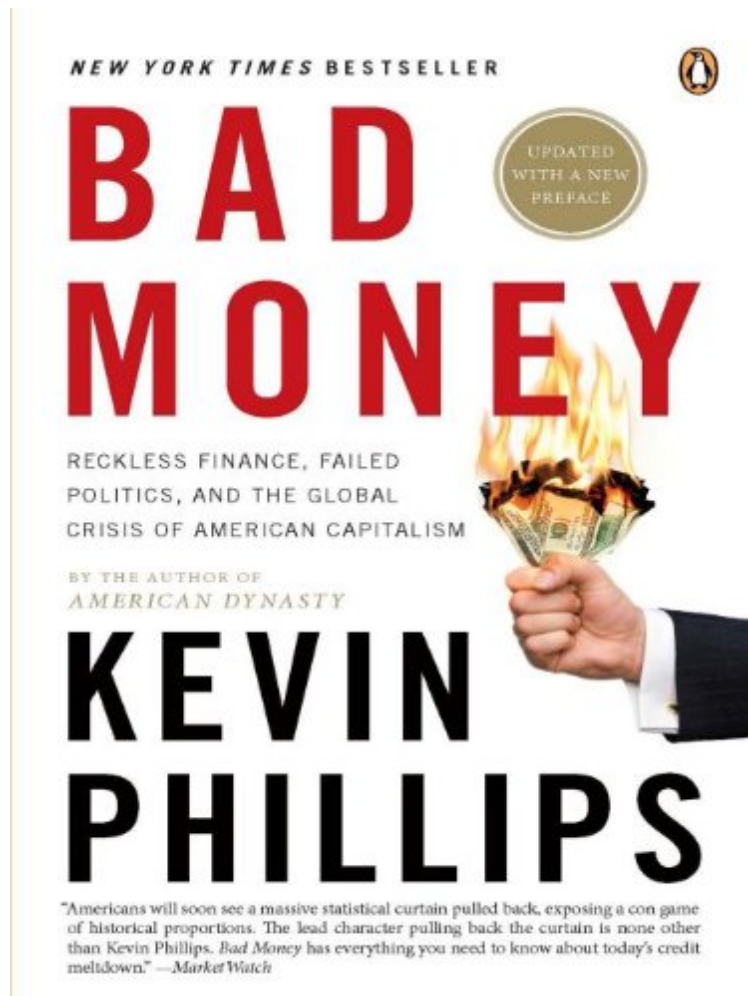



# Bad Money: Reckless Finance, Failed Politics, and the Global Crisis of American Capitalism

Kevin Phillips

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**Kevin Phillips : Bad Money: Reckless Finance, Failed Politics, and the Global Crisis of American Capitalism** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Bad Money: Reckless Finance, Failed Politics, and the Global Crisis of American Capitalism:

393 of 399 people found the following review helpful. Financialization and Its Discontents By Izaak VanGalen For those who have read Kevin Phillips' American Theocracy: The Peril and Politics of Radical Religion, Oil, and Borrowed Money in the 21st Century, many of the themes in the current work will sound familiar. In this book, as well as American Theocracy, he reminds us that previous empires such as 17th century Spain, 18th century Holland, and the late 19th and early 20th century Britain all succumbed to financialization as their global power reached its peak. He argues that the United States is now in a similar position. In the last 30 years financial services have grown from 11% of GDP to 21%, and manufacturing has declined from 25% to 13%. A reversal of roles that Phillips sees as very

unhealthy. This huge growth of the financial sector was not without adverse consequences: in the last 20 years public and private debt has quadrupled to \$43 trillion. How this came about has been expertly explained in another book called *The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash* by Charles Morris. There was easy money as the Federal Reserve was lending money at less than the rate of inflation. Money was risk-free for the lender since they collected fees up front and sold the securitized loans to investors. When this process was repeated millions of times, one ends up with hard-to-value securitized debt throughout the global economy. Then when housing prices start to decline and homeowners start to default on their mortgages on a grand scale, you have a global crisis of American capitalism. (Bear Stearns alone was estimated to be holding \$46 billion worth of bad money.) As in *American Theocracy*, Phillips writes that the oil industry is another component of the current crisis. In the US oil production peaked in the 1970s, on a global level it is peaking right about now. And with the ravenous appetite for oil from newly industrialized countries such as China and India, prices will continue to go up. The US still gets "cheap" oil relative to Europe since oil is priced in dollars, but that advantage may soon disappear. The weakening dollar is forcing OPEC countries to move to Euros and other currencies. And some oil producing countries such as Iran and Venezuela are moving to other currencies for reasons other than economic. The author began his career as a Republican strategist, but he has long since disavowed them. Having a monetary policy of free money, a fiscal policy of tax cuts and increased spending, and an ideology of unregulated market fundamentalism, the Republicans have lost most of their credibility. This does not mean Phillips has gone over to the Democratic side. He believes that Bill Clinton was instrumental in the financialization of the economy, and that currently Hillary and Obama are beholden to investment bankers and hedge fund managers. What used to be the vital center in Washington is now the "venal center." The conclusion of this volume is very gloomy. Phillips believes that we are at a pivotal moment in American history when the economy has been hollowed out, we are saddled with trillions of dollars of debt, and our political leaders are dishonest, incompetent, and negligent. Given that all that may currently be the case, it may be instructive to further meditate on the empires of the past. Spain, Holland, and Britain all managed to survive and even thrive, hopefully the US will do the same.

