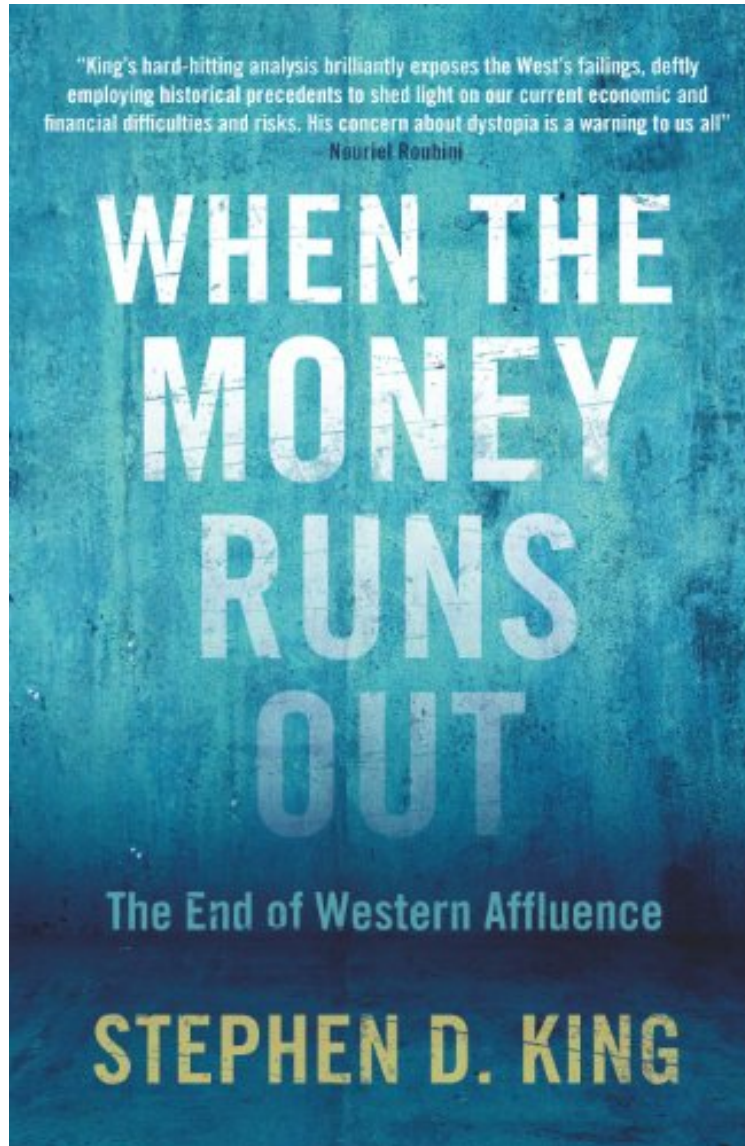


[E-BOOK] When the Money Runs Out

## When the Money Runs Out

*Stephen D. King*

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**Stephen D. King : When the Money Runs Out** before purchasing it in order to gage whether or not it would be worth my time, and all praised When the Money Runs Out:

35 of 37 people found the following review helpful. How to Overcome the Feared End of Western AffluenceBy Serge J. Van SteenkisteStephen King convincingly demonstrates that the once successful economies can suddenly and unexpectedly decelerate and then decline. The financial, political, and social ramifications of this reversal of fortune can be profound. Think for example about Argentina and Japan (pp. 13-26; 39; 135; 161). What has been observed in these two countries for decades could be a foreboding of what could happen in much of the Western industrialized

