The Great Global Financial Crises: official investigations, past and present, 1929-2011

Abstract:
In the present essay we review a set of enquiries and reports that were realized and published as a result of the major financial crises of the past and of the contemporary era. These documents generally address the issue of the causes of collapse of bank and capital markets but also shed light on regulations proposed at different points in time to improve financial stability. We begin with reference to official investigations on the crisis of 1929 and the subsequent bank crises in the Great Depression which we compare with those on spawned by the Global Financial Collapse of 2008, which has produced the greatest outpouring of these types of investigations and publications It is our hypothesis that one important avenue for a historical understanding of the great financial debacles of the past consists in a careful evaluation of official literature and documents that can complement the theoretical approaches of economists in search of explanations for these events.

Key words: financial crises, collapse of banks and capital markets, official reports, financial stability.
Classification system of Journal of Economic Literature: N20 Financial markets and Institutions. General, International or comparative.

The economic meltdown provoked by the Global Financial Crisis which exploded in 2008-2009 is reflected by big numbers: the loss of almost two trillion dollars by the banking system, the loss of another various trillions in the mortgage and stock markets, and the rise in unemployment by between 50 and 70 million on a worldwide scale between 2008 and 2011. The huge costs these disasters provoked have been discussed at length in the press, in thousands of working papers and in many international investigations, among which one of the first was the UN-sponsored *Stiglitz Commission* on financial reforms, that published detailed reports from May and June 2009.[1] In particular, the Commission's emphasis was on understanding how the financial collapse crisis, which originated in the *North*, affected not only the economies of the North Atlantic but also the countries of the *South*.

The controversy is strong and will continue to be so in the future. The reason is that major crises destroy traditional structures and practices in politics and the economic activity and force people to think about new ways of managing financial markets and institutions, as well as new methods of public regulation. It is positive that an intense and wide-ranging debate about these decisive subjects for the future of humanity has emerged. But at the same time, it is clear that there is great resistance to change by various influential corporate lobbies, the more conservative mass media, and the power structures that cling to monopolist or burocratic practices and are not interested in profound reforms or a worldwide democratic discussion on the future management of finances and politics.

A fundamental challenge of this debate consists in understanding why the most important financial markets of the world collapsed and why the principal financial

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[1] The documents of the Stiglitz Commission as well as the declarations of the delegates of dozens of nations who participated in the discussions can be accessed on the Commission's web page: http://www.un.org/ga/econcrisissummit/

companies and regulatory agencies failed so clearly in the US, where what has been described as a perfect and gigantic storm in September and October 2008 had its epicenter. Many academic studies analyzing the causes have already been published. This challenge consists in thinking about the suggestions for implementing reforms to the banking, monetary, and financial system, nationally as well as internationally.

But let us being by asking: which are the best and the most important sources for understanding the outbreak as well as the immediate causes and consequences of a major financial crisis? They come in various shapes and formats, including empirical, theoretical, legal and political texts and documents. Financial and economic historians have been studying these kinds of texts for decades because it is necessary to combine a large variety of primary and secondary sources in order to fully grasp the complexity of a great financial collapse. It is worthwhile noting that this literature has broadened remarkably in our own day as a result of the most recent crash of 2008, which is now known both familiarly and among experts as the Global Financial Crisis[2]. Indeed, the number of books, documents, articles and working papers on this recent financial cataclysm is not only expanding exponentially but also has become much more accessible worldwide due to the internet, and has even spawned a new kind of electronic publication, the "financial blog", which also attracts great interest. Nonetheless, it should also be recognized that there are important historical antecedents dealing with prior crises that consist not only of books and articles, but also official documents and enquiries that can be identified and studied for many financial crises over the last century and a half.

Perhaps the first sources of study which historians habitually utilize to reconstruct financial crises of the past are newspapers, particularly the specialized financial press that publish articles providing a first-hand description of the daily events that occur on the outbreak of a major event of this nature. A second source are the more analytical articles that appear somewhat later in economic newsletters or journals (and today in web sites of *working papers* and *blogs*, as well), written in most cases by economists, financial experts or well informed financial journalists. A third source consists of reports circulated by banking institutions, particularly central banks and multilateral financial entities, gradually increasing in volume and regularity over the twentieth century.

But apart from the sources aforementioned, there were (and are) other complementary documents that may have more of a political origin, based on official efforts to "uncover" the causes of financial collapse of banks or stock markets and the key figures considered responsible for the debacle. Whether this objective is fulfilled or if there is actually a "cover-up" depends on a great variety of factors. In this case, historians need to focus on a fourth important repository of information which are the official enquiries realized generally by parliamentary committees or commissions soon published after the crisis that provide much information of interest, including the testimony of a large number of key financial actors. A complementary source – although generally less consulted except by legal experts- are the judicial records of court cases related to embezzlements or frauds by banks or financial agents. Finally, it may be suggested that major pieces of legislation ratified in the wake a result of a financial collapse should also be studied in the light of the important materials

[2] It is interesting to note that in the World Finance Conference held this year in Cyprus, the expression has become a standard reference among the leading financial experts and in paper after paper, the acronym for the Global Financial Crisis used is GFC.

contained in parliamentary debates or in the laws themselves and in subsidiary documents.

