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KEVIN PHILLIPS

BAD MONEY

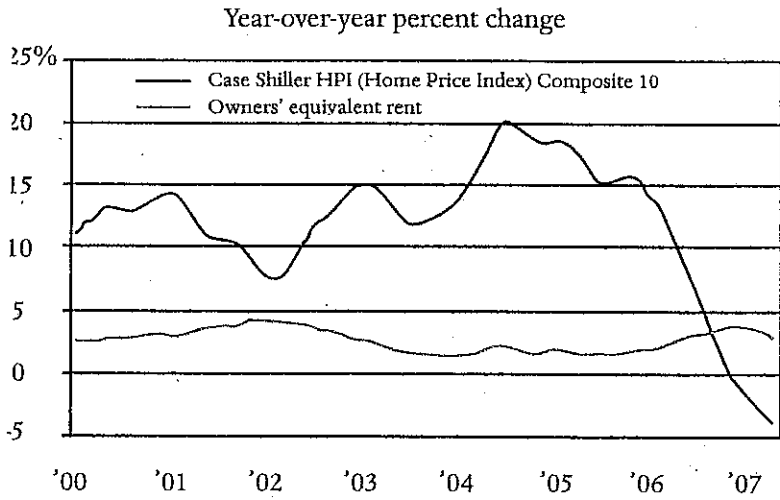
Reckless Finance, Failed Politics, and
the Global Crisis of American Capitalism

Kevin Phillips has been a political and economic commentator for more than three decades. A former White House strategist, he has been a regular contributor to the *Los Angeles Times* and National Public Radio and has written for *Harper's* and *Time*. He is the author of fourteen books, including the *New York Times* bestsellers *American Theocracy* and *American Dynasty*. He lives in Litchfield County, Connecticut.



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Changes in the Case-Shiller Home Price Index vs. Inflation Under the "Owners' Equivalent Rent" Calculation Used in the CPI



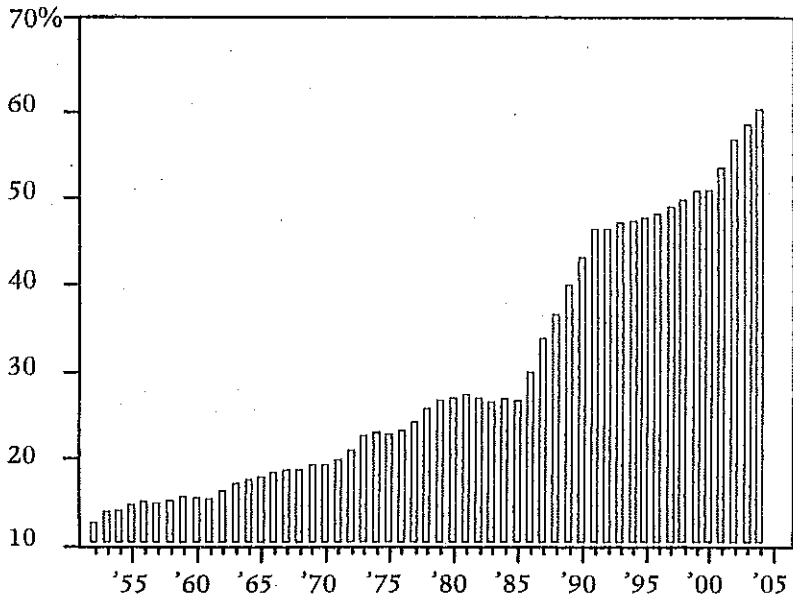
Source: www.seekingalpha.com.

Note: Instead of being based on homeowners' actual expenses, such as mortgage payments, insurance, property taxes, and the like, the CPI includes an estimate called owners' equivalent rent.

FIGURE 2.2

Banks and the Mortgage Business, 1952–2004

U.S. Banks: Mortgage-Related Assets/Total Earning Assets (in Percent)



Source: Northern Trust Company, Paul L. Kasriel, director of economic research.

