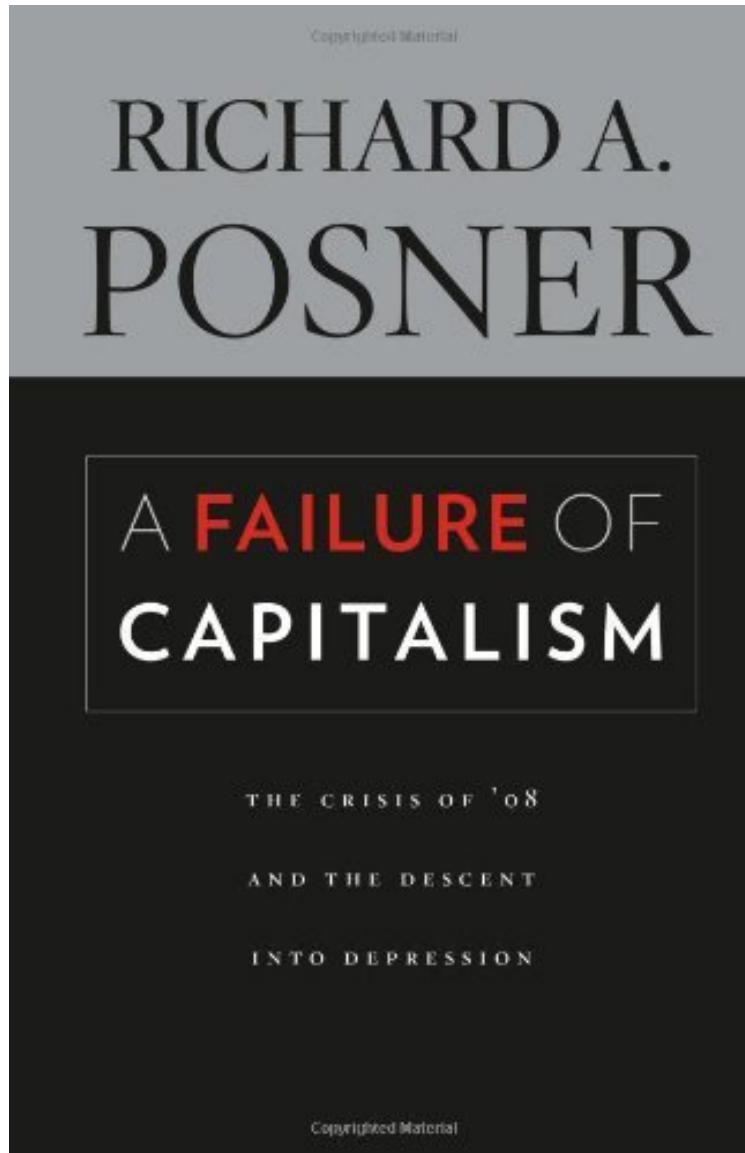


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A Failure of Capitalism: The Crisis of '08 and the Descent into Depression

The Honorable Richard A. Posner
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The Honorable Richard A. Posner : A Failure of Capitalism: The Crisis of '08 and the Descent into Depression before purchasing it in order to gage whether or not it would be worth my time, and all praised A Failure of Capitalism: The Crisis of '08 and the Descent into Depression:

0 of 0 people found the following review helpful. Five StarsBy David EberleGreat15 of 16 people found the following review helpful. Guide to the Economically PerplexedBy Omer BelskyRichard Posner: Judge, Academic, Public