Our essay focuses on the importance and utility of these kinds of documents, but we focus, in particular, on the official enquiries on the causes of financial crises, the majority of them being the product of legislative commissions of different governments but also in more recent times investigative committees of central banks and multilateral institutions. We begin by looking into the official investigations spurred by the crash of 1929 and the subsequent Great Derpression, and then turn to the more numerous official investigations that were generated by the crash of 2008 and the subsequent Great Recession.

The Crash of 1929: the U.S. Senate investigation of foreign loan defaults (1931) and the Banking and Currency Commission (1933)

As in previous crises, the enormous losses suffered by investors as a result of the stock market crash of 1929 soon also generated considerable pressure to find culprits or scapegoats and to do so through official enquiries. Since it was well known that playing the stock market by investing in private companies or corporations had many risks, attention was initially channelled by the United States press and by bondholder organizations against foreign governments which had issued a large number of dollar bonds and were considered responsible for stoking speculation in New York. Hence, it was not surprising that following the first Latin American defaults in 1931- including Bolivia, Chile and Peru- many bitter and distressed bondholders in the United States began to organize a campaign to demand a congressional investigation of banker malpractice in the issue and sale of the bonds. The bondholders believed, with some reason, that the New York investment houses engaged in the international loan business had not adequately informed them of the political and economic risks involved in acquiring Latin American government securities.

A number of powerful Washington D.C. politicians agreed with them, and in December, 1931 the U.S. Senate opened hearings on the subject[3]. During the space of four months an impressive roster of New York bankers was publicly cross-examined. The financiers called to Washington included the patrician Thomas Lamont of the House of Morgan, the flamboyant Charles Mitchell, president of the National City Bank, Clarence Dillon of the blue-ribbon firm of Dillon, Read, Otto Kahn of Kuhn, Loeb & Company, James Speyer of Speyer & Company, and many others. Not surprisingly, these individuals denied any wrongdoing and affirmed that by selling the bonds they had simply been pursuing the expansion of United States trade. As Charles Mitchell affirmed: “That the banking interests of this country have floated foreign loans in America is something which should have the praise rather than the criticism of any body of men"[4].

[3] United States. Congress. Senate. Committee on Finance, Sale of Foreign Bonds or Securities in the United States. Hearings before the Committee on Finance, United States Senate, Seventy-second Congress, first session, pursuant to S. Res. 19 a resolution authorizing the Finance committee of the Senate to investigate the sale, flotation, and allocation by banks, banking institutions, corporations, or individuals of foreign bonds or securities in the United States. Accessed Aug 1, 2013 from FRASER, http://fraser.stlouisfed.org/publication/?pid=398

[4] Senate Committee on Finance, p.64. Also see Marichal (1989, p.206), which includes the Mitchell quotation.

Some of the senators did not appear to be convinced by this argument. Senator Tom Connally replied to Mitchell: "With reference to foreign bonds, you are like the saloon keeper who never drank. His whiskey was made to sell, not to drink"[5]. Connally's intention was to suggest that the financiers enticed the investors to buy the bonds without informing them of the possible dangers which such transactions might entail. The bankers, of course, insisted that they were innocent. On the other hand, a number of lower-level employees of the banks divulged much information which revealed the degree of cupidity and amorality of both North American bankers and Latin American politicians. The arguments put forth were similar, in many respects, to those presented before the British Parliament in its investigation of Latin American loans held in 1875. The bankers were judged to be, on the whole, unscrupulous businessmen who did not have the interests of the average investor at heart. It was due largely to their duplicity that the menace of a Latin American financial crisis had not been foreseen.

Despite the withering criticisms vented in the U.S. Senate and in the North American press against the bankers and politicians who had inflated the Latin American loan bubble, the fact was that defaults were not caused so much by speculation as by the depression itself. All Latin American economies and governments depended heavily on the trade cycle and when exports and dropped dramatically in 1930 and 1931, so did imports and as result customs revenue which was the backbone of government income. There was hence no way of maintaining debt service payments. Nonetheless, the whole of issue of Latin American defaults was quite quickly forgotten amidst the calamities generated by the banking crises in the United States and Europe in 1931 and 1932.

In 1932 the World Economic Conference was held at Lausanne, Switzerland, with the aim of helping to save the European banks and in particular the largest German financial institutions. Among the most important measures adopted was an agreement by the major powers to forgive most of the old war debts of Germany known as reparations which had been ratified since the Versailles Treaty of 1919: these were slashed from 31,000 million dollars to less than 1 thousand million dollars. The contrast between the generosity extended to Germany and the critiques of the much smaller Latin American debt defaults was striking. Soon however, public opinion in the United States turned against the domestic bankers as a result of thousands of domestic bank failures, and in early 1933 the new administration headed by Franklin Delano Roosevelt took a set of active measures to remedy the situation, declaring a bank holiday that lasted from March to June. Subsequently there followed a variety of investigations which have been of great use for historians seeking to explain the crash of 1929 and the Great Depression.

