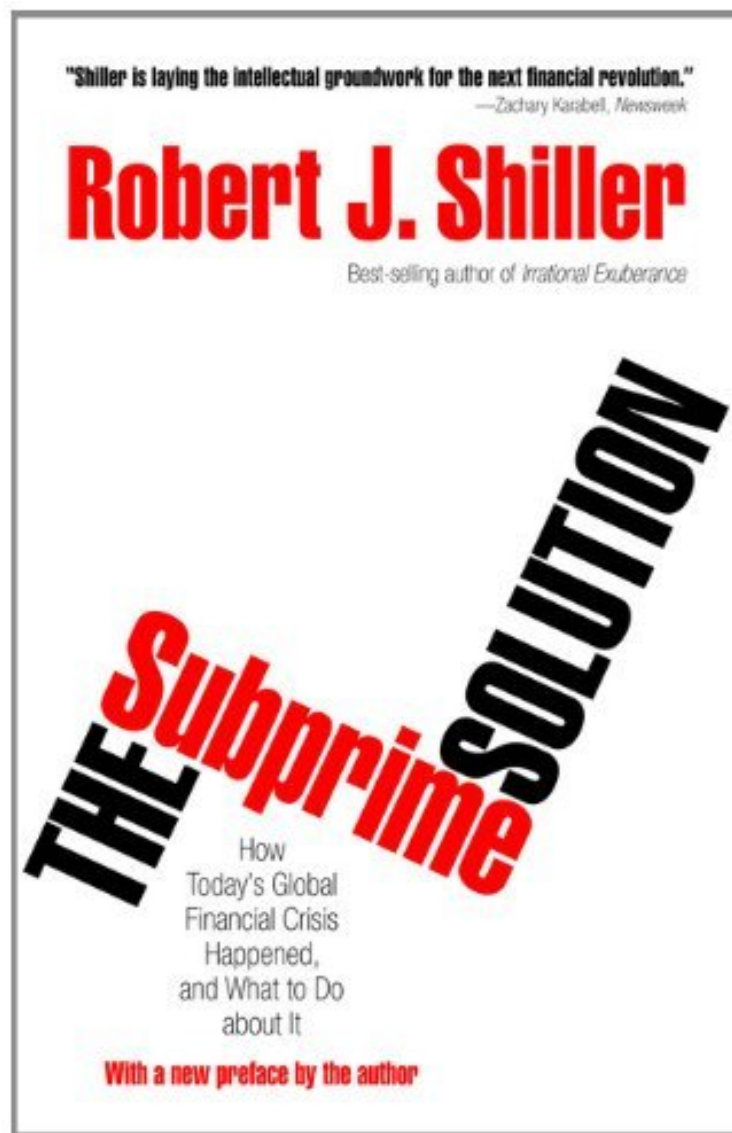


[Mobile library] The Subprime Solution: How Today's Global Financial Crisis Happened, and What to Do about It

The Subprime Solution: How Today's Global Financial Crisis Happened, and What to Do about It

Robert J. Shiller

audiobook / *ebooks | Download PDF | ePub | DOC



[Download](#)

[Read Online](#)

#1180095 in eBooks 2012-09-24 2012-09-24 File Name: B008W4ATUC | File size: 78.Mb

Robert J. Shiller : The Subprime Solution: How Today's Global Financial Crisis Happened, and What to Do about It before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Subprime Solution: How Today's Global Financial Crisis Happened, and What to Do about It:

