« Hedging Against Dollar Weakness Part I

A Movie You Must See

By Jeff Harding, on September 11th, 2010

OVERDOSE: The Next Financial Crisis

This movie on the causes of the financial crisis was produced in Sweden by Henrik Devell, directed by Martin Borgs, and narrated by Johan Norberg, a Senior Fellow at Cato Institute, and a prominent libertarian and frequent guest on Stossel. It is very professionally done and entertaining. You can see it right here on The Daily Capitalist Theater. Turn your video setting up to 720p. It is a feature length film, 46 minutes, so sit back and enjoy it.

Here is a description of from their web site:

In times of crisis people seek strong leaders and simple solutions. But what if their solutions are identical to the mistakes that caused the very crisis? This is the story of the greatest economic crisis of our age, the one that awaits us.

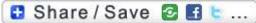
When the world's financial bubble blew, the solution was to lower interest rates and pump trillions of dollars into the sick banking system. "The solution is the problem, that's why we had a problem in the first place". For Economics Nobel laureate Vernon Smith, the Catch 22 is self-evident. But interest rates have been at rock bottom for years, and governments are running out of fuel to feed the economy. "The governments can save the banks, but who can save the governments?" Forecasts predict all countries' debt will reach 100% of GDP by next year. Greece and Iceland have already crumbled, who will be next?

The storm that would rock the world, began brewing in the US when congress pushed the idea of home ownership for all, propping up those who couldn't make the down payments. The Market even coined a term, NINA loans: "No Income, No Assets, No Problem!" Enter FannieMae and FreddieMac, privately owned, government sponsored. "Want that vacation? Wanna buy some new clothes? Use your house as a piggie bank!" Why earn money to pay for your home when you can make money just living in it? With the government covering all losses, you'd have been a fool not to borrow.

The years of growth had been a continuous party. But when the punchbowl ran dry, instead of letting investors go home to nurse their hangovers as usual, the Federal Reserve just filled it up again with phoney money. For analyst Peter Schiff, the consequence of the spending binge was crystal clear: "we're in so much trouble now because we got drunk on all that Fed alcohol". Yet along with other worried experts, he was mocked and derided during the boom.

Have you taken out a mortgage, invested capital or bought shares? If you have, likelihood is you lost out in the latest bust. Governments promised decisive action, the biggest financial stimulus packages in history, gargantuan bailouts: but what crazed logic is this, propping up debt with...more debt? This documentary brings an entirely fresh voice to the hottest topic of today.





September 11th, 2010 | Tags: <u>Austrian economics</u>, <u>Economic Crisis</u>, <u>OVERDOSE: The Next Financial Crisis</u> | Category: <u>Austrian economics</u>, <u>business cycles</u> | <u>5 comments</u>

5 comments to A Movie You Must See



Bert

September 12, 2010 at 4:52 am · Reply

All so very true. We keep repeating the same behavior hoping for a different result. We have to vote out these career politicians and get some citizen legislators that will do what is best for our country and not themselves, or this will continue. We are our own worst enemy when we keep electing these self serving and corrupt politicians.



Bearster

September 12, 2010 at 9:12 am · Reply

It's too bad that the citizens want the current system?

I think that ex-government employee exemplifies this. He didn't have a problem with stimulus per se, just with "waste".

The average citizen—even Tea Partier—is against waste. How do they define this term? "Any program from which I don't benefit."

PEOPLE WANT THEIR HANDOUTS, BUT THEY DON'T WANT HIGHER TAXES, SO THE FED IS THE SOLUTION TO THE DILEMMA.

Mish keeps highlighting every union around the country-especially in the public sector-demanding pay raises and keeping their unsustainable pension plans and other benefits, like health care for the whole family at no cost to the union member.

Every industry that is non-viable, not just Wall Street, but real estate brokerages, automakers, real estate investment trusts, you name, it, are lined up begging for more bailouts and stimulus.

Even the Tea Partiers often circulate emails saying that the problem with Obama is that he is going to take away your Social Security and Medicare benefits.

Do you think anyone who has a private defined-benefit pension plan will vote for any solution that doesn't bail them out?

The delusion popular in libertarian circles is that the people want liberty, but unfortunately we have Lords who, with their occupation army, force us to accept a form of government that we would otherwise reject. But the reality is that we have exactly the government that people want-and loudly demand.

But they are like 3 year olds. Anyone with children has probably heard the phrase "accidentally on purpose". The kid throws a glass of milk over the side of the high chair tray. He meant to do it. But he didn't mean for the glass to break or the milk to splash everywhere including under the refrigerator.

Our system today is accidentally on purpose. People DO MEAN TO HAVE the "benefits" of inflation. Government can handout far more loot than if it was limited to what it could take in taxes, it can prop up borrowing-fuelled consumption, it can stimulate malinvestment (which employs tens of millions of people even today), and it can make truly insane promises for the future that truly can never be kept.

They don't mean for the truth to emerge, for their ponzi scheme to come unglued, or for the drunken party to be over and everyone face a hangover.

Ever listen to people attempt to "explain" what ended the first great depression? Most idiots think FDR's policies (which are the same as Obama's policies today) ended it. Most of the rest are a different kind of idiot. They think that killing off a few tens of millions of people, and bombing an entire continent into ruins, while putting the US on rationing, martial law, and endless government control boards... THIS, somehow (it's always "somehow") ended the depression.



September 12, 2010 at 1:55 pm · Reply

I agree with the premise of this movie, and also with 99% of everything it says.

However, I would like to point out a common misperception regarding the housing bubble: it had already started and was in full swing **before** the Dot Com bust, 9/11, or the severe lowering of interest rates in 2001.

The narrator says (@ 9:10) that, "Low interest rates **caused** a housing bubble," yet even per their own graphic, you can see accelerating appreciation cresting around 10% prior to the 2001 recession. If they would have shown more of the graph, you would have seen a five year trend of accelerating price appreciation that occured in a rising interest rate environment (97-01). Case-Shiller 10 City was already running an unsustainable 6.6%, 8.8%, 11.4%, 14.5% in the four years leading up to rate drops.

Bottom line: the housing bubble did not 'begin' in 2002.

Buck



Bert

September 13, 2010 at 5:28 am · Reply

Crony capitalism has caused this whole mess, this system will continue unless people wake up and realize special interest groups and corrupt politicians are ruining this country.



Bearster

September 13, 2010 at 8:00 am - Reply

Bert: by "special interests" do you include everyone who today collects, or expects to collect in the future social security and medicare? Do you include everyone who, now that he has moved into a town, wants to block future development? How about everyone who wants his child's education to come at the expense of taxpayers? How about those who collect welfare, unemployment, food stamps, HAMP, etc.?

We certainly have crony capitalism, aka "fascism".

It is, to quote Bastiat, an attempt by all to plunder all.