Inside the United States popular pressure built up in 1932 to investigate the role of bankers in the manipulation of the stock exchange, which was generally considered a cause of the crash of 1929[6]. The hearings organized in 1933 by the United States Senate's Banking and Currency Commission were headed by Ferdinand Pecora, who personally did much of the interrogations of leading financiers, including Richard

[5] Senate Committee on Finance, p. 81.

[6] Parts 1-6, April 11-May 25, 1933, were digitized by Internet Archive: United States. Congress. Senate. Committee on Banking and Currency, Stock Exchange Practices. Hearings before the Committee on Banking and Currency Pursuant to S.Res. 84 and S.Res. 56 and S.Res. 97. Accessed Aug 1, 2013 from FRASER, http:fraser.stlouisfed.org/publication/?pid=87

Whitney, president of the New York Stock Exchange, George Whitney and Thomas Lamont of J.P. Morgan, Albert Wiggin, head of the Chase National Bank and Charles Mitchell of the National City Bank. The transcripts and records included 12,000 printed pages. The work of the committee uncovered the concentrated nature of the top sector of the New York financial community and brought to light unscrupulous practices. The hearings prepared the ground for the ratification of the Banking Act of 1933 (known as the the Glass Steagall Act, separating commercial from investment banking), the Securities Act of 1933 and the Securities Exchange Act of 1934.

As may be observed, the Senate investigation was not particularly important as opening a way to prosecute the leading New York bankers who escaped scott free from litigation or jail. On the other hand, the hearings did generate a strong current of public opinion favourable to the ratification of major pieces of reform legislation, which in fact established the regulatory and institutional banking and financial architecture that played a most important role the United States from the mid 1930s almost to the end of the twentieth century.

In the case of Great Britain in the early 1930s, Parliament did not open public hearings on the crisis, but the government did order that an official investigation by leading politicians and economists produce an official report on the origins of the stock market crash of 1929 and on the subsequent economic depression in the United Kingdom. The body in charge of this task was that of the Macmillan Committee also known as the *Committee on Finance and Industry* which published a much cited study. Among the most informed members of this investigative body were Ernest Bevin, John Maynard Keynes and Reginald McKenna. The final report was mainly the work of Keynes and made important recommendations, including reforms to the Bank of England. According to an article published on July 17, 1931 in the newspaper *The Spectator:*

> Lord Macmillan´s Committee published its Report on Monday. All of the fourteen members, except Lord Bradbury, take a favourable view of Great Britain's prospects. They hold that monetary policy should seek to raise international prices, at present dangerously low, and should try to maintain the higher level, once attained. The creditor countries must be more willing to lend to, and buy from, the debtor countries—a counsel of perfection, perhaps, for our cautious Protectionist friends in France and the United .States. The Committee recommends drastic changes in the Bank of England. Its Banking and Issue Departments should no longer be distinct. It should be empowered to increase its note issue to £400,000,000 and to reduce its minimum gold reserve to £70,000,000—less than half the present amount—so that more gold might be available for the needs of poorer countries. Our banks, the Committee holds, should co-operate more fully with our industries, though the suspension of the Darmstedter Bank in Berlin, partly at least because it was heavily involved in the failure of a large woollen company, comes as a simultaneous reminder of the grave risks of the German banking policy thus commended. Lord Bradbury in a dissenting minute bluntly says that no manipulation of currency or credit would cure our diseases—excessive taxation, heavy costs and the general insistence on a higher standard of living than we can afford[7].

[7] The quote is taken from the following source accessed Auust 4, 2013

Another important source of official reports on the financial crisis and its consequences is the collection of League of Nations publications of the 1930s, which were quite numerous and detailed. In his classic work titled *Golden Fetters*, Barry Eichengreen registered 12 books or reports prepared by League of Nations´ experts dealing with the causes and impacts of the Great Depression (Eichengreen, 1995). The first and perhaps best known study was that drafted by a League of Nations bureau, the World Peace Foundation**,** and was titled *The Course and Phases of the World Economic Depression: Report Presented to the Assembly of the League of Nations*, Geneva, 1931.

In other countries there were also official investigations, though some of these took time: for example, in Australia there was a major enquiry (a Royal Commission) into banking in 1936-37, as a consequence of the Great Depression, and on the behaviour of the central bank (The Commonwealth Bank) in these years[8].

Official enquiries on the World Financial Crisis of 2008

While official enquiries have been characteristic after numerous financial crises of the past, never have there been so many as those carried out and published since the financial collapse of 2008. Their findings are significant to understand some of the roots of this global financial collapse but they also have played a role in stimulating new regulations, both national and international. It is to the subject of these, recent official investigations to which we now turn.