31 of 31 people found the following review helpful. A tough read but a timely and truly urgent one. By Whitt Patrick Pond. Kevin Phillips' latest book - *Bad Money: Reckless Finance, Failed Politics, and the Global Crisis of American Capitalism* - is not an easy read and not an easy book to review. To properly review it would take more space than is practical in this format. What I truly want to do with this review, then, is to convince people how very important this book is and, as other reviewers have noted, how important it is for anyone willing to tackle its complex subject matter to read it now. It will truly change your perception of what is happening in the US economy and in the US political scene. And, also as other reviewers have noted, it is in the end quite depressing as to how bad our current situation and how bad our prospects for the immediate future are. Reading Phillips' books, I often get the feeling that I have walked into a classroom where the professor is delivering his third lecture on the subject and I must scramble to follow what he is saying. *Bad Money* is no exception. I wish his editor(s) had pushed him to put in a few well-laid out examples that would enable the reader to properly understand just what a CDO or an SIV actually consist of, how they function, how they're handled in the marketplace and so on. Again, this is not an easy read. That said, however, the points Phillips makes are well backed up in economic analysis and facts, and in historical relevance, both of which are areas Phillips is intimately familiar with. He is sounding an alarm to anyone willing to listen, and what he lays out in this book is very disturbing to anyone who has noticed the growing chaos in our financial markets, the rising insecurity of our economic situation, and the seeming inability and unwillingness of our political leadership to deal with these growing problems. The preface, with its subtitle "The Political Economics of Deception", starts with these paragraphs that lay out in startling clarity the central concern of the book: "The most worrisome thing about the vulnerability of the U.S. economy circa 2008 is the extent of official understatement and misstatement -- the preference for minimizing how many problems there are and how interconnected they are... Whether the U.S. government and the Republican and Democratic parties can remedy the debt and oil-related transformations of the last two or three decades is dubious enough. Far more worrisome is the possibility that neither Washington nor Wall Street is willing to confront the deeper problem -- the ascendancy of finance in national policymaking (as well as in the gross domestic product), and the complicity of politicians who really don't want to talk about it." One important point Phillips makes is one people can instinctively relate to: the debasement of government statistics. People know from their daily lives that the economy is not good, that prices of almost everything are on the rise, that jobs are harder to come by, and that overall, things just aren't as good as they once were. But at the same time, the government keeps insisting that unemployment and inflation are low and that the economy is growing, citing figures that people can't reconcile with what they're experiencing every day. The reason is because the numbers have been cooked to support the government's claims and no longer represent any meaningful measure of the things they are supposed to relate to. And the numbers they can't cook, they suppress. For example: "Beginning in March 2006, the new Fed chairman, Ben Bernanke, ordered that the government cease publishing data on changes in the broadest measurement of the U.S. money supply, the so-called M3. It was expanding at a 10-12 percent annual rate in 2006; outsiders calculated that as of August 2007, that growth had accelerated to a high-powered 14 percent.... Continued publication of M3 reports would have undercut the assertion of Bernanke... that the inflationary expectations of the public had been safely 'anchored' at a low

