Part III
Financial Wagers, Hyper-Speculation, Financial Overstretch: The Financial Market Crisis of 2008

In the following, the causes that led to the financial market crisis will be analyzed. The financial market crisis is the consequence of an overextension of the finance sector, which bloated into a "financial overstretch" fuelled by financial wagers and hyper-speculation and which, for a time, disengaged from the real economy. The capital market, the market for corporate control, the market for credit, and the market for derivatives all fell prey to hyper-speculation. Speculation was not confined to the capital market and the derivatives market, where it performs a liquidity-boosting function; it also took hold in the credit market via structured products like CDOs, and in the market for corporate control under the influence of the shareholder primacy principle, which exhorts managers to exercise leadership in such a way as to drive the share price upward, even by speculative means, for the sake of capital gains.

In the domains of both lending and corporate management, speculation should be kept within limits since it increases the risks of these markets. In the markets for capital and for derivatives, speculation escalated to levels that were excessive. The trend was amplified not only by new options for "direct" access to the "trading floor" of the stock exchange via online banking and brokerage, but also – in Germany – by a tax regime which, until 31 December 2008, treated capital gains as tax free after shares had been held for the duration of one year.

As public speculation, facilitated by online banking and brokerage, spread to more shares and options, the risks were intensified, not least by the message conveyed to the public that the risks were lower than they really are, and because the amateur investor normally underestimates the risks of buying shares anyway. It is hard to believe that citizens would have invested the money they had saved for their children's university education in Lehman Brothers certificates on the scale that they did, had they been informed that certificates are actually financial wagers. Even the all-too-frequent appeals of the banks for customers to "trust" them with risk-laden and complex forms of investment, such as certificates, were ineffectual and heightened the hyper-speculation.