1 of 1 people found the following review helpful. The Crisis and financial democracy By W. Forbes Professor Shiller is

a leading figure in behavioural finance and this book will certainly maintain that prominent position. The book argues that free markets are both the cause and the potential solution to our current woes. In reading the latter part of the book I was constantly reminded of Friedman's "Capitalism and Freedom" with its warning that markets are more than just a great allocative mechanism, but also an engine to disperse political power from a narrow political elite. Many of Shiller's ideas for hedging house price risk have already been taken up (admittedly in a small way) via the Case-Shiller house price index. I think this book, especially in its latter part, can serve as a blue-print for a wider dissemination of "financial democracy" via disability insurance, etc. I have heard it said that the financial crisis has brought out the best of Gordon Brown as Prime Minister. It has certainly produced some of Professor Shiller's finest writing. Let us hope Brown and Shiller do not have cause for further improvement in the near future. William Forbes (Loughborough Business School, England) of 6 people found the following review helpful. The Tragicomedy of Finance By Herbert Gintis Karl Marx, who burned many a late-night candle in the study of historical dynamics, once said "Hegel remarks somewhere that all great world-historic facts and personages appear twice. He forgot to add: The first time as tragedy, the second time as farce." That may have been true a couple of centuries ago, but a more current assessment might be "No matter how much you have learned from history, and however well you have corrected your historical faults, there are plenty more new, and equally treacherous, mistakes to be made in the future." The current financial crisis seems to bear this out. Keynesian aggregate demand management appeared to have died in the stagflation of the 1980's, not because its "rational expectations" critics had a better theory (I think rational expectations theory is just a sick joke), but because of the basic correctness of Milton Friedman's insight that legislative counter-cyclical policy is just too slow to deal with the business cycle. Now, it appears we are all Keynesians (indeed, Republicans have been especially Keynesian in the years since Reagan's historic climb to power), and government is moving at virtually lightning speed to prevent the normal operation of the business cycle. Richard Nixon was wrong when he said, "We are all Keynesians now," but now, almost forty years later, it appears to be true. Who would ever have expected this turn of events? Where are the infamous "rational expectations" theorists now? Doubtless they are holed up somewhere with the Nobel prizes and endowed chairs, laughing all the way to the bank. I think we can confidently say that if people learn from history, it is only the past ten years or so of history. I was personally blown away when I read Alan Greenspan, who had presided over the Federal Reserve for some nineteen years, admitted to Congress last October that "Those of us who have looked to the self-interest of lending institutions to protect shareholder's equity -- myself especially---are in a state of shocked disbelief." I hope Greenspan is simply lying, but I have a deep fear that he is telling the truth. Some people did foresee the subprime mortgage crisis and predicted an ensuing financial meltdown, among them Edward Gramlich (Subprime Mortgages: America's Latest Boom and Bust, Urban Institute Press, 2007) and Robert Shiller, who coined the phrase "irrational exuberance"---adopted by Greenspan to dampen a recent stock market run-up. This book is a bit of "I told you so," as Shiller makes it clear at every turn that he predicted this a long time ago, so he must be listened to now in attempting to find a solution. The logic isn't there, but Shiller's suggestions are useful and interesting. Shiller believes the subprime crisis is a case of a financial panic, or "bubble," of a sort that has recurred periodically since the dawn of international financial markets (Charles Kindleberger, "Manias, Panics and Crashes," 2000). In the current case, housing prices began a steady increase in about 1999, and by 2004 or so, supposedly intelligent people began to think that housing prices had an inexorable tendency to increase at what we would not consider to be a virtually astronomical rate. Therefore, lending institutions dropped their lending requirements for new mortgages, on the grounds that in a couple of years or so increasing property values would ensure the integrity of the financial asset whether or not the current mortgagee was delinquent. From this point on, in a world-wide financial sector most of whose members, like Greenspan, could not conceive of basic market failures, the melt-down was quite inevitable. There are many things I do not understand about the current crisis, the most critical being why so few financial analysts sounded the warning, and why it was not heeded by level-headed guys in policy positions. I certainly saw it coming, and sold two primary residences in 2006 (on behalf of family members whose finances I managed) at the top of the market. I would have sold them two years earlier if I could have convinced their owners of the madness of holding on to these bubble assets. Shiller's recommendations are well-meaning and worthy of support. His concept of "democratization of finance," so that financial institutions work for all of us, not just the very rich, is brilliant and fecund. If Shiller had his way, people would be as knowledgeable in financial affairs as they are in politics, health care, and other areas in which informed voters and consumers can really make a difference. Each and every one of Shiller's suggestions is worthy of support. First, he says, the financial information infrastructure should be extended to all citizens, much as health care information is (at least ideally) today. Second, financial instruments should be created to deal with the major risk factors faced by the non-wealthy (e.g., variations in house value, price and wage levels). Third, there should be a "default" set of basic financial contracts that non-knowledgeable consumers can use to deal with their most important investments, including home ownership and retirement. In fact, we still do not really understand the causes of the current financial crisis, and we may not for many years. Economists are still debating the causes of the Great Depression, some seventy-five years later (although there is more agreement now than in previous decades). Certainly, more regulation of financial innovation is needed, but in fact, whatever SEC regulations are created, in the next great upsurge of economic activity there will be more financial innovation that slips under the

