Example of the politics of the economic crisis research paper

Education, Discipline

The origins and management of the economic crisis was based on political more than economic reasons

Perhaps the economic crisis is one of the worst events to affect the world after the Great Depression of the 1930s. The crisis had tough effects that it affected the world's strongest economies such as the United States and majority of European Governments. The financial largesse awarded to affected economies was aimed at enabling governments to re-finance debts. Without the packages and bailouts, many a government would have collapsed from the depth and effects of the crises. A great deal of scholars have attempted to analyze and explain the ideological crisis using all sorts of ideological perspectives. Majority of findings from such studies have offered varied facts, opinions, and in most cases, use generalizations in justifying the reasons behind the crisis. Even though the causes of the financial crisis have been blamed on the sub-prime mortgages in the US real estate market and the collapse of the Lehman Brothers, I believe that the origins of the financial crisis had more political than economic reasons. Half-hearted implementation of economic reforms, weak regulation of the financial crisis, and profit-motivated greed from banks did contribute to the financial crisis.

Neoliberal ideologies forced both the socialists and the players in the civic society to support strategies that were used in the management of the financial crisis. Equally, capital-adequacy regulations did play a major role in facilitating the financial crisis given the aspect of allowing highly priced asset-backed securities. Closely related are the reasons that were used in awarding the sovereign debt because the regulations seemed to encourage banks to invest in government bonds but failed to limit the amount the same governments needed to pay on their debts (Jablecki, 2012). This was common with many governments in the Eurozone. Regarding regulations, the imposition of capital requirements on banks forced many banks to face losses related to exposures to the sovereign debt crisis

Speaking of regulations, the perverse regulations led to the great contractions that happened between 2007 and 2009. The manner with which banks undertook investment activities is questionable and this can be blamed on the effects of under regulation. The prevailing regulations that governed the management of financial institutions contributed to the loss of considerable value to most financial institutions. According to Friedman and Kraus (2011), such webs of regulations led banks into investing in particular financial assets that lost a great deal of value over a short time. Friedman and Kraus (2011) goes further to argue that radical ignorance did drive the investing institutions into a quagmire that was difficult to come out of it. The major actors in the crisis comprised of politicians, regulators, and bankers with little information concerning the possible effects of the recession.

Coupled with the weak regulations, greed from financial institutions made banks to purposefully ignore the high levels of risks associated with particular assets in favor of those assets that were thought to generate high profit levels. For instance, majority of the assets produced at the time were rated AAA thereby reducing the risks associated with such type of securities (Friedman and Kraus, 2011). Since the housing industry were associated with such type of investments, there was no doubt that they were certain to funnel increased levels of investment. The low interest rates on loans made it attractive and affordable to borrow funds for house ownership. To this purpose, the aspect of risk externalization played a role in creating an incentive for increased borrowing and as well, the increased concentration in the housing market.

On the contrary, the outcome of the financial packages and the financial bailouts have brought great transformations in bringing financial reforms irrespective of the political nature of the strategy. The imposition of regulatory measures and the implementation of regulatory measures have provided remedies to governments and financial institutions in addition to enabling them to counter the effects of the souring financial situations. The regulatory measures that have been put in place to counter future situations such as the financial crisis are based on economic than political ideologies. For instance, the enactment of the Basel III accord was based on sound macroeconomic and regulatory frameworks aimed at providing the right control measures to financial institutions. The implementation of capital controls, correction of the prevailing lending behaviors, application of tough policy instruments, and the placement of direct reserves overshadows ideas that support the evaluation of the economic crisis from political rather than economic grounds.

Conclusion

As argued in this paper, the events underlying the economic crisis had largely to do with political reasons as compared to the economic reasons. Reasons put forward to support this argument includes the perverse regulations led to the great contractions that happened between 2007 and 2009, investment behaviors of financial institutions before and during the crisis, half-hearted implementation of economic reforms, weak regulation of the financial crisis, and profit-motivated greed from banks did contribute to the financial crisis. However, the examination of the strategies employed to curtail the economic crisis such as bailouts, rescue packages, and implementation of capital controls and other regulatory measures shows that the strategies implemented to counter the economic crisis were not entirely guided by the political motives.

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