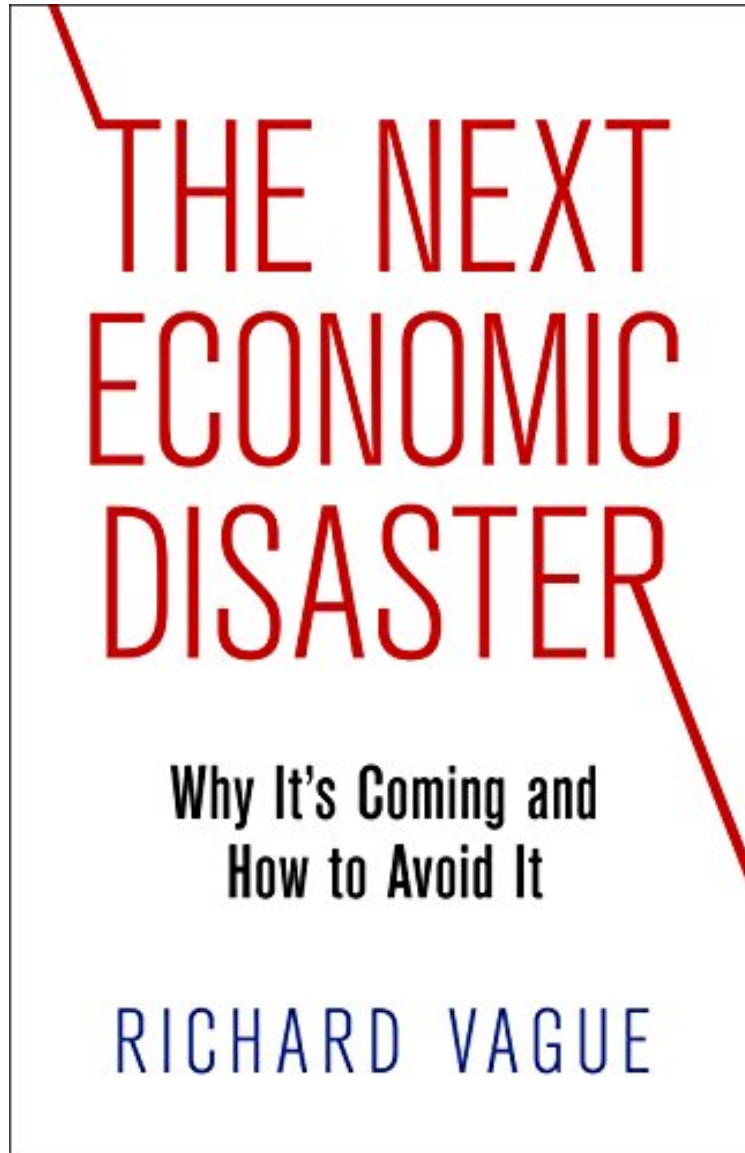


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The Next Economic Disaster: Why It's Coming and How to Avoid It

Richard Vague

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Richard Vague : The Next Economic Disaster: Why It's Coming and How to Avoid It before purchasing it in order to gage whether or not it would be worth my time, and all praised The Next Economic Disaster: Why It's Coming and How to Avoid It:

117 of 122 people found the following review helpful. Too few diamonds in a sea full of roughBy MikeThis is a harsh review. I try to end on a positive note.When I first started my own investigation into the causes of the 2008 economic crisis, I had similar problems as Richard Vague. Everyone seemed focused on the minutiae of complicated mortgage derivatives as the root cause of the crisis, even though that could not explain any other crisis in the world including

