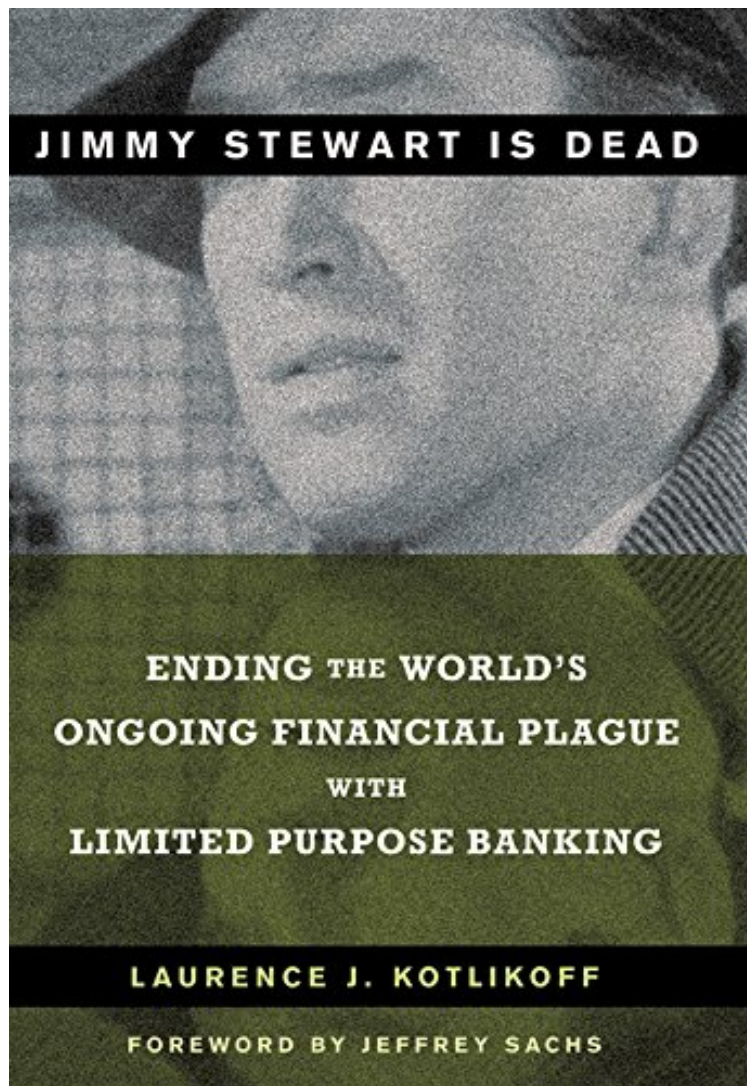


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Jimmy Stewart Is Dead: Ending the World's Ongoing Financial Plague with Limited Purpose Banking

Laurence J. Kotlikoff

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Laurence J. Kotlikoff : Jimmy Stewart Is Dead: Ending the World's Ongoing Financial Plague with Limited Purpose Banking before purchasing it in order to gage whether or not it would be worth my time, and all praised Jimmy Stewart Is Dead: Ending the World's Ongoing Financial Plague with Limited Purpose Banking:

10 of 13 people found the following review helpful. More Limited Purpose Banking, Less Other FixesBy Suo MarteFirst, I sincerely appreciate Professor Kotlikoff's honesty w/ respect to the incompetent and illusory efforts of the US Govt. For example, on pg 83 he writes:"Hopefully, the FDIC won't end up w/ a [1980s] SL-type crisis on top of its

current debacle. W/ its new insurance obligations, it's now staring at \$6.4 trillion in potential liabilities, yet it holds only \$19 billion in reserves. Talk about financial malfeasance! Madoff was short \$65 for each dollar he insured. The FDIC is short \$337 for each dollar it's insured. Were the public to digest this fact and withdraw its deposits en masse, Uncle Sam would likely have to print upwards of 24 trillion more dollars. Public knowledge of this action would surely trigger hyperinflation and extract a major loss in purchasing power for anyone who failed to withdraw and spend his or her money immediately. So right here, right now, we have the basis for a national bank run. The run would not be to secure our money (dollar bills), but to secure our real spending power - the amount of goods and services our dollars can buy. This concern is not new. We've had the basis for a national bank run ever since FDR introduced FDIC insurance in March 1933. Fortunately, Americans didn't call FDR's bluff by continuing their run on the banks (one-third had already failed). Had they done so, they would have demonstrated that, w/ respect to their real money balances, FDR was insuring the uninsurable. Rest assured Keynes-inspired snake oil economists such as Paul Krugman Brad DeLong - stars of the elite mainstream print broadcast media - will never admit their Govt interventionist panacea is a delusion. The emperor truly has no clothes and fear the day when those bankrolling today's American Dream stop footing the bill. Kotlikoff does an excellent job describing the depth of the hole we're in. Clearly, Americans have forgotten Reality is absolute: nature, to be commanded, must be obeyed. Second, while I support his Limited Purpose Banking (LPB) proposal, I fear Kotlikoff does not go far enough to uproot the causes of instability w/in our current financial system. The fundamental problem is our money supply can be (and is) expanded contracted at the whim of private banks (via fractional-reserve lending) and the Federal Reserve (through short-term interest rate changes, changes to the quality quantity of capital reserve requirements, and by an assortment of other "monetary policy tools"). The disequilibrium created by this monetary expansion contraction wreaks havoc on relative prices throughout the productive structure of the real economy; relative prices are the communication coordination mechanism for determining what products services to produce where, when in what quantities. This short-circuiting (so to speak) of the price mechanism results in the misallocation of scarce resources and it is this "malinvestment" which has most recently expressed itself in the form of abandoned new housing developments from literally sea to shinning sea; CA to AZ, NV to FL. THIS is the physical manifestation of the wasted scarce resources of the boom bust cycle inherent w/in our NON capitalist economic system. To be clear, all countries - including Communist China - today use the same fractional reserve central bank operating model. In other words, ALL industrialized countries today use the same flawed US financial system they too are susceptible to their own financial "Minsky Moment" meltdown. Americans do not appear to understand the US is NOT a "capitalist" country (correctly understood) nor is its financial system in any way, shape or form a "free market" when one Govt agency (the Treasury Dept) issues hundreds hundreds of billions of new debt bonds which are then immediately purchased by another Govt agency (the Federal Reserve) w/ money literally created out of thin air. While he says 100%, it's not clear (to me, anyway) if Kotlikoff's version of LPB will completely eliminate fractional reserve lending by private institutions. If it does - bravo! However, even if it does, Kotlikoff expressly states on pg 174, "If the Fed wants to increase the money supply, it will print money and use it to buy assets from the private sector, typically the private sector's holdings of Treasuries." And, as radical as this may sound now (before the US sovereign debt crisis), the only way to effectively remove the instability inherent w/in our current financial system is to abolish the central bank and free our currency from the political influence which has steadily eroded its value; the quantity of our money supply must be independent of a single political authority. For these reasons, Kotlikoff's LPB proposal is an excellent, but only partial, solution at best. Third, this book is about much more than LPB. Kotlikoff should either correct the subtitle ("Ending the world's ongoing financial plague with limited purpose banking") or remove the section of the book called "Fixing the rest of our economic mess." Don't misunderstand me: I like some of the Professor's other fixes; they're positive proposals for scaling the walls of the economic grave we Americans have dug for ourselves. Consequently, I believe too few pages of this book are focused on the implications of LPB and too many on "other fixes". Fourth, LPB alone cannot mitigate the looming US sovereign-debt crisis and this appears to be why Kotlikoff has included his "other fixes" in this book. Now, whether the US Govt chooses to default by restructuring its debts w/ its creditors or by inflation (i.e., printing additional fiat money which reduces the purchasing power of every individual holding US currency), it would be a mistake to discard LPB as it can should be part of the US financial re-structuring which will occur eventually. Let's face it: Americans do not have the stomach for the necessary austerity to reign in the Govt's borrowing binge; it's more likely the US Govt will inflate away its debt over the long term by hiding behind its printing press monopoly to create as much money as it wants. This is how the US sovereign-debt crisis will differ from Greece; Greece doesn't control the printing press. Not only does the US Govt control its money supply but its currency also happens to be the primary reserve currency for the entire world. This means when the Federal Reserve lowers the Federal Funds rate below what it would otherwise be and when it buys US debt bonds w/ money it has created out of thin air, the world is flooded w/ liquidity in search of yield; this inflation of asset values literally travels the globe. If only Greece were so lucky to have the monetary powers of the US... Consequently, the US is not susceptible to the same traditionally defined "solvency risk" as Greece; Greece can't print more Euros. Kotlikoff's LPB can help fix the US monetary system if it is combined w/ removal of the Govt's monopoly control over the money supply Govt's setting the short-term "federal

funds" interest rate via the Federal Reserve's open market operations. Because I endorse 100% reserve banking, I'm very familiar w/ the arguments against it. I believe Kotlikoff should have addressed these arguments in detail. Example: it's widely believed 100% reserve banking (included in Kotlikoff's version of LPB) would significantly reduce the amount of available credit by eliminating the 40:1 (more) leverage commercial investment banks enjoyed during the run up to our most recent crisis which, in turn, would reduce economic growth as measured by GDP. Is this argument valid? Kotlikoff is silent. I personally believe this argument is fallacious, even in the short term if 100% reserve banking were implemented immediately following a financial crisis when