The 2008 financial crisis

Finance

The other reasons for the global financial crisis in 2008 were the resultant inability to measure risk, screening of borrowers and bank lending of precarious loans, and lack of concern on the ability to pay with the main aim being the origination of loans (Dowd, 143). These factors that resulted in the financial crisis show the blatant disregard by the financial institutions of the needs of the stakeholders through taking on precarious loans depicting an example of the lack of ethics or moral hazard situation. Securitization and subprime mortgage origination rose until 2006 when the household debt was 100% of US GDP, causing rising interest rates making refinancing difficult and drop in housing prices and 1. 3 million housing projects were in foreclosure in 2007, the crash had begun. The proceeding days would be so tough for banks and other financial institutions owing to bank runs and collapse including certain governments that depended so much on foreign market loans.

The crisis could have been prevented through a reduction in the bailouts or the expectation of bailouts by firms since set precedence for firms to invest in risky activities. This is because when these activities are successful; the investors benefit, but in case of failure, there is a bailout by the government. Having a law holding each person responsible for the risky actions that led to the crisis and punishments through license revoking and other ways, regulation of shadow banking, removal of deposit insurance, short time interest rates, and tighter monetary policies form the other ways that the crisis could have been prevented.

The reforms on executive compensation include expensing of stock options at fair value, greater disclosure of executive pay, and the introduction of say-on-pay to allow stakeholders to have voting power on the determination of executive power. These measures were aimed at reducing the excesses of the executive and protect the interests of the stakeholders making the executive more accountable for their actions. Congress reform of executive pay includes limits on pay, the cap on tax deductibility, clawbacks, and severance limiting golden parachutes for executives allowing for performance-based compensation in the long-term and compensation for sound risk management (Narayanan and Brem, 10).

The best chance of reporting the finance industry is reforms aimed at curbing unethical behavior excessive risk-taking by companies where consumers shall not pay for the irresponsibility of companies trading on Wall Street and separation of proprietary trading from banking. The lack of this separation was the main reason for banks' participation in hedge funds, proprietary trading, and private equity for their own profit and not considering client needs. The ending of the bailout is the other part of the reform that will allow the restriction on participation in the riskiest financial services that led to the 2008 crisis and shutdown of filing firms before the crisis.

I believe say-on-pay is a necessary and effective intervention that saves the stakeholders from executive excesses by providing them a voice on executive packages. Say-on-pay will affect the behavior of CEOs since a failed say-on-pay vote signals a board and company failure to the investors and the public adversely damaging the brand and board reputation. The other reason for the effect on CEO behavior by say-on-pay is that a failed say-on-pay convey to society and market of no care by the company for executive pay to reflect the performance.

The actions that resulted in the 2008 financial crisis including participation in the riskiest financial services and made profits for their own good by financial service providers show the unethical behavior by firms. The unethical behavior was further extended by executive compensation that was not pegged on performance and resulted in benefits for the executive despite losses for employees and shareholders necessitating for reforms to promote ethical behavior and curb executive excesses.