those in Europe and Japan. When I stumbled on a graph of private debt / gdp, my gut told me this was hugely important and still am in disbelief that more people are not discussing this angle. After downloading and reading the kindle sample, I immediately and excitedly bought the book - hoping that it would add something to this field. I am hugely disappointed that this book did not, in any way, live up to the hype described in the preface. The preface describes him discussing his theory with dozens upon dozens of economists, some of which he could not convince. The author doesn't name nor quote a single one of these alleged economists anywhere in the book. Instead of quoting the dozens of economists he interviewed, the author prefers to just make assertions without any rigor, quotes or evidence. For example, the author claims that a common objection to his theory is that "private debt zeros out", ie someone must be lending the money that is being borrowed. The author then goes on to describe a simple, logical story that it is the wealth inequality that explains why private debt still matters. All he did was declare a plausible hypothesis as fact - I didn't buy this book looking for a the first plausible story the author thought up. What didn't economists find convincing about this explanation? How does wealth inequality relate to corporate debt? What does the endogenous money model have to say about loans evening out? What does the data say, does inequality in a society make crisis more predictable? Is a more equitable society less prone to private debt causing crisis? If he knows any of these answers, he didn't bother sharing this knowledge with us. The paragraph or two he spend dismissing this objection didn't bother addressing any questions like these. This is just one example of the lack of rigor throughout this book. Chapter one would have been fine if it was an interested amateur's blog post. It is unacceptable from a 30+ year industry professional in a \$10 published, edited book. Also, this is 2014, why in a \$10 ebook do I have to look up the appendix online. You can't get an intern spend an hour to add the appendix to the ebook version?! If chapter one was merely disappointing, chapter two as Vague coming off as a wolf in sheep's clothing. For example, what's the difference between promising bondholders payment over 30 years vs promising banks tax credits over 30 years? In practice, nothing. Yet according to Richard Vague, one "adds to our current debt load" and the other somehow doesn't. "Adding to our current debt load" seems to be a euphemism for "on the balance sheet". This is just insulting to his readers. Vague makes some talk about how we should have nationalized the troubled banks in 2008. Yet it now seems to be too late to nationalize banks, as his plan instead seems to be double down on corporate handouts. He wants the government to pay for some of the banks underwater mortgages through tax credits, moving the liability from the individual to the taxpayer. He wants regulators to greenlight "loan forbearance", which he politely calls a "fiction". A more accurate term would be accounting fraud. He wants the Fed to continue to provide huge amounts of liquidity to bridge the gaps if they get into further trouble. Why was nationalization a good strategy in 2008, but in 2014 the good strategy is massive handouts and accounting fiction? Despite Vague's idea of handing billions in tax credits to banks, greenlighting "accounting fiction", and unlimited liquidity, he spends paragraph upon paragraph addressing concerns over the moral hazard for the hellip; borrower! I can't make this stuff up. To recap, Richard Vague wants to move liabilities of some of the riskiest loans from the private debtor to the taxpayer, and hide the costs off balance sheet. Then if banks are still in trouble, have regulators greenlight accounting fraud, loan as much money as necessary at 0%, and just hope that banks start becoming profitable enough to make up for the accounting "fiction". Private debt has been moved from the individual to the taxpayer. As a reward for this "generosity", the individual must take a huge credit hit so that if they need liquidity, it will likely be high interest credit cards, payday loans or pawn shops. "Accounting fiction" likely means jail for them, and liquidity may be 100%+ annually. And this "solution" still only addresses a small fraction of the ~150% private debt to GDP. There is nothing reasonable about this proposal. In chapter three, Vague talks about his longer term ideas. This ventures in strange areas as he starts using the loanable funds model. What happened to the endogenous money model you taught us about in chapter one? If you really believe in the endogenous money model, how is increased reserve requirements going to increase the cost of loans? Even more ridiculous is that he spends *one paragraph* on bankruptcy reform - one paragraph in the entire book! I have more thoughts on this book, but this review is long enough and I want to end on a positive note. First, thank you for putting out information on this important topic. It's great that you were able to step outside the economic orthodoxy. There are a few really good insights in this book, I especially like how you think about GDP as a concept. I like that an international perspective was taken (though I wished for more on Canada and Australia especially). Here are my suggestions for Richard Vague. Fire your editor, it's at least partly their fault this was published in its current form. Get an editor that will push you hard, perhaps also get a co-author. Re-assess your dozens upon dozens of consultations with your economists, and tell us in more detail what they had to say. Include names and quotes. Get outside the echo chamber that convinced you that further bank handouts are an appropriate solution going forward. Please, this topic is too important for such a weak effort. 1 of 1 people found the following review helpful. Debt Remains a Threat By Roger W. Brown Jr. Excellent read from a different economic perspective. I used Z.1 Financial Accounts of the United States, First Quarter 2015 for Homeowner and Commercial Debt, D.3. GDP was BEA Q2 2015 for Current GDP. 2009 - 2014, 5 year "trigger" book : -10 percent. The book 18 percent was passed several years back. 2009: 164 percent 2014: 147 percent 5 year average Household and Commercial Debt / 5 year average Current GDP 2009 - 2014 inclusive: 149 percent 2014 same: 147

percent. 150 percent was the book 90 percent chance of an economic crash given the 18 percent "trigger". Slight deleveraging from the book 2007 event. Without a doubt, a repeat of the Crash of 1929 was avoided by the Fed and TARP. Since then, Household and Commercial debt remains at a high level and GDP growth is anemic. Additionally Household debt to Disposable income is 93 percent meaning consumers are leveraged out but well below the 133 percent of 2008. My method was not precisely as in the book but captures the Debt to GDP issue. Post your result. 16 of 18 people found the following review helpful. Appendices available for download By S Waugh For those who are interested in the details of the book, as far as I can tell it does not include the appendices, which is somewhat frustrating. They are available for download from <http://debt-economics.org/appendix/index.php>

Current debates about economic crises typically focus on the role that public debt and debt-fueled public spending play in economic growth. This illuminating and provocative work shows that it is the rapid expansion of private rather than public debt that constrains growth and sparks economic calamities like the financial crisis of 2008. Relying on the findings of a team of economists, credit expert Richard Vague argues that the Great Depression of the 1930s, the economic collapse of the past decade, and many other sharp downturns around the world were all preceded by a spike in privately held debt. Vague presents an algorithm for predicting crises and argues that China may soon face disaster. Since American debt levels have not declined significantly since 2008, Vague believes that economic growth in the United States will suffer unless banks embrace a policy of debt restructuring. All informed citizens, but especially those interested in economic policy and history, will want to contend with Vague's distressing arguments and evidence.