banks are not lending anyway. And even if 100% reserve banking did lower GDP growth over the long term, is this lower but SUSTAINABLE growth (w/o the boom bust) more efficacious than our current roller coaster "junkie growth" which is dependent upon its next injection ("fix") of liquidity by bankers possessed by animal spirits and central bankers dispersing circulating credit via helicopter? Fifth, Kotlikoff is right to point to loan initiation - not securitization - as a problem however, he thinks he whines too much about fraud. What about the en masse entrepreneurial error which resulted from the Federal Reserve's too loose too long short-term interest rate manipulation? Example: Mian Sufi estimate at least 39% of total new defaults between 2006 and 2008 were from 1997 homeowners -- EXISTING HOMEOWNERS -- who borrowed aggressively against the rising value of their homes using Home Equity Lines Of Credit (HELOC) w/ rates set at 3% above the Federal Reserve's short-term interest rate. Is Professor Kotlikoff saying these were fraudulent? Really? About 2/3rds of US economic growth during the run up to the crisis was a result of existing homeowners borrowing 25 to 30 cents on every dollar of home value appreciation (itself fueled by demand resulting from the tidal wave of cheap credit via short-term adjustable teaser interest rates). The point is these existing homeowners believed they could pay these loans based on the equity in their homes the low interest rate. What's more, the evidence demonstrates these loans were NOT used to speculate; to "flip" homes or purchase second homes. Is it coincidence mortgage defaults began to rise and house prices began to fall in mid 2006 as the Federal Reserve was raising the Federal Funds rate? Are all the US European empirical and counterfactual analyses documenting this causal relationship wrong? I recommend this book hope LPB is implemented. Too bad Kotlikoff didn't devote a few more pages explaining it. Moreover, Kotlikoff's discussion of the current US financial crisis demonstrates if waste is the litmus test for the morality of an economic system, look no further than the abandoned housing developments across America to judge the system we're living w/in today. Again, hat's off to Kotlikoff for detailing how our financial road to hell has been paved w/ Govt good intentions. 6 of 9 people found the following review helpful. Accurate Diagnosis, Comprehensive Treatment !By Rudi Schadt Boston University economics professor Laurence Kotlikoff (NBER associate) has been presenting a very compelling reform proposal (first in the FT Economists Forum, and now in this new book) that would definitely solve any "Too big to Fail" problems for Large Financial Firms and other moral hazard issues - under the name "Limited Purpose Banking". The long list of economists, politicians and finance experts favorably commenting on his proposal is spanning the whole spectrum of political views: from Nobel Prize winners Akerlof, Fogel, Lucas, Phelps and Prescott to British central banker King, Steve Ross and Cato Institute's Niskanen (even though Niskanen disagrees with having a central regulator for approving financial products). Outspoken and written for a general public, he highlights how to avoid a financial system gambling with public money as the current one. I fully agree with his analysis of the issues, including the blunt language. His Limited Purpose Banking Proposal is a radical reform, which illustrates what would be needed to eliminate any incentives for executives of shareholder-owned banks to gamble with customers' and taxpayers' money given the implicit safety guarantees offered to banks and now also to the so-called shadow banking system by the government. So, whether you agree with Kotlikoff's vision for a safe financial system or not, you will be hard-pressed to formulate a comprehensive reform that addresses all the major incentive problems of deposit insurance, too-big-to fail guarantees and the lack of transparency on financial firm's balance sheets and activities. 0 of 1 people found the following review helpful. Five Stars By Hector Rivera Excellent summary of the banking industry in the United States.