The impacts and consequences of the financial and economic crisis that erupted in the United States in September 2008 were so acute and widespread that immediately comparisons began to be made by analysts with the Great Depression of 1929-1933[9]. The breakdown of banks, stock exchanges, and real estate markets, particularly in the United States and much of Europe, caused a severe credit crunch and affected most countries and companies worldwide. It led to a drastic drop in employment which, it is calculated, affected as many as 50 million persons who lost their jobs worldwide in 2009. The collapse also caused a catastrophic decline in stock markets as well as investment in nearly all nations as well as a sudden fall in profit rates and a drastic decline in worldwide production and trade. The magnitude of the crisis was certainly enormous although it was not as long lasting and devastating as the Great Depression, which probably explains why it has frequently been baptized the *Great Recession*.

The financial collapse of 2008 and 2009 came as a major surprise and raised a great number of questions about causes of the collapse, especially because it broke out in the largest and most dynamic financial markets in the world, those of New York and

http://archive.spectator.co.uk/article/18th-july-1931/2/the-macmillan-report-lord-macmillans-committee-on-

[8] Economic historian Alex Millmow (2010), argues that the Royal Commission stimulated the adoption of Keynsian policies by the Australian government and by the Commonwealth Bank Board.

[9] The most frequently quoted statistical comparisons can be seen in the graphs Eichengreen 1995 and O´Rourke (2009-2010).

London. A number of economists had foreseen the possibility of new crises in the developing countries, but only few of them had anticipated breakdowns in the economically more advanced nations. The great question then is why did New York and London experience runs and losses of this magnitude? Were there common factors that caused the disarrays in these *capitals of capital*[10]? There certainly existed particularly close financial links between them, but the size of the collapse and its rapid spill-over to other financial markets of the world indicate a broader range of causes.

It is quite evident that the financial revolution of our age is closely related both to economic globalization and to the new information technologies, which connect different markets by means of a multitude of high-speed transactions. The intensified relationships between banks and other financial service providers in different nations inevitably multiply the risks in case of a crisis in the major markets. But now we also know that the dangers had been increasing considerably since the 1990s due to the introduction of a series of financial innovations, such as the famous derivatives and diverse structured investment products, the object of which consisted in diversifying the risks of investments in bundles of mortgages, primary commodities and an endless number of additional securities. A set of major problems and risks was caused by the fact that the new securities were traded in a vast and new banking market that was barely supervised: some authors have defined it as an *alternative* banking system and others, more negatively, as *shadow banking*[11]. As a result, nobody really knew the real value of these transactions or the nature of the credit chain, in spite of the huge volume. It was a gigantic *black hole,* but even though its dangers were signaled by a fair number of analysts, in practice, it was not regulated by the key central banks, particularly by the Federal Reserve Bank of United States or by the Bank of England, which were at the center of the deepest and most important financial markets in the world.

From the end of the twentieth century the potential danger of a *systemic* collapse augmented, but very few could foresee the possible string of faults in the markets. It was clear, nonetheless, that in the case of an explosion, all main financial centers would be affected on account of the intense globalization process and notable concentration of capitals. One way to describe the highly complex entanglement between the contemporary financial centers is to visualize them like a small galaxy of suns and planet as was illustrated in a magnificent paper and speech of May 2009 by Andrew Haldane (2009), executive director of Financial Stability of the Bank of England: his graphs demonstrated that, in 2005, the United States and Great Britain were the two most important financial markets in the world; they were connected by means of many exchanges with all the other large and mid-sized financial markets.

The solar system metaphor helps to explain the dynamics of the contemporary world of finance. As was demonstrated in the 1990s, if a one or more secondary markets collapsed (particularly in the developing countries), a systemic crisis was not probable: the rescue mechanisms put in place after the Asian financial crises of 1997, for example,

[10] We use the expression from the excellent book by Cassis (2006).

[11] One of the best and deepest analyses on banks and the crisis as a whole is the work by Dehesa (2010).

avoided a world financial panic. On the other hand, if the financial markets at center were to implode, all markets would be affected. In September 2008, the breakdown of Lehman Brothers, at the very center of the major financial center in the world, had devastating effects and caused panic waves among thousands of financial servers that were linked to this investment bank, which then led to the freeze-up of short-term credit markets. The banking collapse which ensued in New York and London riveted all other financial centers and provoked a completely unexpected series of panics on practically all stock exchanges and banks. The rumors of possible bankruptcies of a number of the largest United States investment banks and several commercial banks as well as -and equally important- of major British commercial banks were followed in September and October by news of the collapse of several important banks in Germany, Belgium, the Netherlands, France, as well as virtually the entire banking systems of Ireland and Iceland. It was not clear at the time if the meltdown of financial markets could be reversed, and it was feared that there would be very serious consequences, as this would likely lead to the paralysis of the operations in trade and production in many countries.

