Economic Crisis / Economic Bubbles / Bailout

The term “**economic crisis**” was on everyone’s lips in the past months, because the health of the global economy affects governments, banks, industries, and jobs – all are in danger.

The crisis had its origin in the USA, where *subprime loans* were granted to potential homeowners, although they could not offer sufficient security for the loans. The subprime loans lead to an inreased demand on the real estate market and the prices for houses increased to an artificially high level.

The lenders sold their valueless subprime credits in high-rated packages to other investors from Europe, for example. These investors bought the stocks, because they wanted to increase their return on equity and ignored or did not know about the high risk of their deals. Similar deals with highly toxic stocks were made on several other markets like the automotive one.

After the lenders raised the interest rates, the debtors no longer could pay back the loans. As a consequence the lenders went bankrupt and the **housing bubble** burst. Thereupon other bubbles, like the **stock exchange bubble**, began to burst everywhere around the globe, especially in October 2008.

The governments are now trying to palliate the consequences of the crisis with the help of large monetary **bailouts** and big *stimulus packages*. But it remains to be seen if that will help. The governments used bailouts as a last resort to save companies which were almost bankrupt, teetering on the brink of collapse. That happened with the big US automobile company GM, for example, which was subsequently nationalised by the Obama administration. Many people think very critically about the engagement of the State in such enormous dimensions, especially if companies receiving support by the state did not go bankrupt because of the economic crisis, but because they had been badly managed for years or the products they offered are out of fashion. Furthermore, ordinary people often react with misunderstanding and anger when they hear about bankers and managers who have the brazenness to benefit from the crisis by paying themselves big severance bonuses partly out of tax dollars. For every honest and hard worker, this behaviour deteriorates his/her trust in economic and political leaders.

However, many governments are of the opinion that state subsidy is necessary at the moment to avoid an intensification of the crisis and to stimulate the economy in terms of the idea of ‘deficit spending’ of John Meynard Keynes.