Intellectual, Author (of both Popular and Scholarly work) and Blogger (of two Blogs now). Is there anyone better suited to explain the economic turbulence to the laypeople that live through them?"A Failure of Capitalism" won quite a bit of attention (including a review in the NYRB), mostly focusing on his criticism of Capitalism - apparently astonishing critics who know Posner merely as a conservative. But Posner has never been an ideologue; anyone who actually knows Posner's works must realize that he's thoughtful and non-Partisan - as he puts it, he is a classic Liberal in the John Stuart Mill sense (see *Overcoming Law*). That he would be willing to support government regulation of the economy is hardly surprising. Posner's book is a good introduction to the economic crisis, and it reminds me of Paul Krugman's *The Return of Depression Economics*, indeed, it pretty much does to the current depression what Krugman's book did to the economic woes of the 1990s. Posner writes elegantly and clearly, making "Failure of Capitalism" the best written, friendliest exposition of the Depression I've read anywhere. However, I think it is aimed slightly too high. Posner assumes too much knowledge of his readers, and proceeds a little too quickly. A few times, I had to re-read a sentence before understanding it completely (this never happened with Krugman's book - and Krugman actually explained business concepts such as "Hedge Fund" and "short selling"). The most exciting and troubling aspect of Posner's book - and hence the title - is the contention that the crisis is a failure of the Capitalist system. Conservatives argue that the underlying cause of the Depression was government actions - mainly the government subsidizing of mortgages via Fannie Mae and Freddie Mac and tax incentives, under the policy by both the Clinton and the Bush administration of advancing an "ownership society", and the Fed's nurturing the bubble via its low interest rates. But Posner argues, convincingly in my view, that they are wrong. The root of the crisis is that rational human beings, acting in their interests, can cause disastrous consequences. The main reason is asymmetry in their results. CEOs who took gambles could make huge amounts of money in bonuses if the gambles succeeded, but at worst would be out of job if they failed, and often would enjoy large severance pay ("golden parachutes"). This is also true, albeit to a lesser extent of the owners, because they have limited liability. A critic of Capitalism may reasonably argue that this puts to question the basic assumptions of the Capitalistic order. The underlying assumption in Capitalism is that the pursuit of self interest furthers the ends of society as a whole. In Adam Smith's words (In *The Wealth of Nations* (Bantam Classics)): "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages." The current crisis suggests that this is not always the rule. Sometimes, when people pursue their own self interest, even within a framework of laws, havoc ensues. The critics may feel the urge to say "I told you so". But maybe they should resist it. The failure of foreseeing the crisis was widespread, especially among economics and politicians, both Left and Right. Scores of highly influential people underestimated the problem - and the government's actions actually made the crisis worse. The government's failure topped the market's failure. Posner focuses more on describing the crisis, and the responses to it, than on offering policy prescriptions. Even his discussion of the solutions offered by the Bush and Obama administrations is lacking in that respect: Posner argues against the right that fiscal stimulus should be in the form of public spending rather than cutting taxes because tax cuts would lead to more saving, which the economy does not currently need. Right wing critics like Greg Mankiw argue that tax cuts have a larger multiplier effect, and Posner doesn't answer them. Nor does he answer the Left wing critics who call for the nationalizing of Banks, which they claim worked in the Norwegian Banking Crisis of the late 1980s. Most conspicuously absent from Posner's account is the Global perspective. Although Posner acknowledges that this is a Global Depression, he hardly discusses the experience of countries other than the US. Even American readers who are naturally more interested in the US, may be interested in a comparison to other countries, if only to find out who is doing what, and how it is working. Beyond brief references to the Japanese "Lost Decade" of the 1990s, Posner's view is strangely and atypically parochial. "A Failure of Capitalism" is also very much a typical Posner book, complete with Such Posnerian tropes as appeals to Bayesian reasoning and bitter critiques of academic theorists and excessive praise to active men - In this case, Academic economists are lampooned, but "financial managers['] IQ exceeds my own" (writes the man whom Justice Alito called "the smartest man in the world" on p. 77), In other cases, it's academic moralists and "Moral Entrepreneurs" (*The Problematics of Moral and Legal Theory*) Law Professors and Judges (*How Judges Think*) or Academic versus non Academic Intellectuals (*Public Intellectuals: A Study of Decline, With a New Preface and Epilogue*). For all its faults (which probably have more to do with Posner's rushing it to publication than anything else), "A Failure of Capitalism" is an insightful, clear and concise account of the economic crisis. After you finish reading it, you'll know more about the Depression - although not necessarily what to do about it. 1 of 1 people found the following review helpful. Serious economic discussion, brief about Fannie Mae and Freddie ...By Warren Stromberg Serious economic discussion, brief about Fannie Mae and Freddie Mac, but very "information dense" otherwise.. Not a light read, at all, but informative..

The financial and economic crisis that began in 2008 is the most alarming of our lifetime because of the warp-speed at which it is occurring. How could it have happened, especially after all that we've learned from the Great Depression? Why wasn't it anticipated so that remedial steps could be taken to avoid or mitigate it? What can be

done to reverse a slide into a full-blown depression? Why have the responses to date of the government and the economics profession been so lackluster? Richard Posner presents a concise and non-technical examination of this mother of all financial disasters and of the, as yet, stumbling efforts to cope with it. No previous acquaintance on the part of the reader with macroeconomics or the theory of finance is presupposed. This is a book for intelligent generalists that will interest specialists as well. Among the facts and causes Posner identifies are: excess savings flowing in from Asia and the reckless lowering of interest rates by the Federal Reserve Board; the relation between executive compensation, short-term profit goals, and risky lending; the housing bubble fuelled by low interest rates, aggressive mortgage marketing, and loose regulations; the low savings rate of American people; and the highly leveraged balance sheets of large financial institutions. Posner analyzes the two basic remedial approaches to the crisis, which correspond to the two theories of the cause of the Great Depression: the monetarist; that the Federal Reserve Board allowed the money supply to shrink, thus failing to prevent a disastrous deflation; and the Keynesian; that the depression was the product of a credit binge in the 1920s, a stock-market crash, and the ensuing downward spiral in economic activity. Posner concludes that the pendulum swung too far and that our financial markets need to be more heavily regulated. Read Richard Posner's blog, and his latest article in The Atlantic.

