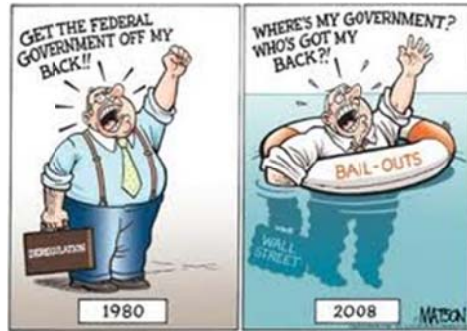




### How Did We Get Here?

#### ● Financial Deregulation



The Economic Crisis is confusing to everyone, so let's try and get a grasp on what we can here through a little time travel!

**1933** When you look back at the **Great Depression** and then at our country's current economic crisis, you can see why history teachers always said "History repeats itself!" Following the Stock Market Crash of '29, Congress passed the **Glass-Steagall Act**, which separated depository or commercial banks (like a modern day **Bank of America**) from investing activities using customer deposits.<sup>1</sup>



**1980s** If we fast forward to the decade of electronic drums and Madonna, we see how a lack of oversight of the American financial industry, or what is referred to as "**Deregulation**" began with the Reagan Administration and his appointment of the economist **Alan Greenspan** as the chairman of the Federal Reserve, our country's central banking system. The problem with Mr. Greenbucks . . . uh, sorry, I mean Mr. Greenspan, is that he strongly favored deregulation and risky investments that made the executives at the top of our financial sector rich at the peril of the middle and lowest class tax-payer. Greenspan would be re-appointed by President Clinton and both of the Bush presidents.<sup>2</sup>



**1999** President Clinton's Treasury department urged the successful passing of the **Gramm-Leach-Bliley Act** which overturned the Glass-Steagall Act. The country reverted to the roaring 1920s and experienced the roaring 2000s!<sup>3</sup> This Act allowed depository or commercial banks to work with Investment banks. By 2001 only five main banks dominated the investing scene!



<sup>1</sup><http://www.investopedia.com/articles/03/071603.asp#axzz1bEwmjasG>

<sup>2</sup>[http://www.sonyclassics.com/awards-information/insidejob\\_screenplay.pdf](http://www.sonyclassics.com/awards-information/insidejob_screenplay.pdf)

<sup>3</sup><http://www.investopedia.com/terms/g/glba.asp#axzz1bzRWjxsp>



**2000s** Now banks could do business with investment firms. In addition, [The Commodity Futures Modernization Act](#) is passed in Congress. This legislation gave rise to the trading term known as the “[Derivatives](#).” Derivative trading is modern gambling in which investment firms could make side bets on mortgages, or house loans. They could even bet on the possibility of foreclosures.

So, investment bankers encouraged depository bank lenders to give housing loans to minority and low-income customers, (This is known as [Predatory Lending](#)) basically predicting that they would not be able to pay their loans back and they were making big money off of these failures.

Wall Street investment firms were selling multiple home loans in packages to investors, knowing that they were loans that probably would not be paid back. These bundles of home loans were made up, magic money that made Wall Street crazy rich in quick profits! While a large population of low-income and minority citizens were purchasing homes that they would eventually lose due to foreclosures, bankers were making more and more profits.<sup>4</sup>



**2008** The number of home foreclosures had skyrocketed and the housing market collapsed. Depository banks could not sell housing loans to investment firms anymore and investment firms could no longer sell their bad bundled home loans.

By the fall of this year, Wall Street investment firms had become bankrupt and so had the largest insurance company ([AIG](#)) that had been giving the firms money if their financial gambling was unsuccessful. The Federal government had to take over the insurance company and use 700 billion citizen tax dollars to bail out the investment banks. This 700 billion dollar hand out is infamously known as “[The Bail Out](#)”<sup>5</sup>

**The Aftermath:** Unemployment and foreclosures continue to this day to increase. In 2007, the national unemployment rate was 4.6. <sup>6</sup>

Today, the unemployment rate is [9.1 percent!](#)<sup>7</sup> Even worse is the fact that the executives of the investment firms that got our country into this mess got to keep all of the money they made during their roaring 2000s. And Wall Street is not done. It continues to swallow politics by spending billions of dollars on campaign and lobbying contributions in order to keep their money making schemes alive. The financial sector of America employs over 3,000 lobbyists to fight any changes in the system. It is no wonder that any efforts to promote regulation have been weak.<sup>8</sup>



<sup>4</sup> Inside Job Script.

<sup>5</sup><http://www.propublica.org/special/government-bailouts>

<sup>6</sup><http://www.infoplease.com/ipa/A0104719.html>

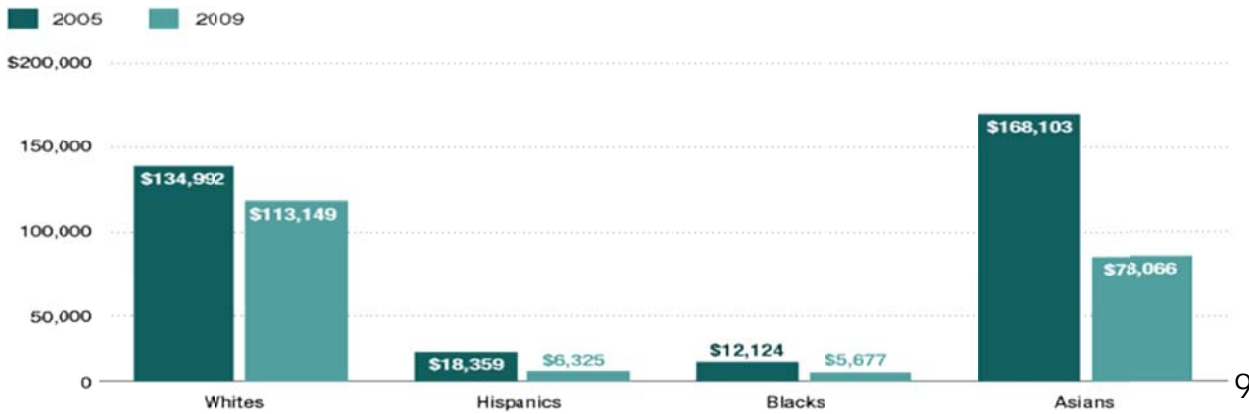
<sup>7</sup> Infoplease.com

<sup>8</sup> Inside Job Script.



A breakdown of household wealth according to race offers another important insight into the effects of these policies:

### Median Household Net Worth



A large percentage of minority families had most of their wealth in their homes, so when the housing market failed, it was devastating for them. As you can see, the economic crisis increased the already enormous racial wealth gap in the United States. In 2009, the median wealth of a white family was 20 times the median wealth of a black family and 18 times the median wealth of a Hispanic family. The fact that a larger number of white families who had wealth invested outside of their homes saved that group from the extreme change that these other groups felt.

Financial deregulation, which led to predatory lending and derivative trading, had a real impact on the lives of millions of Americans, and especially low and middle class families that had most of their wealth invested in their home. A return to regulation, and the reinstatement of Glass-Steagall Act, would protect all of us and keep the top 1% from slipping out of sight at the top of our widening wealth gap.

<sup>9</sup> <http://www.npr.org/2011/07/26/138688135/study-shows-racial-wealth-gap-grows-wider>