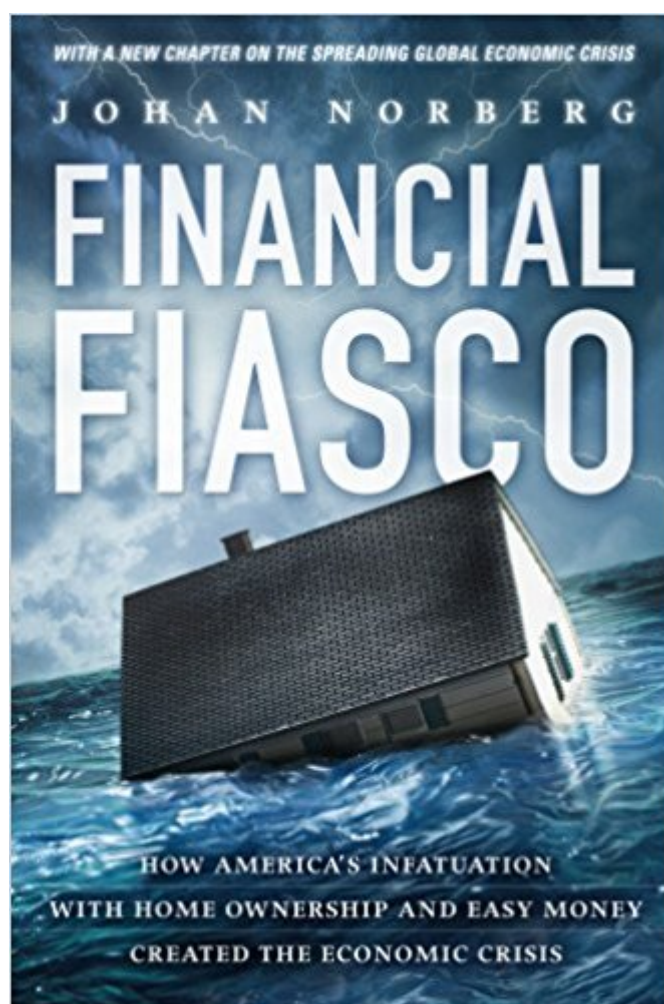


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Financial Fiasco: How America's Infatuation With Home Ownership And Easy Money Created The Economic Crisis, With A New Afterword By The Author





Synopsis

Now newly expanded, *Financial Fiasco* digs deep into the foundation of the economic meltdown, revealing how it was the product of conscious actions by consumers, as well as decisionmakers in companies, government agencies, and political institutions. An easily accessible work written for general readers, *Financial Fiasco* tells the compelling story of how rate-cutting by the Federal Reserve inflated the real estate market and fueled increased risk-taking in the financial markets; how new government policies to promote home ownership blasted air into the credit bubble; how new financial instruments, credit-rating requirements, and accounting rules intended to prevent cheating backfired; and much more. *Financial Fiasco* guides readers through a world of irresponsible behavior, warns that many of the “solutions” being implemented repeat the mistakes that caused the crisis, and offers guidance on how to move forward.

Book Information

Paperback: 208 pages

Publisher: Cato Institute; Newly Expanded edition (September 16, 2012)

Language: English

ISBN-10: 1937184412

ISBN-13: 978-1937184414

Product Dimensions: 6 x 0.6 x 9 inches

Shipping Weight: 1 pounds (View shipping rates and policies)

Average Customer Review: 4.4 out of 5 stars 5 customer reviews

Best Sellers Rank: #800,266 in Books (See Top 100 in Books) #213 in [Books > Business & Money > Real Estate > Mortgages](#) #538 in [Books > Business & Money > Economics > Money & Monetary Policy](#) #1312 in [Books > Business & Money > International > Economics](#)

Customer Reviews

Johan Norberg is a senior fellow at the Cato Institute and the author of *In Defense of Global Capitalism*.

It has taken me quite a while to finish this book, but that is only because I have read it mostly on my iPhone Kindle reader when I had spare time, which wasn't much. But this book is good! It explains what happened during the 2007 - 2011 period in a clear, concise, and cogent manner. Most regulators and politicians do not seem to understand free market economics very well. As a result they take actions that often have negative unintended consequences. They seem to be blind to the

principles of cause and effect and so instead of undoing the wrong things that they have done, they pass new laws and issue new regulations that compound the problems that they created themselves even more. If they would let the free market work we would be in infinitely better shape today than what we are. If you want to understand the free market and how our law makers ignored it and what the consequences were, then this is one book that you should read. It is only by understanding the mistakes that were made and by understanding how some regulations actually contribute to the fragility of the entire system, that we can make better decisions that will truly prevent these kinds of massive financial disasters in the future.