"If you want to understand why financial crises occur, read *The Next Economic Disaster*. In this penetrating new book, serial entrepreneur Richard Vague succinctly documents how all financial collapses originate with too much private borrowing. In plain English, he outlines some of the steps we need to take to avoid the next cataclysm." —Liaquat Ahamed, author of *Lords of Finance: The Bankers Who Broke the World* "Economists failed to predict the 2007 meltdown and they're on course to miss the next one too. As a consumer lending practitioner who saw it coming, Richard Vague's voice should not be ignored. His emphasis on the dangers of rising private household debt is a key both to the last crisis and the next." —Ed Luce, Financial Times Chief U.S. Commentator and Columnist "We all know that too much debt is bad. But if you want to know how bad, you need to read this book. Packed with insightful analysis, it is a must-read for anyone who wants to understand how we got onto the road to financial ruin — and how to avoid the next disaster." —Megan McArdle, Bloomberg View About the Author Philanthropist and former banker Richard Vague is a managing partner of Gabriel Investments and Chairman of The Governor's Woods Foundation. Excerpt. copy; Reprinted by permission. All rights reserved. Preface The U.S. economy is elbowing its way to recovery. In fact, booms have returned to some pockets of the economy. Unemployment is still painfully high but is coming down. The GDP could grow by 3% or more in 2014, and the stock market is at historic highs. The rest of the world is struggling back as well. There is one statistic that could return the global economy to the terrible old days of 2007-2008. It is one I learned about during my 30 years in banking, much of that time as cofounder, president, and then CEO of one of the nation's largest consumer lenders. Although my bank did not make mortgage loans, from my ringside seat to the lending industry, I saw the massive increase in mortgage loans starting in the early 2000s that helped make me an expert on an under-recognized yet critical economic indicator: private debt. That might sound esoteric, but stay with me to see how this one element in the economy is responsible for the Financial Crisis of 2008 and will precipitate the next one if it goes unheeded. The idea that private debt can accumulate to the point that it is harmful comes from the very beginnings of civilization. On occasions when debt had increased to certain levels, rulers in places like ancient Egypt, Babylon, and Israel canceled debts of the people and gave them a clean slate. Closer to home, between 2001 and 2004, U.S. household mortgage debt increased a mind-boggling 48 percent. I worried that the inevitable bad loans from this mortgage tsunami could engulf our business as well. So I asked industry economists about it, only to hear that since the value of consumer homes and stock holdings had increased more than mortgage loans, there was no cause to worry. As a lender, I knew that even if that were true, consumers would have to sell assets to pay back their now significantly higher levels of debt, and that meant our industry was in for terrible problems. It did not matter that I was not in that particular business. Just as a rising tide lifts all boat, a tsunami overwhelms everyone. We were all going down with the ship. And so we did. By 2007, this same mortgage debt had increased by an unthinkable 99 percent in just six years, and the financial industry was soon overwhelmed by the greatest crisis since the Great Depression. Some perished. It is a miracle that anyone survived. There were many arguments over who and what were to blame. As it became clear to me that the frenetic growth of private loans was the culprit, I wondered whether rapid loan growth was the cause of other epochal crises — such as the Great Depression and the Japan Crisis of 1991. And if so, was private debt the only cause, or were there other factors? If I could answer those questions, could we realistically predict and prevent future crises? Before I could drill down on those questions, the debate was hijacked by loud voices invested in moving the debate over to government debt and a very different and rancorous discussion of "stimulus vs. austerity." Despite the noise, I conducted my own investigation of these issues, hiring a team of economists as part of the effort. When we started to dig in, we found that data and analysis of private

debt were not as readily available as I would have thought, particularly outside the U.S., so we set out to gather and analyze all the available private debt data. The results were eye-opening. In fact they were so unexpected that I took the further step of visiting with dozens (and dozens) of different economists from a broad spectrum of viewpoints to get their sense of my findings. The reactions ranged from rejection to enthusiasm, but they were always instructive. I retained a second group of economists to poke holes in the findings of the first team. I listened carefully. This book is the result of all of that work. It tells the story of past crises (as opposed to mere recessions), a prediction of a looming crisis we may collectively face, and an analysis of the paradox of debt itself. Lurking underneath is a deeper concern about the long-term trend-line of private debt in our nation and the world. Private debt has grown faster than income and GDP (Gross Domestic Product, a measure of the size of a country's economy) for a very long time—back 200 years, in fact. A high level of private debt makes an economy more vulnerable to crises and impedes stronger growth. So continuing this trend will assuredly bring escalating problems. Whatever else it is, this book is my modest contribution to a debate about the central role of private debt in economic trends and the wisdom of changing the global course from its current, perilous path.