world. In the West, persistent progress is most often perceived as a given. This West's economic tenet was best reflected in the beliefs of persistent increases in asset prices relative to the size of economies before 2007-2008. These beliefs went hand in hand with substantial increases in debt during this period (pp. 62-63; 66-67; 130-131; 134-135; 139). However, many of the factors behind the continuous increase in Western living standards in the second half of the 20th century seem to be one-offs. Think for example about healthcare, social security systems, world trade, financial innovation, quality of education, the further increase in women's labor participation, or the sharp decline in back-breaking housework (pp. 11-13). Growth in most of the Western industrialized world has been anemic since the beginning of the 21st century. Mr. King identifies four key drivers behind this underwhelming performance: 1) The negative effects of the success of emerging nations on Western growth; 2) The over-investment in the U.S. housing market in the 2000s after the collapse of the 1990s technological revolution in 2000; 3) The financial crisis of 2007-2008; 4) The arrogance of Western policy-makers who thought after the last-named crisis that they were smarter than their Japanese counterparts. Their collective underperformance is especially striking compared to the performance of their Asian counterparts in the aftermath of the late 1990s Asian crisis (pp. 28-34; 58; 67; 192-204; 209). Like too many of their Western alter egos, the U.S. central bankers alongside politicians suffer from what Mr. King calls a collective delusional 'optimism bias' (p. 89). Year after year, they claim they have unlocked the secrets of future economic success, but ultimately fail to deliver on their forecasts. Quantitative easing and other associated macroeconomic quick fixes redistribute the spoils of past economic success and failure rather than kick start a real recovery (pp. 67-68; 71-77; 79-84; 89-90; 115; 118-120; 181; 218). Furthermore, these quick fixes undermine the trust that people have to have in each other and their public and private institutions for powering economic growth (pp. 147; 149). As trust in institutions shrinks, the gap between our entitlements and our new, stagnant economic reality is widening under the pressure of income inequality, the ageing of the population, and the declining trust between (foreign) creditors and debtors (pp. 54; 158-177; 217-221; 243-245). Like most Western countries, the U.S. has not shown a willingness to accept a temporary, sudden loss in living standards as an inevitable consequence of the financial crisis of 2007-2008. An obvious sense of entitlement stands in the way between this reduction in living standards and a subsequent real recovery (pp. 178; 204). Neither austerity nor stimulus can solve this conundrum without much hard work and considerable self-sacrifice (pp. 67; 205-206; 211; 220; 238). The widespread lack of trust and the sub-par economic growth that most of the Western industrialized world is experiencing, have far-reaching consequences: 1) Entrepreneurial spirit evaporates, replaced by a battle for the spoils driven by a culture of entitlement that pervades the public and private sectors, healthcare, or the elderly; 2) Infrastructure projects get further slashed because they benefit future rather than current voters; 3) In the absence of a concomitant rise in prosperity, reforms are too often perceived as a zero-sum game and therefore opposed; 4) Lack of sustained economic growth leads to ever-increasing social fracturing, resulting in more racism, sexism, and other undesirable '-isms' (pp. 40-43; 48; 50; 149; 181; 226-229). Mr. King makes a number of recommendations to tackle the structural problems that threaten all our economic futures: 1) Force rating agencies to issue a judgment on not only those who issue debt, but also those who acquire it; 2) Vote for a fiscal union that would go hand in hand with a monetary union in the Eurozone; 3) Establish a government's process that would automatically reduce the deficit year by year with an automatic suspension in years of economic contraction. The Gramm-Rudman-Hollings Act of 1985 in the U.S. accomplished it during the late 1980s and early 1990s; 4) Introduce a new social contract between the generations. This compact means continued support for education, infrastructure, and children's health, as well as a serious reduction in public spending elsewhere, including a substantial reduction in, say, defense spending and / or social benefits; 5) Implement a monetary policy that focuses on nominal GDP targeting, i.e., a policy that focuses on the rate of growth of nominal activity, not on stabilizing the inflation rate; 6) Encourage labor and capital mobility; 7) Impose macro-prudential rules on banks, treat national branches of international banks as subsidiaries, and stop the cross-subsidization of services; 8) Encourage education about the financial world (pp. 234-235; 237-239; 242; 244-245; 247-250; 256-259). In summary, Mr. King warns his readers that the current malaise is not a cyclical dip, but a structural challenge that requires a drastic rethinking about our future.

23 of 25 people found the following review helpful. A fine study of the consequences of Western growth slowing down

By sien

When the Money Runs Out (2013) by Stephen D. King looks at the dull horror of possible lower growth rates and the implications for the West. This Stephen King is the Group Chief Economist at HSBC but he has written a book that is really scary. The book looks at how the recovery from the Global Financial Crisis (GFC) has been slow enough to suggest that developed world growth rates are going to be substantially lower than those of the period between 1945 and 2000. He argues that this will lead to a crisis of sovereign insolvency as entitlement spending will not be affordable and that the financial and monetary games that are being played are starting to hurt more than help.