The crisis dramatically demonstrated that financial markets everywhere were much more fragile than it had been assumed and that there were gigantic flaws in the anticipation of risks. It is true that other organizations like the Bank for International Settlements (BIS) and the national financial supervisors and regulators had been working on the introduction of new regulations so as to reduce the risks in the banking systems and other financial markets. The Basel II agreements to upgrade bank capital as well as the improvements in banking supervision policies in several EU countries indicated that some progress had been made (Tarullo, 2008). However, the magnitude of the 2008 collapse and, especially, the economic and social consequences – including the numerous bankruptcies of companies and banks, the sharp increase in worldwide unemployment, and the huge losses of wealth – suggested that the diagnostic capacity of the problems had been entirely deficient among central banks, private banks and financial experts. Nonetheless, a review of the official investigations, which have been published since the crisis, suggests that actually there was a clear awareness of the enormous changes in the financial markets but little willpower to actually confront the rapidly increasing risks of a possible explosion.

After the financial downturn of 2007 and the crash of September 2008, came the rescues put in place by treasuries and central banks around the world. Once the depth of the financial and economic losses began to be grasped, there were political pressures to put in place a variety of efforts to carry out and publish *official enquiries* on the causes of the collapse. The first nation to begin such studies was Great Britain, led by the Bank of England, when its director, Mervyn King– with the support of the Treasury-instructed Lord Adair Turner, head of the Financial Services Authority in late October 2008 to produce a report that was published in March 2009 (Financial Services Authority United Kingdom, 2009, pp.16-22)[12]. The text identifies the primordial causes of the financial crisis as being generated by 1) severe global macroeconomic imbalances, in which countries like China and Japan had huge commercial and financial surpluses, while other countries like the United States and the United Kingdom had massive deficits; 2) the increase of risky operations by the commercial banks, which

[12] We have put the italics on the last part of the citation. This document can be consulted in paper and on the internet.

had high leverage in their activities; 3) the growth in the use and complexity of securitized credits; 4) inadequate reserve capital held by major banks; 5) excessive trust by the financial community on mathematical models and in the credit rating agencies.

The extraordinary statistical graphs that accompany the report indicate that there was detailed awareness in central banks like that of the Bank of England of the enormous changes that had been taking place in contemporary financial markets since the 1990s. But there was also a singularly clear recognition that the mathematical models had led the banking experts to believe they had most things under control. The following extracts from the report are indicative:

> The evolution of the securitised credit model was accompanied by a remarkable growth in the relative size of wholesale financial services within the overall economy, with activities internal to the banking system growing far more rapidly than end services to the real economy….
> From about 2003 onwards, there were significant increases in the measured on-balance sheet leverage of many commercial and investment banks, driven in some cases by dramatic increases in gross assets and derivative positions…
> *The increasing scale and complexity of the securitised credit market was obvious to individual participants, to regulators and to academic observers. But the predominant assumption was that increased complexity had been matched by the evolution of mathematically sophisticated and effective techniques for measuring and managing the resulting risks* (Financial Services Authority United Kingdom, 2009, pp.16-22)[13].

The Turner report, however, did not limit itself to analysis of global financial trends as well as innovations in the financial markets in the United States. It also focused on the specifics of developments in Great Britain including the growing current account deficit from 2000 onwards, the great housing mortgage boom in that country, the enormous increase in securitised loans in the mortgage lending business. Furthermore it was remarkably candid with regard to a critique of theoretical propositions and assumptions underlying the supervision and regulation of financial markets in the years preceding the collapse. The following quote is illustrative:

> At the core of these assumptions has been the theory of efficient and rational markets. Five propositions with implications for regulatory approach have followed:
> (i) Market prices are good indicators of rationally evaluated economic value.
> (ii) The development of securitised credit, since based on the creation of new and more liquid markets, has improved both allocative efficiency and financial stability.
> (iii) The risk characteristics of financial markets can be inferred from mathematical analysis, delivering robust quantitative measures of trading risk.
> (iv) Market discipline can be used as an effective tool in constraining harmful risk taking.
> (v) Financial innovation can be assumed to be beneficial since market competition would winnow out any innovations which did not deliver value added.
> *Each of these assumptions is now subject to extensive challenge on both theoretical and empirical grounds, with potential implications for the appropriate design of*

[13] We have put the italics on the last part of the citation.

regulation and for the role of regulatory authorities (Financial Services Authority United Kingdom, 2009, p. 39) [14.]