Discover how the global financial plague is poised to return, and what can be done to stop it This is not your father's financial system. Jimmy Stewart, the trustworthy, honest banker in the movie, It's a Wonderful Life, is dead. And so is his small-town bank, Bailey Savings Loan. Instead, we're watching It's a Horrible Mess with Wall Street (aka the Vegas Strip) playing ever larger craps with our economy and our tax dollars. This book, written by one of the world's most respected economist, describes in lively, humorous, simple, but also deadly serious terms the big con underlying the big game?the web of interconnected financial, political, and regulatory malfeasance that culminated in financial meltdown and brought us to our economic knees. But it also proposes an amazingly simply solution?Limited Purpose Banking to make Wall Street safe for Main Street. This book, as well as the financial fix described within it, have received rave reviews from a veritable who's who of policymakers and economics, plus five economics Nobel Laureates Written by a leading economist whose insights on this topic are unparalleled Outlines the first and only proposal to fundamentally fix our financial disaster for good Jimmy Stewart Is Dead will fundamentally change the way you think about the economy, financial markets, and the government.

.com Discover how the global financial plague is poised to return, and what can be done to stop it This is not your father's financial system. Jimmy Stewart, the trustworthy, honest banker in the movie, *It's a Wonderful Life*, is dead. And so is his small-town bank, Bailey Savings Loan. Instead, we're watching *It's a Horrible Mess with Wall Street* (aka the Vegas Strip) playing ever larger craps with our economy and our tax dollars. This book, written by one of the world's most respected economist, describes in lively, humorous, simple, but also deadly serious terms the big con underlying the big game—the web of interconnected financial, political, and regulatory malfeasance that culminated in financial meltdown and brought us to our economic knees. But it also proposes a solution—Limited Purpose Banking, a straightforward and easily implemented plan to make Wall Street safe for Main Street. Outlines the first and only proposal to fundamentally fix our financial disaster for good Written by a leading economist whose insights on this topic are unparalleled Explains the tenets of the plan, such as the regained government control of the money supply and the new role of insurance companies Jimmy Stewart Is Dead will fundamentally change the way you think about the economy, financial markets, and the government—and even if you don't agree with Kotlikoff's conclusion, you'll find his analysis of the crisis and his simple solution a true economic eye-opener. Exclusive: QA with Author Lawrence Kotlikoff

1. What is limited-purpose banking? First I want to point out that *Jimmy Stewart Is Dead* is only partly about this proposal. It's in large part a layman's tour of the financial collapse conducted by an economist who can talk in plain English and is holds no bars. If you really want to understand what happened in fundamental economic terms, please read the book. And if you really want to know how to fix the problem, please read the book and then send it to your Senator or Congressman. Limited Purpose Banking puts takes the multifaceted fraud out of our financial system by turning all banks, insurance companies, hedge funds, etc. into fully transparent mutual fund companies. Limited Purpose Banking also abolishes over 115 federal and state regulatory authorities and replaces them with the Federal Financial Authority, which verifies, fully and immediately discloses, and independently rates and appraises all securities held by the mutual funds. In a nut shell, Limited Purpose Banking makes Wall Street safe for Main Street. Under Limited Purpose Banking we will never again experience financial collapse and contagion. The proposal is receiving significant attention by Mervyn King, Governor of the Bank of England, and other top policymakers throughout the world.