King first looks at how Progress has been taken for Granted and in particular how the very high growth rates for the three decades following the Second World War may have been exception. The period 1945-1975 had the rebuilding of countries that were previously economically strong in Europe and Japan, the arrival of a plethora of new technologies in nuclear power, jet engines, containerisation, computers and a big expansion of the work force due to women entering the formal workforce. The book then describes the pain of stagnation and looks at Japan since 1990 and Argentina and how everyone in the west believes they should be better off than previous

generations and how social security spending has massively increased. In the UK in 1950 it was 4% of GDP but today it is 14% of a much larger GDP. Essentially social spending could easily increase for many years as growth allowed people to get richer and to have more taken by the government. However, with lower growth incomes are growing more slowly than social spending. King spends the next chapters looking at financial and monetary attempts to fix stagnating economies. He looks at the depression and the responses to it and suggests that Keynesian and monetary manipulation are a bit like drugs, useful for some relief but dangerous when they become to be relied on. King describes three schisms, income inequality, aging and distrust between creditors and debtors that will affect the ability of economies to grow. He goes further and suggests that economic dissatisfaction will lead to radical politics such as the rise of the far right in Greece. King describes a chaotic dystopia that could result if a slowdown in growth is handled poorly. Finally King gives recommendations for how to avoid dystopia; he wants a central financial authority in the Eurozone, reductions in government spending, coming up with ways of handling generational conflict and calls for a new monetary framework to be constructed. The book is dense and full of senior economist's observations of historical crises and their impacts. There is also extensive exposition of major economists' responses to them with a lot of quotation. It would be considerably improved with more graphical exposition of historical trends. King also does not explore multiple solutions to the problems he sees and attempts to unify the problems of Japan, the US and Europe that perhaps have critical differences mean that the responses should be different.

2 of 2 people found the following review helpful. A scary read, worthy of his namesake. By Michael P. Welsh This book features an assessment of the causes of the recent "great recession" and of the efforts that have been made by governments and central bankers to rekindle the growth (and inflation) that western governments have relied upon in the past to make their fiscal projections look as though they might work. Mr. King goes into some detail to explain in terms fairly comprehensible to non-economists how things haven't really changed, it's just our past mistakes, profligacy and welfare "mission creep" catching up with us. He also demonstrates how so much of the efforts of governments and central bankers have been ineffective at best and counterproductive at worst as they struggle to boost growth and prevent the kind of deflationary trap which has bound Japan for the past two decades. Of particular interest are his historical analyses of past fiscal crises around the world and how they were solved or exacerbated by government action. He offers several scenarios in which he explores the social consequences of creditors to governments turning off the lending taps, forcing debtor governments to suddenly renege on the promises they have made to pensioners and the poor. He concludes by offering some counterintuitive solutions which seem unlikely to be adopted by governments and central bankers still locked into the mindset that inflation is an evil which must be tamed at all costs. What I didn't like about this book is that it makes no mention of the fact that, as a result of information technology and automation, the growth and employment game really seems to have changed. A return to growth, if it can be engineered, no longer guarantees a robust employment market with well-paying jobs for the mass of people. Owners of businesses which can be automated will be sorely tempted to add server computers and robots rather than workers who misbehave, call in sick and engender payroll taxes and insurance costs. What I fear the most is the day when people realize that, not only are things not going to get any better for most of us in the future, but that, for most of us, living standards are going to have to drop as we compete with Indian, Chinese and Brazilian workers abroad and automation at home. I heard a joke the other day. The factory of the future will have only two permanent, on-site employees: a man and a dog. The man is there to feed and clean up after the dog. The dog is there to bite the man or anyone else who tries to touch the robots.

The Western world has experienced extraordinary economic progress throughout the last six decades, a prosperous period so extended that continuous economic growth has come to seem normal. But such an era of continuously rising living standards is a historical anomaly, economist Stephen D. King warns, and the current stagnation of Western economies threatens to reach crisis proportions in the not-so-distant future.

"Well-written, thoughtful and highly convincing. . . . [King's] clear-eyed assessment of the problems ahead makes the book essential reading."mdash;The Economist