While covering some of the macro and micro economic causes of the crisis, the Turner report actually directed most of its attention to propose solutions with regards to future financial regulation. The key recommendations in order to avoid future problems included the recommendations to implement more stringent reserve capital requirements, establishing a ceiling for the financial institutions leverage ratio, the need to set up in a counter cyclical regime, the application of financial stress tests to verify the liquidity level of the financial institutions. Other recommendations; the creation of a deposit insurance scheme that would protect all the depositors in case of bankruptcy of their financial institutions; increased supervision of credit rating agencies, in order to limit their potential conflicts of interest; and the creation of a compensation system in the derivatives trade market that could protect standardized contracts. The Turner report also focused on the need for increased regulatory powers by the *Financial Services Authority*, giving it the capacity to oversee the shadow and offshore banking system activities, as well as redefinition of its tasks to give priority to the overseeing of the biggest banking institutions, of systemic importance, and to put emphasis not only in the process but also on their the business models, strategies, risks and results. Lord Turner´s report also stressed the co responsibility of the *Financial Services Authority* and the *Bank of England* in the macro prudential analysis and recommended further international cooperation in order to increase the flux of information between the most important national and international agencies in charge of financial regulation or supervision. In this regard, the report suggested that it could be wise to set up an independent European institution with the capacity to supervise the financial activities in the zone.

Almost simultaneously, the British Parliament initiated a series of investigations, among which several should be cited, such as that carried out by the *Committee of Public Accounts* of the House of Commons regarding the trajectory and dynamics of the banking system of Great Britain before and during the crisis (House of Common, Committee of Public Accounts, 2010)[15]. The interviews with bankers in the hearings are of enormous interest for historians interested in understanding the views of key actors in the financial world during the boom and bust. Similarly, other important documents which included research on the crisis were prepared by a variety of government offices, including for example the document by H.M Treasury titled *Reforming Financial Markets* and presented to Parliament in July 2009 which explains the views of officials regarding the crisis and outlining a large number of new financial regulations considered appropriate for discussion and subsequent legislative reform. A subsequent report with more emphasis on the need to discuss future reforms to the banking system was promoted by the Chancellor of the Exchequer in June 2010 on announcing the creation of the Independent Commission on Banking, chaired by Sir John Vickers, which produced its report on November, 2011.

[14] We have put the italics on the last part of the citation.

[15] Twelfth Report of Session 2009–10, published on 9 February 2010, together with formal minutes, oral and written evidence. This document can be consulted in paper and on the internet.

In the United States, government officials as well as members of Congress also moved from late 2008 onwards to investigate and explain the crisis by promoting a large variety of research and legislative reports. For instance, the Department of the Treasury conducted studies into the financial collapse, including the important White Paper, titled *Financial Regulatory Reform,* which was published on June 17, 2009[16]. Many other major pieces of documentation can be found in the website and publication list of the Department of Treasury as well as of other federal government offices. Equally notable was the enormous increase in number and transparency of publications by the Federal Reserve Bank: all speeches by the Chairman, Ben Bernanke, have been published on the internet quickly, as well as speeches and reports by other top level functionaries of the same institution. And the number of working papers on the financial crash has literally exploded, providing a huge amount of published analysis of great interest for researchers.

Perhaps the most extensive research on the origins of the world financial crisis, however, can be found in two major, official enquiries, one conducted under the auspices of the Congress and the second more specifically by the United States Senate. In the first place, it is worthwhile commenting *The Financial Crisis Inquiry Report* which is one of the most significant official documents on the financial crisis that exploded in the United States in September, 2008 and quickly muted into a global financial and economic crash. It is important not only because of what it may tells us about the causes of the crisis, but also because it speaks to the political response to this type of financial catastrophe. The United States Congress set up the Financial Crisis Inquiry Commission as a result of ratification of the Fraud Enforcement and Recovery Act on May 20, 2009, a bare six months after the fall of the house of Lehman Brothers and its worldwide ramifications. During the year 2010 the commission reviewed millions of pages of documents collected as a result of 18 public hearings held all over the United States, during which over 700 witnesses were interviewed and questioned, including bankers, investment managers, businessmen, government officials, financial regulators and academic figures. The final report was presented on January 27, 2011 as the "The Financial Crisis Inquiry Commission Report" and later published a few months later as a book which can also be consulted as an ebook on line[17].

The report focuses on the huge mortgage bubble in the United States and its gradual collapse in 2007 and early 2008 which eventually led to a huge short-circuit in financial markets. The commission was formed by ten members, six Democrats and four Republicans, reflecting the relative strength of these political parties at that time. The report reflected to a considerable degree the economic point of view of each group of constituent members on the causes of the crisis. The final report aimed its artillery

[16] United States, Department of the Treasury Financial Regulatory Reform, June 17, 2009: TG-175 - (US Dept of the Treasury), which can be consulted at http://www.financialstability.gov/docs/regs/FinalReport_web.pdf

[17] Apart from the e-book version of *The Financial Crisis Inquiry Report*, which can be found on internet in the US Congress site, most documents and interviews can be researched on a site of the Faculty of Law at Stanford University: http://fcic.law.stanford.edu/
Another site with documents from the Congress is http://cybercemetery.unt.edu/archive/fcic/20110310173906/http://www.fcic.gov/hearings/testimony/first-public-meeting-of-the-fcic

against investment banks, private financial mortgage firms and rating agencies. The Democrats on the Commission including its president, Phill Angelides, and commission members, Brooksley Born, Byron Georgiou, Bob Graham, Heather Murren and John W. Thompson, voted in favor of the general conclusions. On the other hand , the four Republicans, vicepresident Bill Thomas and his fellow commissioners, Keith Hennessey, Douglas Holtz-Eakin and Peter J. Wallison were not in agreement and did not recommend publication.

