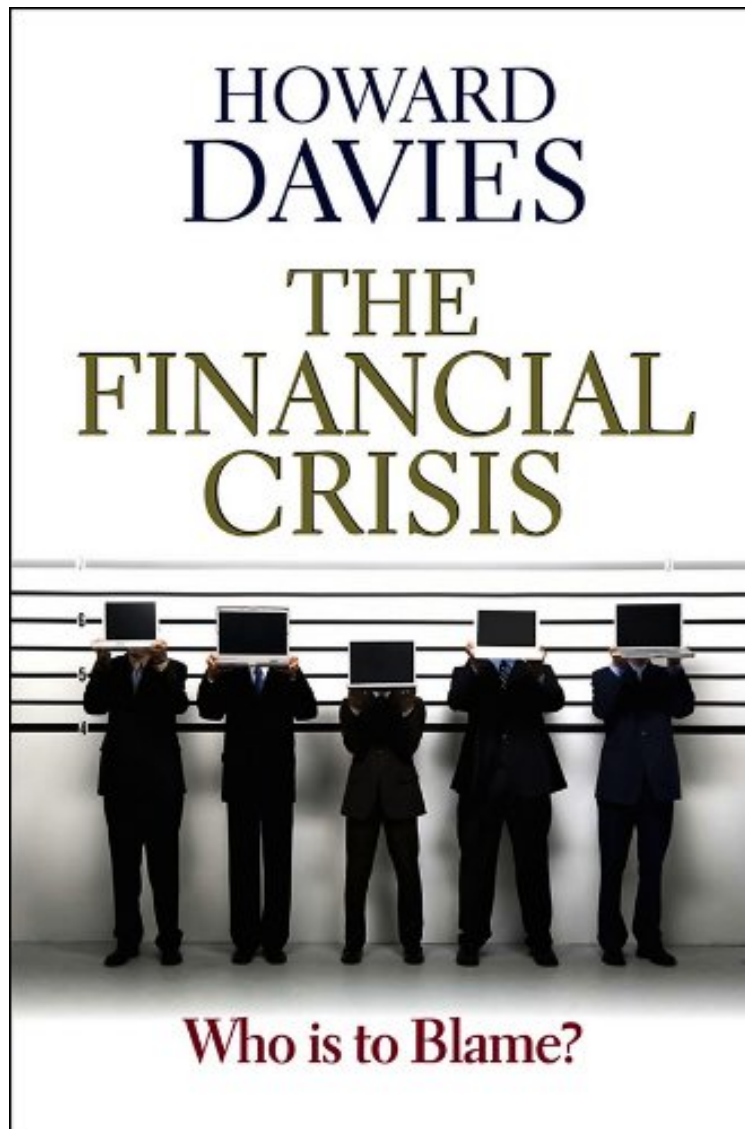


(Read free) The Financial Crisis: Who is to Blame?

The Financial Crisis: Who is to Blame?

Howard Davies

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Howard Davies : The Financial Crisis: Who is to Blame? before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Financial Crisis: Who is to Blame?:

0 of 0 people found the following review helpful. Not so great. By D. Aziza KIND OF GENERIC; not one of the better books on financial crises. this book just like this sentence --- needs an editor. Video games as cause of the financial crisis? Why even discuss such stupidity. 4 of 5 people found the following review helpful. Everything you need to know about the possible causes of the crisis - but no easy answers. By Jonathan Gifford If you would like to be better informed about the still-current financial crisis ('the most destructive economic event of the last eighty years') and you

don't mind putting in a bit of effort, then this is a thoroughly rewarding read. Davies is Director of the London School of Economics and Political Science and, not surprisingly, he knows his stuff. He is also a lucid and engaging writer; he says that the book emerged from his notes for an LSE course module on the financial crisis, and that is how it reads: as a lively series of lectures giving a concise resumeacute; of current thinking about the ultimate causes of our current plight. A lot is packed in to a few pages, and you have to keep your wits about you. A certain amount of probably inevitable technical language creeps in (often delivered by the writers that Davies quotes, rather than by Davies himself). You will need to keep abreast of your CDO's (collateralized debt obligations), your CDS's (credit default swaps) and your LTCM's (long-term capital management). But this is probably kid's stuff to you, and even I managed, more or less, to keep a grip. Where the book doesn't quite deliver is on the question, emblazoned on the cover, of 'Who is to blame?' Which is a bit of a letdown. When I read a book by such a luminary as Davies, I would like to be given a concise answer that I can wheel out to impress my friends and colleagues. 'The current financial crisis? Ah, yes, I can explain that. As Howard Davies says . . .' But Davies is not so obliging, and makes us work harder. Very much the academic, he points out that some people think this; but then again other authorities think that. And, of course, there is the respected view that the answer lies elsewhere altogether. Nevertheless, having reviewed the possible culprits in 38 different chapters under seven broad chapter headings, Davies's last chapter ('the thirty-ninth step' - a good joke) does, more or less, spell out his own conclusions. The emerging economies - especially China - created a large surplus of cash which those new economies chose, in their search for higher returns on their savings, to invest in the West, especially in America. There is a delightful irony in the fact that this tsunami of money enabled consumers in the West to sustain, for a time, the lifestyles to which they had become accustomed before their jobs went East. The West borrowed like there was no tomorrow over a period of a decade or two, courtesy of money being generated in the East, and persuaded itself that this was sustainable growth. Misguided monetary policy by central government, deregulation and lax regulation post-deregulation all contributed to the incipient crisis, as did those old chestnuts (which should never be lost sight of): human greed, short-sightedness and fallibility. The Archbishop of Canterbury is quoted as offering the best joke as to who was responsible for the crisis. 'I was going to say Satan,' he offers, before settling for 'human greed'. He may not have been joking. As an obvious bubble in American house prices developed, so America's key financial institutions rushed in to make short-term bucks (and huge bonuses), packaging up the risk that they were taking in betting on a perpetual rise in asset prices by creating increasingly obscure financial derivatives that were sold throughout the global financial system, thereby creating a Trojan Horse of risk that nobody, it seems, fully understood. As serious money placed a series of increasingly unlikely bets on the future being exactly like the recent past, the whole edifice came to its inevitable sudden collapse. A relatively small number of individual bankers and traders had become rich beyond the dreams of avarice and, when it all went wrong, a very large number of people - you and me - picked up the tab. The book is at its most interesting when it explores the fundamental questions as to whether our entire economic model - based, essentially, on the efficient market hypothesis (EMH) - is wrong. Perhaps markets are fundamentally irrational. And it asks some serious questions of the people who are currently supposed to be responsible for corporate governance: are our boards of directors really up to the task - technically and structurally, as well as morally? How do we stop this happening again? More and better regulation. But then again, says Davies, maybe more regulation is a bad thing and won't work . . . A writer with lower standards than Davies may well have plumped for some easier and more headline-grabbing conclusions. This is a book that we all need to read.

There is still no consensus on who or what caused the financial crisis which engulfed the world, beginning in the summer of 2007. A huge number of suspects have been identified, from greedy investment bankers, through feckless borrowers, dilatory regulators and myopic central bankers to violent video games and high levels of testosterone among the denizens of trading floors. There is not even agreement on whether the crisis shows a need for more government intervention in markets, or less: some maintain that government encouragement of home ownership lay at the heart of the problem in the US, in particular. In *The Financial Crisis* Howard Davies charts a course through these arguments, and the evidence advanced for each of them. The reader can thereby assess the weight to be attached to each, and the likely effectiveness of the remedies under development.