regulatory radar, smart people will make a lot of money and get out while the getting is good, and industry leaders will act as though the new bubble will last forever, or at least for another year (every year). Some new Greenspan-clone will be frankly "shocked" that markets don't work perfectly, and history will repeat itself, not in Hegel's or Marx's sense, but in a perennial tragicomedy that characterizes financial dynamics. Shiller is very supportive of "behavioral finance" in this book, recognizing that people do not have completely objective theories of how financial markets operate, or even of probability theory basics. He is wrong, however, if he thinks that a strong "financial information infrastructure" will change this. People with crazy theories of probability and risk cannot be taught otherwise--I know because I have tried. I have tried to tell day-traders that they are enriching only their brokers, and they will be out of business in nine months (the median life of a day trader, I am told). I have tried to convince testosterone-endowed relatives that, whatever happens in James Bond movies, luck is not with the sly, the muscular, or the devout. All to no avail. Some will say that we should suppress the whole dynamic that gives rise to financial innovation and bubbles. We should always lend a critical and attentive ear to such proposals, but we must always recognize that the vitality of our economic system depends on financial innovation, and we should always appreciate those people who ignore history and stick their necks out to make new history. They go where angels (and "progressive" political critics) fear to tread, and we are the better for it.

0 of 0 people found the following review helpful. Shiller's RX for solving the mess created by Subprime mortgages. By Jonathan Brown I am not sure I agree with all of Shiller's proposals but his analysis is absolutely first rate. He describes in great detail how we got into the subprime mess. Unfortunately, I am not sure that many politicians have read the book - they should.

The subprime mortgage crisis has already wreaked havoc on the lives of millions of people and now it threatens to derail the U.S. economy and economies around the world. In this trenchant book, best-selling economist Robert Shiller reveals the origins of this crisis and puts forward bold measures to solve it. He calls for an aggressive response--a restructuring of the institutional foundations of the financial system that will not only allow people once again to buy and sell homes with confidence, but will create the conditions for greater prosperity in America and throughout the deeply interconnected world economy. Shiller blames the subprime crisis on the irrational exuberance that drove the economy's two most recent bubbles--in stocks in the 1990s and in housing between 2000 and 2007. He shows how these bubbles led to the dangerous overextension of credit now resulting in foreclosures, bankruptcies, and write-offs, as well as a global credit crunch. To restore confidence in the markets, Shiller argues, bailouts are needed in the short run. But he insists that these bailouts must be targeted at low-income victims of subprime deals. In the longer term, the subprime solution will require leaders to revamp the financial framework by deploying an ambitious package of initiatives to inhibit the formation of bubbles and limit risks, including better financial information; simplified legal contracts and regulations; expanded markets for managing risks; home equity insurance policies; income-linked home loans; and new measures to protect consumers against hidden inflationary effects. This powerful book is essential reading for anyone who wants to understand how we got into the subprime mess--and how we can get out. In a new preface to this powerful book, Shiller discusses the development of the crisis in relation to the ideas presented in *The Subprime Solution*.