level by the tame coreCPI... For 2007, the U.S. M3 numbers show runaway inflation in the annual range of 14 percent."Another point Phillips makes in the book is that our growing financial problems are compounded by our energy and political problems:"the prior eminence of the United States in global petroleum matters has left not only an outdated infrastructure but a spectrum of disabilities, unwarranted smugness, vested interests, and booby traps. These range from currency vulnerabilities and lack of a serious national energy strategy to apparent policy inertia in Washington, where many officeholders seem unable to understand how much has changed for the United States over the last decade."Other warnings include the rise of oil consumption by countries like China and India and the extent to which oil-producing countries are already re-directing their output towards those markets."In the wake of the unpopular U.S. invasion of Iraq, the Saudis showed their displeasure... continuing to reduce oil sales to the United States... after peaking at the equivalent of 1.7 million barrels per day in 2002, Saudi sales to the United States fell to 1.1 million barrels per day in May 2004... China soon jumped ahead of the United States in oil exports from the Saudi kingdom... the demand for oil in China alone will, before long, equal the entire production of Saudi Arabia... China stands to be the world's largest oil market of the 2030's, possibly replacing the United States in that capacity by 2025."Phillips also touches on why the political leadership seems both unable and unwilling to deal with the array of problems the country is facing and shows how this same deadly political inertia has afflicted other great powers in history, citing examples from the Spanish, Dutch and British economic empires that preceded our American economic empire. The comparisons are fascinating and disturbing at the same time. Again, in looking at what I have written, I know that I have barely scratched the surface of all there is in this book that merits being read. All I can do is urge anyone who wants to understand why the economy seems to be in such bad shape, why the government figures seem to be so contradictory with what is happening, and why our political leaders seem neither willing nor able to deal with the problems, this is the best book you can possibly read and the time to read it is now, before the election, so you can see through the utterly meaningless drivel that politicians are putting out instead of talking about the very real problems we're facing, about what our options - however painful - are, and about what the consequences to us as a nation are if we continue to do nothing.

7 of 8 people found the following review helpful. The Financialization of America By David Swan 'Bad Money' tends to jump from subject to subject but the main point is that increased financialization is a sign of a nation in decline and the U.S. is traveling a path previously taken by other world powers including Britain, Spain and Holland. Mr. Phillips writes that in the 1980's "elements of the U.S. government decided... that finance, not manufacturing or even high technology, had to be the sector on which Washington would place its strategic chips" The wisdom of the "efficient market" is seen as the apex of decision making and with enough creativity and guile Wall Street believes it can literally create money from thin air. The evidence of finance's most favored status is all around us. Financial services have shot past manufacturing as a percentage of the GDP and finance is the one sector of the economy that the Feds have decided must be preserved at all cost. It is within this protective cocoon that financial institutions have operated with reckless abandon knowing that the rules of the game are heads they win, tails the rest of us lose. Quoting the author, "over five years, the housing sector seems to have provided some 40 percent of the growth in U.S. GDP" but the cost of that growth has been devastating. Lenders felt free to engage in incredibly risky loans knowing that they had little if anything to lose. The author is not the first person to suggest that the Federal government was complicit in growing this bubble as lenders let rationality fly out the door in their mad quest for profits. In fact like an overprotective parent the Federal government has demonstrated that it will go to extreme lengths to shield the market from bad news. In 2005 the Feds changed the criteria for calculating inflation lowering it by 2 points. Of course the classic is the absence of food and energy costs in calculating inflation. The middle of the book is jam packed with descriptions of money making schemes cooked up by Wall Street. Reading through the myriad of acronyms, confusing loan setups and baffling hedge funds left my head spinning but that's kinda the point. Finance has become so obfuscated and non-transparent that debacles like the sub-prime mess are inevitable. The Bush administration seems to have two settings, wild overreaction ala Iraq and Social Security and near total disinterest as in global warming and Katrina. I firmly believe that it is the administration's stubborn refusal to address global warming that will damn them by history but as the author writes Bush has pretty much put the country in neutral for the past eight years particularly when it comes to Bad Money's other main topic, peak oil. The author suggests that the invasion of Iraq may have been the sum total of Bush's oil strategy. 'Bad Money' is really an extension of the ideas presented by Kevin Phillips' in his previous book 'American Theocracy' with updates for recent events. This book is significantly shorter than his previous effort which is fine with me. One change in the author's is to push the threat of religion to the back burner as much larger looming problems of financialization and peak oil take center stage. I was a little bothered by the author's 'a pox on both houses' desire to blame both Democrats and Republicans for this mess particularly when it comes to alternative energy sources. The Dems may put up modest resistance against some oil exploration but the Republicans have been absolutely manic in refusing to address peak oil and global warming. I was also getting a little tired of the constant parallels between the U.S. of today and previous nations in decline. After 'American Theocracy' and this book I kinda got the point. It's a very good book if a bit unfocused. The author tosses out some major accusations including implications that the Federal government personally pumps money into Wall Street in times of worry and a suggestion that the Bush administration may be actually pursuing a weak dollar strategy

(may not be so far fetched). I wish the book had spent a bit more time on these two topics.

In his acclaimed book *American Theocracy*, Kevin Phillips warned of the perilous interaction of debt, financial recklessness, and the spiking cost (and growing scarcity) of oil- warnings that are proving to be frighteningly accurate. Now, in his most significant and timely book yet, Phillips takes the full measure of this crisis. They are a part of what he calls "bad money"- not just the depreciated dollar, but also the dangerous attitudes and the flawed products of wayward mega-finance. His devastating conclusion: In its hubris, the financial sector has hijacked the American economy and put our very global future at risk-and it may be too late to stop it.