This book should be required reading for college economics classes and all business majors. I've read several books discussing bubbles and crashes. This book is the best survey of the breadth of the ingredients in "the witches brew" of causes of the mid-2000 real estate bubble, mortgage bubble and the financial and economic meltdown that followed these bubbles' collapse. In the early stages of his historical survey Johan Norberg ties some factual causes into the development of these bubbles which many writers seemingly have not recognized (or mentioned). And, in the book, Norberg supplies detail substantiating Federal Reserve Chairman, Alan Greenspan's role in providing fuel for serial domestic mini-bubbles which preceded the global financial crisis. Throughout the book Norberg includes quotes from scholarly economists (of all persuasions) which provide insights into the causes of the crisis, and he provides one of the most cogent explanations of the importance of Joseph Schumpeter's Theory of Creative Destruction, I've ever read. The second edition of this title provides insight into the causes and challenges of the crises in the European Union. I found this additional information very interesting. This book will probably not be read by many people who consider themselves (modern) Keynesians, that's unfortunate because Norberg includes several interesting quotes and insights into Keynes' beliefs about economic stimulus.

Of all the books I've read about the financial crisis, this is by far the best. Clearly written and exhaustively researched, it tells us how we screwed up, and, unless we do things differently, how the next crisis will be worse. To quote the book, "All the salvage operations and bailouts that have been implemented this time will make the problem seven times worse next time, completely regardless of the effect that they may have had in the short term to prevent free fall." Or to put it simply, "Capitalism without bankruptcy is like Christianity without hell-- it loses its ability to motivate humans through their prudence and fears."

This is an in depth look at all of the reasons for the housing meltdown without the political rhetoric. It also illustrates how short sighted government regulations are.

This is another book about the financial crisis. Untold number of books have been written on this subject. What is unique about this book is that it is written by an outsider. The author is Swedish so he doesn't necessarily have a political bent and no motive to try and pin the blame on the "other party". It's a much more objective view. Another strong point is its detail. The author goes into great detail describing the events that led to the crisis. The author covers politics, politicians from both parties tried to increase the number of American households (especially minority and low-income households) who owned their own homes; the Fed, as they lowered interest rates to recover from the stock market bubble; Fannie Mae and Freddie Mac, which bought and securitized loans without considering financial viability; the financial industry, that securitized loans and became leveraged to a point never seen before. Very little blame seems to be given to those who bought homes they couldn't afford. These people are treated as mere pawns to be manipulated by powerful politicians and banks. But where the book tanks is the author's lack of understanding of basic economics. The dude has a M.A. with a major in "history of ideas". That right. He also studied philosophy, literature and political science. This is obvious when he tries to refute the argument that there are no international institutions entrusted with coordinating and regulating globalization. He mentions the IMF, International Accounting Standards Board, a few U.N. organizations, none of which have any power to coordinate or regulate globalization, but he leaves out the WTO. I mean come on. This ignorance really hurts during the discussion of what can be done to prevent another financial crisis. He spends pages and pages arguing that government sucks cheese and can't be trusted to regulate the market, but he writes this only a few pages after he writes about a bank in New Jersey that required all their mortgagees to make a 20% down payment. A 20% down payment requirement on mortgages would have averted the bubble and financial crisis totally. His solution is to "remove the safeguards and untie the safety nets" and "abolish bailout plans and deposit insurance" thereby forcing banks to consider risk. You don't need a high school class in economics to understand that banks didn't do anything. Bankers made the decisions. The guys that rated risky mortgages as "Aaa" got bonuses and promotions. The guys that didn't got fired. The guys that approved mortgages for people who

couldn't afford them got big commissions and bonuses. The guys that didn't get fired. None of those guys, who are now sunbathing in Rio, care that their actions sunk their employers. They got theirs. Institutions don't have consciences. They don't consider risk. Their officers and employees do. One of his arguments is that when businesspeople do a bad job, they are thrown out on their ear. But politicians gain more power when they do a bad job. It would seem that this was written by someone who didn't even read the first part of the book. The businesspeople who did bad jobs, those that overleveraged, approved bad loans and rated risky investments as "Aaa", got the gold mine, and those that didn't got the shaft. Despite all this though, he does ring an important alarm at the end, an alarm that's been rung over and over again to deaf ears. He explains how the over indebtedness of western businesses (he includes Europe in this analysis) was bailed out by governments which took the burdens. He predicts that with continued irresponsible government fiscal management, entire governments and nations could experience a similar financial crisis in the rapid, dramatic devaluation of currencies, and then there would be no one left to do a bail out. Norberg argues that this is a grave threat, but it doesn't really take a genius to figure this out.

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