The Democrats and their research assistants argued basically that the crisis was largely the result of the widespread belief among financiers and investors as well as central bankers, regulators, that markets could self regulate, a view that led many private actors to take very risky positions in financial markets, including extraordinarily high levels of leverage and lack of transparency, at the same time as official regulators displayed a notable lack of vision and of supervisory vigor. The dangers of a debacle were muted by the extensive use of risk coverage in the form of derivatives and of an incredible number of complex financial instruments created to assure firms and individual investors that they would not lose their shirts. The banks selling the mortgages and derivatives, as well as their clients, apparently believed the tale of inevitable and guaranteed gain. In addition, credit agencies played a major part in impelling the huge wave of financial speculation by providing top ratings for the majority of the risky financial instruments sold. The report also emphasized the excess liquidity provided by the Federal Reserve, the official policies in favor of home construction, including the role of government mortgage agencies. But it also argued that the latter policies were not the real cause of the crisis, which was basically caused by the actions of many domestic private actors in a financial free-for-all that was fraught with enormous and risky speculation, and eventually led to the crash.

Three Republicans on the commission presented a dissenting opinion which was also published in the volume under review. They disagreed with the Democrats, arguing that the US financial markets were not to blame and that the financial actors and institutions which promoted the mortgage boom were also not responsible. Rather-they argued- the huge credit bubble had been generated largely through the international transfer of excess capital to the United States by China as well as the recycling of petrodollars by the Arab states, which caused a lowering of interest rates, and virtually pushed the money into the mortgage business, including subprime mortgages. The subsequent explosion of the housing bubble destabilized banks and other financial institutions and eventually set off the crisis.

Finally, one fourth and more radically conservative Republican, Peter Wallison, who also was on the Commission and clearly appears as a partisan of the *Tea Party*, also presented his conclusions. He argued that he also did not favor publishing the report because the entire fault of the crisis lay at the feet of the government and more particularly of the federal agencies, Fannie Mae and Fannie Mac, which had led private actors astray, by pushing them to take excess risk in the mortgage business.

In summary the Democrats blamed financial deregulation and lack of supervision of the behavior of private financial actors and markets as the major causes of the collapse, while the Republicans held that regulation and supervision were not key causes but rather financial globalization. But perhaps it may be suggested that above and beyond the general conclusions of the report, what may of greatest interest to future historians of the financial crash are the documents of the hearings, which constitute an inestimable source, although not easy to consult.

Of similar importance is the Senate report on the crisis. This document was the result of an investigation carried out by the Permanent Subcommitee on Investigations, which from November, 2008 “initiated a wide-ranging inquiry, issuing subpoenas, conducting over 150 interviews and suppositions, and consulting with dozens of government, academic and private sector experts. “The Subcommitte affirmed that it had accumulated and reviewed “tens of millions of pages of documents”. The committee was headed senator Carl Levin, Democrat, and senator Tom Coburn, Republican, and included 23 lawyers and clerks that carried out the bulk of the research and hearings, as well as drafting the drafts of the final six hundred page report.

After the preliminary research work was concluded, the Subcommittee held four hearings to examine “four root causes of the financial crisis.” At that time it released tens of thousands of pages of evidence, and proceeded to explore in depth the operations of several of the largest banks and institutions involved in the crash. The first case study was of the huge banking firm known as Washington Mutual, which became the largest bank failure in US history, and was later absorbed by J.P.Morgan. The Senate investigation is a scathing document that reveals the extraordinary degree of impropriety and very high risks assumed by the bank directors of this enormous financial company. The report then focuses on review of the role of two of the largest credit rating agencies, Moody´s and Standard & Poor in the financial markets before the crisis. Finally, extensive hearings and in-depth studies were carried out on the enormous number of irregularities in the market conduct of two powerful banks, Goldman Sachs and Deutsche Bank, in fomenting the speculation in derivatives and so-called *synthetic* financial instruments which increased risk in all financial markets, but particularly those in the United States in the years 2003-2008. The hearings also reveal an enormous number of irregularities in the conduct of these very powerful financial firms.

