)**

**Tax purchasing (slow down the system!) (Tobin Tax 0.05-1%)**

**Change bonus system to long-term profit**

**Limit bonuses**

**Restrict / ban food commodity speculation (how?)**

**Need G7, G8, G20 cooperation (bank power)**