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## Securitization, Deregulation, Economic Stability, and Financial Crisis, Part I - The Evolution of Securitization

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### Abstract

This study analyzes the trends in the financial sector over the past 30 years, and argues that unsupervised financial innovations and lenient government regulation are at the root of the current financial crisis and recession. Combined with a long period of economic expansion during which default rates were stable and low, deregulation and unsupervised financial innovations generated incentives to make risky financial decisions. Those decisions were taken because it was the only way for financial institutions to maintain market share and profitability. Thus, rather than putting the blame on individuals, this paper places it on an economic setup that requires the growing use of Ponzi processes during enduring economic expansion, and on a regulatory system that is unwilling to recognize (on the contrary, it contributes to) the intrinsic instability of market mechanisms. Subprime lending, greed, and speculation are merely aspects of the larger mechanisms at work. It is argued that we need to change the way we approach the regulation of financial institutions and look at what has been done in other sectors of the economy, where regulation and supervision are proactive and carefully implemented in order to guarantee the safety of society. The criterion for regulation and supervision should be neither Wall Street's nor Main Street's interests but rather the interests of the socioeconomic system. The latter requires financial stability if it's to raise, durably, the standard of living of both Wall Street and Main Street. Systemic stability, not profits or homeownership, should be the paramount criterion for financial regulation, since systemic stability is required to maintain the profitability — and ultimately, the existence — of any capitalist economic entity. The role of the government is to continually counter the Ponzi tendencies of market mechanisms, even if they are (temporarily) improving standards of living, and to encourage economic agents to develop safe and reliable financial practices. (See also, Working Paper No. 573.2, 'Securitization, Deregulation, Economic Stability, and Financial Crisis, Part II: Deregulation, the Financial Crisis, and Policy Implications.')

**Keywords:** financial crisis, economic boom, Minsky, regulation, supervision, securitization**JEL Classification:** E6, E42, E44, G01, G18, G28, G38[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID1458408\\_code803290.pdf?abstractid=1458408&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1458408_code803290.pdf?abstractid=1458408&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID1458408\\_code803290.pdf?abstractid=1458408&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1458408_code803290.pdf?abstractid=1458408&mirid=1&type=2)

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