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Wall Street Should Be Held Responsible for Fraud

Since the initial suburbanization movement in the late nineteenth century, owning a home (preferably with a white picket fence) has been a symbol of success in America. But until the early 2000s, home ownership was typically reserved for the middle and upper classes. This changed in the early 2000s when it became extremely easy to buy a home because banks relaxed their requirements to qualify for a mortgage loan. It was at the beginning of the twenty-first century that banks began rolling out subprime mortgages, which were mortgages lent to people who were likely to default on the loan. These mortgages, although risky, became the banks' main source of housing-related business. Only a few years after the introduction of subprime mortgages, most banks stopped requiring proof of income to qualify for a loan. Eventually, prospective homeowners could be approved for over a hundred percent of the cost of their home. This meant that in many cases, banks no longer required money down to buy a house. Because of the ease with which one could now purchase a home, more and more Americans became homeowners. However, not all Americans were able to pay the mortgage on their home, which meant that the banks lost a lot of money during this time due to mortgage defaults. To cover the damages from mortgage defaults, banks started to give out more loans and bring on more investors. This cycle continued for years, and to most Americans, the economy seemed to be healthier than it had been in decades. This was far from the truth. In 2008, the sudden crash of the housing market threatened to ruin the American economy. In a Hail Mary attempt to save the economy, the federal government bailed out Wall Street to the tune of $700 billion. Although this bailout was unethical in that it rewarded the fraudulent actions of Wall Street without punishing any of the banks for the damage they caused to the economy, it was successful in resuscitating the economy; the 2008 bailout was necessary. Due to this, regulations should not be placed on the federal government in terms of its ability to levy bank bailouts. That being said, in the case of another bailout caused by Wall Street, the banks should have to face legal consequences for their fraudulent actions. Furthermore, banks should be more closely monitored in an attempt to catch bank fraud before it impacts the economy negatively, as it almost did in the 2008 housing market crash.

The bank bailout of 2008 was a necessary federal action which intended to, and succeeded in, resuscitating the economy after the housing market crashed. Because of the bailout's success in avoiding financial disaster, and the reasonable assumption that the United States could be susceptible to another crisis, no limits should be placed on the federal government's ability to levy bailouts. In the case of the housing market crash of 2008, the bailouts were key in saving the economy. The intent of the government in levying the bailouts, as outlined in the Emergency Economic Stabilization Act, were "to limit the impact on the economy and protect American jobs, savings, and retirement security" (Source B). It was precisely those aspects of the American economy that were at stake if the banks were allowed to fail. First of all, banks themselves employed millions. Banks are directly tied to hundreds of other industries, which means industries, which, in combination, were crucial to the American economy would cease to exist if the banks failed. Furthermore, a loss of jobs would deprive the economy further because when people don’t have jobs, they do not have as much disposable income. The ways in which this disposable income is spent greatly impacts the economy; without this spending, the economy would be damaged. Also, a lack of cash flow in the economy combined with a large percentage of unemployed Americans can compound on itself to cause more damage; with more people looking for jobs (that are not as plentiful because a decrease in cash flow spells disaster for many businesses), less jobs are available, creating a dangerous cycle of unemployment as more people lose and search for jobs as the economy continues to decline. To this end, bank bailouts were necessary because in 2008 bank losses directly correlated to lost jobs and homelesness (Source A). Essentially, if the banks failed, the economy would fail, too. This is to say that the failure of the housing industry would have a domino effect, affecting every other American industry negatively as well. Secondly, if the banks failed, Americans could potentially lose the money they had placed in them. Within days, Americans’ hard-earned money could just disappear. Another complication with the potential failure of banks was that pension funds were frequent investors in the housing market. If the market failed, these investors would not be paid; if these investors were not paid, retirees would not receive their pensions. They, too, would have to wait in the unemployment line, further compounding the impending unemployment crisis. The government was right in assuming this negative cycle could be reversed if the banks were paid. If the banks could pay off the pension funds, the retirees would be financially secure again. The real estate business would not fail. Money would once again circulate throughout the economy. The government had no choice: it was entirely necessary to give the banks money to avoid financial disaster. Michael Lewis, author of financial novel *The Big Short*: *Inside the Doomsday Machine*, sums it up: “In 2008 it was the entire financial system that was at risk" (Source A). This once again reinforces that when the government bailed out the banks in 2008, they were not only trying to protect the banking industry, but all American industries, which would inevitably be impacted by the failure of the banking industry. By bailing out the banks, the government started a positive chain reaction that saved the economy. Because bailing out the banks succeeded in repairing the economy (and in a relatively short amount of time), bailouts are a viable solution to future economic crises. The bailouts were necessary in the case of the housing market crash, and they may become necessary again, as economic panics tend to happen every decade or so in the United States. Therefore, it is in the best interests of the American economy to allow this protective measure to be an option for the government in the case of economic crisis. The bailout is clearly an effective economic resuscitation strategy, so it would be irresponsible to outlaw it, or restrict it such that the program becomes difficult to carry out. The question of the legality of bank bailouts is simple: Is it in America's best interest to prevent financial upheaval? In every case, the answer to this question is a resolute "yes." Therefore, because the bank bailout has proved itself to be an effective tool of economic intervention, it should be allowed and even encouraged as an economy-saving mechanism on the part of the federal government in the event of a future economic crisis.