As in the case of the Congressional investigation, the Senate placed considerable emphasis on the peculiar and dangerous dynamics of the mortgage markets, in particular, the enormous increase of high-risk instruments, the so-called subprime mortgages, from 2003 onwards. But the Senate subcommittee was most interested in analyzing the microeconomics of the largest financial institutions in the process of creation and massive sale of investment packages containing a complex composition of securities and derivatives. The acronyms of these products reflect that they represented a new generation of securities: these included financial vehicles whose acronyms were varied, such as CDO, ARM, ABS/CDO, AVM, ABX CMBS, REI, CDS, and SIV, created in the last two decades[18]. As the investigations demonstrated, understanding these instruments requires great expertise in the most sophisticated and arcane of modern banking and finance, and it certainly exceeded the knowledge of the individual investor. This created huge problems of information asymmetry between sellers and buyers. The Senate report transcribed parts of many interviews which demonstrated irregularities and risks involved in these transactions, and concluded by recommending specific regulations of the new financial instruments. It also raised major questions about the issue of banks which are “too big to fail”, and therefore involve government rescues in times of crisis. The Senate inquiry clearly demonstrated the dangers inherent to contemporary financial

[18] A detailed guide written at the time was the book by Das (2005).

markets as influenced by huge and very difficult to regulate banking giants, which are also not all transparent in their transactions.

Of course, the official enquiries have no monopoly on interpretations and documentation of the crisis, as can be seen in the innumerable books and articles that have been published by journalists, economists and financial experts on the greatest financial crash since the Great Depression, a subject on which probably many more will be written in the future. Nonetheless, as economic historians it is important underline the importance of reviewing and carefully analyzing the official documents and investigations that poured forth quite early after the outbreak of the financial debacle and have continued to do so down to the present. Also of great importance are the *Valukas Report* which contains the records of the court case on Lehman Brothers (some 1,2000 pages, placed online in June 2010), or the two thousand pages of Dodd/Frank law Wall Street and consumer Protection Act, signed into law in July 2010, which was accompanied by a huge amount of documentation that is of historical interest.

Apart from the official enquiries carried out in Great Britain and in the United States, it is worthwhile emphasizing that a large number of institutions and countries have promoted enquiries, including, for example, the reports on the financial crisis by committees of the National Assembly of France and by the French ministry of Finance which can be found online. Similarly, it is important to analyze the documents of the Dutch Temporary (Parliamentary) Committee on the Inquiry of Financial System, also known as the 'De Wit Committee' after its chairman, set up by the Dutch Parliament's House of Representatives, which in June 2010 presented its report on the first part of its investigation into the crisis in the Dutch financial system.

Furthermore, as already suggested, the central banks of many countries have published many reports and studies of the crisis. So have multilateral financial organizations such as the International Monetary Fund (IMF), the World Bank, and the Bank of International Settlements, and most of these can be consulted online. On the other hand, there are as yet few critical studies of some of the most important and revealing of these documents, including perhaps most significantly the independent evaluation of the IMF, which provides a truly critical and in-depth analysis of the errors committed by this institution in the years preceding the global financial collapse. The contrast with the World Bank evaluation, which is extremely superficial, is striking.

It is also important to keep in mind the large amount of official research on the social consequences of the financial collapse, as is demonstrated, for example, by the detailed investigations of the International Labor Office on the tragic and drastic impact of the crisis on employment worldwide, which can be reviewed in its annual report of the year 2011. Similarly, the United Nations has sponsored several investigations into the crisis, the best known being the Stiglitz Commission, which in June 2009 published not only the results of its enquiry into causes of the global crisis but also a large raft of recommendations for revising financial regulation and supervision throughout the world.

In summary, although it may be argued that the Great Recession is now fast becoming history -except in Europe, where it may continue to wreak havoc for some time- its enormous and long-term consequences on a worldwide scale certainly merit the attention not only of economists and social scientists but also of historians to help explain a major turning point in modern history. And it is the argument of this essay that greater attention should be devoted in the future to studying and analyzing the key official documents collected and produced by governments, banks, courts and legislatures on this gigantic catastrophe of the contemporary age.

In lieu of a conclusion

All major financial over the last two centuries have provoked disbelief because of the suddenness of the catastrophe but also as a result of the enormous costs provoked by economic collapse. This is all too evident in the case of the global financial crisis of 2008/2009: the depth of the financial and economic meltdown is reflected by big numbers, the loss of almost two trillion dollars by the banking system, the loss of various trillions more in the mortgage and stock markets, and the rise in unemployment of between 50 and 70 million persons worldwide in those years. An obvious question is whether we can identify the causes of the great fall, and it is clear that there is now a much better understanding, although certainly there will long be intense debates on this question. This is not surprising but not especially encouraging, for as we know explaining the Great Depression of 1929-1933 continues to be a holy grail of economists, as one prominent central banker of our day has phrased it.

Inevitably, financial disasters lead to an outpouring of publications, but in this essay we emphasize that financial and economic historians should pay special attention to the official reports which include the most detailed investigations. This is particularly pertinent to evaluate the extent to which current banking and financial reforms around the world can be considered adequate responses to this human and economic tragedy. This is so because every large financial crisis in the modern era has marked fundamental changes in the international monetary, financial, and political regimes. In this sense, in order to understand the causes and consequences of financial catastrophes, it is indispensable to take into account global history in the long run.

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