2. Another term that is mentioned a lot these days is narrow banking. What is the difference between narrow banking and LPB and why is LPB a better option? Narrow Banking says that the monies invested in checking accounts and similar short-term deposits must be invested in very safe securities, like federal government Treasury bills. It lets the rest of the financial system do its own thing and tells that part of the system “Boys and girls, you're on your own.” If you borrow money to invest in fraudulent or simply risky securities and lose your shirts, you're not going to bail you out. Well, this was tried in the case of Lehman's failure and it blew up in the government's face. Limited Purpose Banking includes cash mutual funds, which are held strictly in cash. So one element of LPB is narrow banking. But LPB is much broader. It precludes any financial intermediary of any kind, which is protected by limited liability, from doing anything but marketing mutual funds and the mutual funds are themselves never leveraged. So the entire financial piping system is made safe, not just a few pipes that weren't at much risk to begin with.
3. What are the advantages of implementing a system like limited-purpose banking and how will it differ from our current banking system? You'll never have another financial collapse. You'll never see a run on banks ever again. You'll never see insurance companies insuring the uninsurable. You'll get rid of all the con jobs underlying the current financial system. There will be no more insider rating deals, liar loans, director sweetheart deals, bonuses which amount to corporate theft, bribing of Congress, and the list goes on. The financial plague will be cured, once and for all. The biggest difference between what we now have and Limited Purpose Banking is you'll have a financial system that's honest and that we can trust. This will make all the difference in the world in getting the American economy back on its feet.
4. You've recently been referred to as Mervyn King's (Bank of England) “Guru.” Do you anticipate that the UK might be more amenable to a proposal like LPB than the US? Why? First, Mervyn King needs no guru, and I'm not his guru. He's a brilliant economist and an outstanding public servant. I've learned a lot more from him over the years than he's learned from me. Many of the ideas contained in Limited Purpose Banking were being independently conceived and considered by other economists at the time the book appeared. This includes Mervyn King and other superb economists at the Bank of England. Governor King, Alisdair Turner, and other top members of the British government are taking this plan very seriously. It's very simple and if the UK adopts it, the U.S. is likely to follow. But the U.S. may move first. If you look at who endorsed the book — former Treasury Secretary and Secretary of State George Shultz, former Senator Bill Bradley, former Secretary of Labor, Robert Reich, two former CEA chairmen (Michael Boskin and Murrar Weidenbaum), two former chief economists of the IMF (Simon Johnson and Ken Rogoff), a former chief economist of the SEC, a former deputy Comptroller General of the Currency, and hellip; not to mention FIVE Nobel Laureates in Economics, you see that there is extremely widespread support for this plan in U.S. policy circles and academia. The endorsements are coming from all sides and ends of the political aisle.