From Publishers Weekly Posner (How Judges Think) is uncharacteristically dry in this dense book that states flatly that we are in a recession only because we are too frightened to call it a depression. He makes a near-heroic attempt to delve into the roots of the current crisis, citing some of the harder questions: how did it happen? why was it not anticipated? how is the government responding? A great deal of ground is covered, and the book takes the form of a high-altitude survey, assessing all the major points without getting bogged down in detail. Quickie explanations of subprime mortgages and the credit crunch orient the reader, and Posner addresses the takeaway lessons about capitalism and government, the puzzling lack of foresight from the economist community, the apportioning of blame and the resulting future of conservatism. All good topics, thoroughly and thoughtfully presented, but much of Posner's material is already woefully out of date. This book will make a serviceable study of the current crisis, but it does not serve its intended audience well in the meantime. (May) Copyright copy; Reed Business Information, a division of Reed Elsevier Inc. All rights reserved. Lively, readable, and plainspoken... Posner has an extraordinarily sharp mind. (Robert M. Solow New York of Books 2009-05-14) Posner has managed to write a compelling book on the crash... The book has numerous worthwhile insights, including a surprisingly Keynesian analysis of the dynamics of depressions. (Robert Kuttner American Prospect 2009-05-01) A surprising volume that explains what happened to the banking system and economy in terms the lay reader can easily understand... [Posner's] critique is bracing, all the more so because it comes from a right-leaning thinker normally hostile to the ministrations of government bureaucrats. (Paul M. Barrett Washington Post Book World 2009-05-03) Before seeking political asylum in free-market Hong Kong, consider reading a new book that critiques what went wrong with capitalism, written in order to save it. Judge Richard Posner's *A Failure of Capitalism: The Crisis of '08 and the Descent into Depression* is noteworthy. As a longtime University of Chicago professor and father of the free-market-based law-and-economics movement, Judge Posner makes an unlikely critic of capitalism. But as author of some 40 books and as the most frequently cited federal appeals court jurist, he is also one of our most original and clearheaded thinkers. (L. Gordon Crovitz Wall Street Journal 2009-05-05) It comes as something of a surprise that Posner, a doyen of the market-oriented law-and-economics movement, should deliver a roundhouse punch to the proposition that markets are self-correcting. It might also seem odd that a federal appellate judge (and University of Chicago law lecturer) would be among the first out of the gate with a comprehensive book on the financial crisis--if, that is, the judge were any other judge. But Posner is the late Daniel Patrick Moynihan's successor as the country's most omnivorous and independent-minded public intellectual. By now, his dozens of books just about fill their own wing in the Library of Congress... Compact and bracingly lucid... By the last page, not a single lazy generalization has survived Posner's merciless scrutiny, not one populist cliché; remains standing. *A Failure of Capitalism* clears away whole forests of cant but leaves readers at a loss as to where to go from here. In other words, it is only a starting point--but an indispensable one. (Jonathan Rauch New York Times Book 2009-05-17) [Posner] has the rare kind of mind that is a pure pleasure to watch in action, regardless of the subject and the argument being made. (John Lanchester New Yorker 2009-06-01) Richard Posner is one of America's most prominent and prolific public intellectuals... With his concise, jargon-free analysis of the current economic crisis, Posner has cast his lot with those who believe that the "depression" (given the steep reduction in consumption, credit and production, the term, he insists, is appropriate) was the result "not of intrusive, heavy-handed regulation of housing and finance, but of deregulation, hostility to taxation and to government in general." (Glenn C. Altschuler Jerusalem Post 2009-06-19) Richard Posner is a phenomenon... He provides a very competent account of the events which led to the current crisis, with an emphasis on the political and ideological context. (John Kay Financial Times 2009-07-31) [Posner] is the quintessential U.S. economic-conservative intellectual... So an excoriating attack by Posner on modern financial market practices is news. *A Failure of Capitalism* is precisely that. There are still U.S. conservatives who think the crisis was overdone, that the policy response has been too great, that this was merely a crisis of confidence and liquidity, and that the banking system was not insolvent, merely illiquid. That is not Posner's

view. His judgment is that the banking system is insolvent and the crisis that took place in 2008 transformed a recession in the US into a depression...In his preface, Posner emphasizes that he has written the book in medias res, a lawyer's way of saying "in the thick of it," with the implication that he has yet fully to make up his mind. He has, however, offered a thought-provoking interim analysis of what went wrong. (Warwick Lightfoot Financial World 2009-07-01)The best book describing this malaise is Richard Posner's A Failure of Capitalism. The distinctiveness of his case is that he is a prominent conservative thinker with the intellectual acuity to argue that the crisis is not to do with the traditional enemy of conservatism, big government, but is a consequence of decisions taken by private firms. The ill-effects of those decisions were worsened by deregulation of banking. (Oliver Kamm The Times 2009-12-05)[A] compelling read...Notable for [its] high seriousness and sophistication. (Robert Teitelman Huffington Post 2010-12-23)[Posner's] bracing and intellectually admirable A Failure of Capitalism demands attention. (Jonathan Kirshner Boston 2011-01-01)About the AuthorRichard A. Posner is Circuit Judge, the United States Court of Appeals for the Seventh Circuit, and a senior lecturer at the University of Chicago Law School.