Although the bank bailout is an effective way to resuscitate the economy after the banks have failed, they fail to address the causes of market crashes. Namely, the 2008 bailout procedures ignored that the blame for the housing market crash should fall solely on Wall Street, as it was their incessant greed and fraud that almost drove the economy to collapse. In the 2008 crisis, the government failed in that it refused to punish Wall Street for its actions. Going forward, a caveat to federal bank bailouts should be that those who drove the economy to bust, if they did so through fraudulent actions, should be held accountable for those actions through legal repercussions. In the years leading up to the financial crisis, “Complicated financial stuff was being dreamed up for the sole purpose of lending money to people who could never repay it” (Source A). This “complicated financial stuff” included fluctuating mortgage rates meant to trick those who were not well-versed in finances into buying homes they were told they could afford, but could not hope to pay for. In some cases, mortgages would triple after the first few months or years; the buyer would often be unaware of this. Banks during this time also took on investors that would bet on the success or failure of thousands of mortgage loans packaged together into one investment. When loans failed, banks simply sold more loan packages to investors to make up for the lost funds. Essentially, investors were betting on money that didn’t exist. And what’s worse: the banks became especially talented at making it seem like mortgage loans were succeeding, and that the banks were, too (Source A). Wall Street’s creativity in recording their financial situations on their books demonstrates that they knew they were acting fraudulently; the banks were not simply ignorant to how badly their system was failing. When the market crashed, the banks should have been blamed. But instead, according to the Los Angeles Times, the bailout “allowed the bankers who got rich off of the risky financial practices that led to the crisis to avoid the consequences of their actions” (Source D). In the years leading up to the crisis, and in the years during which the economy was rebuilding, leading bank executives made multi-million-dollar bonuses on top of their multi-million-dollar salaries. Because the banks were saved, ordinary bankers (who still made ridiculous salaries) got their jobs back. Only one Wall Street banker went to jail as a consequence for his actions regarding the crisis (an immigrant who had frauded billions less than his superiors). Simply put, this is not right. When someone does something illegal, they should be punished for it, regardless of whether they are a wealthy and powerful figure. To be fair, following the 2008 crisis, the government did adopt some reforms that would hold banks accountable in the event of a future crash. These reforms may prove pointless, though, as there is a lot of pressure on the government to repeal them (Source F). Even still, enacting reforms that will affect the fallout in future economic depressions will not change the fact that those who caused the 2008 crisis not only went without legal punishment, but without punishment in regards to business for their risky decisions. In most situations, if a person makes decisions at work that have detrimental effects on the company (not to mention the entire United States economy), they will lose their job as a consequence. The bank bailouts ensured that even this outcome was not experienced by financiers. We cannot right this wrong, but we must ensure that the government prosecutes the banks if they act unlawfully again. This can even be done before the country is driven to economic ruin with close monitoring of the banks, their loans, their investment packages, and their books. If banks face consequences when they act unethically, it will set a precedent against corruption. This action could possibly prevent another economic crisis by the fault of the banks. Regardless, it is still important to hold the banks accountable for their actions. If they cause another market crash that could threaten the economy, they should be required to publicly admit blame and face legal action against them. If the bankers who made questionable decisions are punished, bank bailouts will be an effective economy-saving measure because they will save the economy and give the community social retribution for the crash (instead of our currently preferred method of blaming lower classes for economic problems). To be clear, punishing bankers for unethical actions will not mean banks will shut down after they are bailed out; it would simply remove corrupt business leaders from heading those banks. In the long term, this would lead bankers within firms to hold each other to a high ethical standard and reduce overall corruption in the banking field.

Bank bailouts saved the economy in 2008 from impending economic collapse. Because of its effectiveness in returning the economy to its previous prosperity, bank bailouts should be a right of the federal government in the case of future economic tragedies. However, in the future, the government should prosecute those responsible for the financial collapse, if their role in doing so was the result of fraud, as Wall Street's role in the 2008 crisis was. In light of Wall Street's demonstration of unethical and fraudulent behavior leading up to the 2008 crash, the government should also closely monitor the banking industry for signs of fraud, and punish any bankers who engage in this activity. This will ensure economic stability and encourage social responsibility among business bigwigs. By allowing bank bailouts with some modifications to their administration, the United States can simultaneously prevent economic collapse and future corruption in the banking industry.