5. What do you anticipate as the reaction by the banking industry to LPB? If the banking industry is smart, they will realize this is the best way to go. The American public is extremely angry and is not up for business as usual. 15,000,000 people are unemployed and many other

millions are underemployed or have dropped out of the labor force. Wall Street has destroyed the economy and millions of innocent economic lives. Wall Street did this by engaging in fraud; left, right, and center and then turning to the tax payer to pay for the havoc it created. These problems continue to this day. They need to be fixed fundamentally. The status quo seems safe, but as the book shows, it's extremely risky. And because it is so risky, Wall Street will either need to be baby sat in a manner it won't like or it can operate honestly under LPB. These are its only two options. "Kotlikoff has presented a thought-provoking proposal that merits attention in the debate over financial regulation."—Kenneth Silber, FrumForum.com, March 2010 "Jimmy Stewart Is Dead" makes for provocative reading. We certainly have squandered much of America's business and economic strength in the pursuit of personal gain and huge if not obscene bonuses. It might just be easier to find another Jimmy Stewart. I'd call him Mr. Smith. And I'd ask him to go to Washington."—Philip Moeller, U.S. News World Report "Kotlikoff grabs us by the collar, brilliantly unveiling the truth about our financial system. With scintillating arguments, vivid examples, and terrific wit, he offers a powerful reform that stops banks from gambling and restricts them to their legitimate purpose, 'connecting borrowers to lenders and savers to investors.' This is economics at its very best: deeply insightful and powerfully useful. It will change the global debate."—JEFFREY SACHS, Director of The Earth Institute, Quetelet Professor of Development and Health Policy, Columbia University "Financial reform needs something simple, clear, and, most of all, effective. Read this book to get and understand the answer."—GEORGE SHULTZ, Distinguished Fellow, the Hoover Institution, former U.S. Secretary of the Treasury, and former U.S. Secretary of State "At last! A real financial page-turner. Kotlikoff calls out the bad actors behind the financial crisis and nails them cold. But he also tells us how to prevent it from happening again. It's called Limited Purpose Banking. Anyone can read this book—and everyone should."—SCOTT BURNS, Financial Columnist, Universal Press Syndicate "Jimmy Stewart Is Dead is a page-turner, as fast-paced as The Simpsons, with new insights on every page. As fun as it is, Jimmy Stewart is also deadly serious. It describes our deep financial problems and offers an amazingly simple financial... From the Inside Flap Make no mistake, Jimmy Stewart, the honest, trustworthy banker (a.k.a. George Bailey) in It's a Wonderful Life, is dead. And so is his small-town, virtuous bank—Bailey Savings and Loan. Today, a very different financial movie, It's a Horrible Mess, is playing on Main Street. This economic horror show—produced by Wall Street and directed by Congress—is no Christmas story, but a tale of pervasive and massive financial malfeasance that has devastated the lives of millions of people around the globe. Though our financial system lies in tatters and economic misery stalks the land, the horrible mess is far from over. Uncle Sam, who aided and abetted the financial fraud, is working overtime to restore a financial system that's virtually designed for hucksters, that no one can trust, and that towers on a bed of sand. Uncle Sam's strategy is Wall Street's—borrow short, place risky bets, make financial commitments you can't possibly keep, and let no one see precisely what you're doing. The sums involved are enormous and have leveraged us and our children far beyond our capacity to pay. Sam's bluff has put our economy at grave economic risk. Without the right financial fix, the global financial plague will strike again with even more devastating force. Written by Laurence Kotlikoff—one of the world's most respected economists—Jimmy Stewart Is Dead describes in lively, but deadly serious terms the big con underlying the big game: namely the web of interconnected financial, political, and regulatory misconduct that culminated in financial meltdown and brought us to our economic knees. It's a tragic story that starts with our economic disaster and where it's headed, describes its causes, identifies its architects, and then shows how to fix the system for good. Throughout the book, Kotlikoff not only surveys the disheartening events surrounding our economic collapse, but also conveys their deeper economic meaning, particularly the extraordinary danger of maintaining the financial status quo. Along the way, he proposes Limited Purpose Banking (LPB)—a straightforward and easily implemented plan to make Wall Street safe for Main Street. Featured in the Financial Times, Forbes, the New Republic, Bloomberg, and other top media, LPB transforms all financial corporations into pass-through mutual companies that can never fail, never leverage the taxpayer, and never sell fraudulent securities. LPB is the first and only proposal that could fundamentally end our enduring financial plague and restore economic prosperity. Whether or not you agree with Kotlikoff's conclusion, you'll find his analysis of the crisis and his simple solution a true economic eye-opener. Indeed, Jimmy Stewart Is Dead will fundamentally change the way you think about the economy, financial markets, the government, and the safest way to shape our economic future.