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P/A

Preface

FIGURE P.1

The Great American Household Debt Binge, 2008

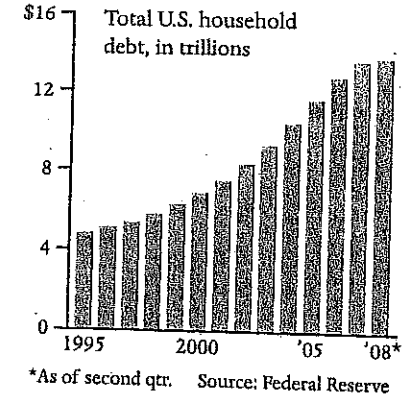


FIGURE 4.4

The Tripling of California Home Prices, 1995–2006

Single-Family Median Home Prices

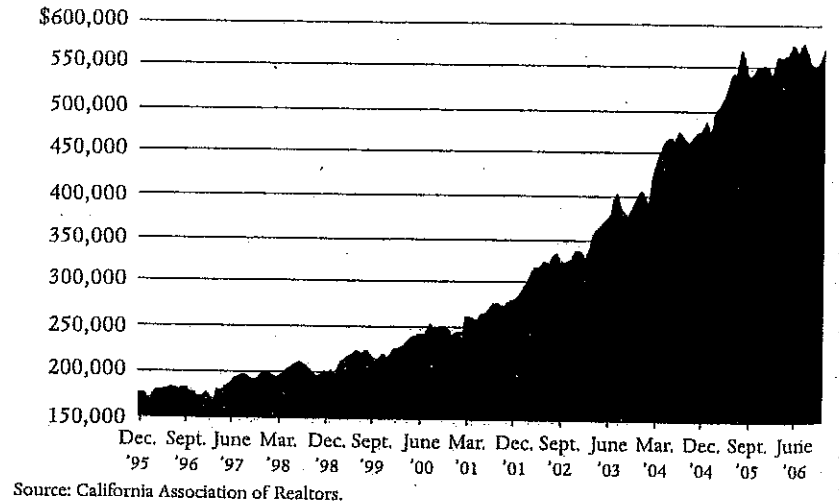
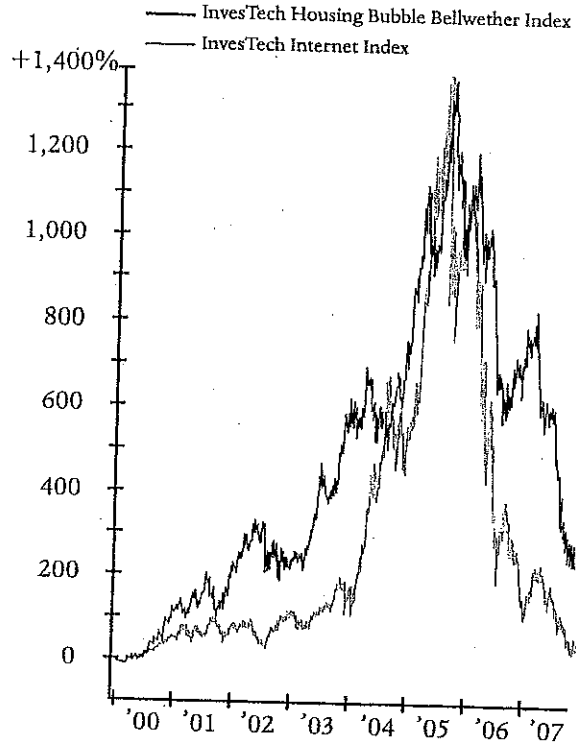


FIGURE 7.1

**The Internet Bubble and the Housing Bubble:
A Comparison, November 2007**
*The InvesTech Internet Index, 1995–2002,
and the InvesTech Housing Bubble Bellwether Index, 2000–2007*



Source: InvesTech Research, *Market Analyst*, Whitefish, Montana, November 16, 2007.

Stocks, Homes, and the Wealth Roller Coaster, 1998–200

*Wealth Rises Again in 2003–4
After the 2000–2002 Stock Collapse*

Year-over-year percentage change in household net worth

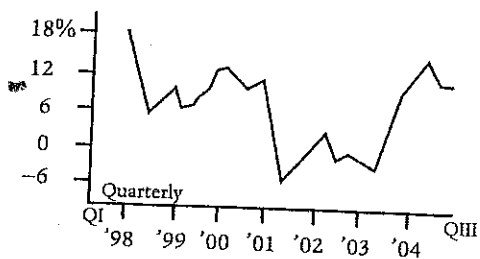
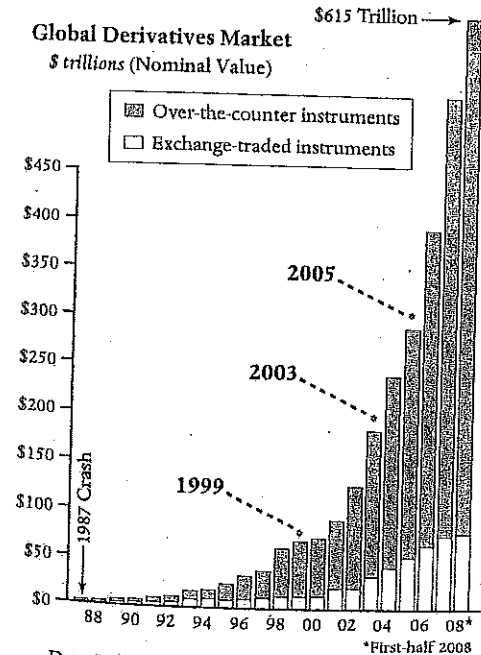


FIGURE P.2

Wild About Derivatives

Global Derivatives Market
\$ trillions (Nominal Value)



"I think, generally speaking, they [derivatives] are very valuable. They provide methods by which risks can be shared, sliced and diced and given to those most willing to bear it."

Ben Bernanke, Chairman, President's Council of Economic Advisors—11/15/05
(Current Federal Reserve Chairman)

"The use of a growing array of derivatives and the related application of more sophisticated methods for measuring and managing risk are key factors underpinning the enhanced resilience of our largest financial intermediaries... the benefits of derivatives, in my judgment, have far exceeded their costs."

Alan Greenspan, Federal Reserve Chairman—5/3/03

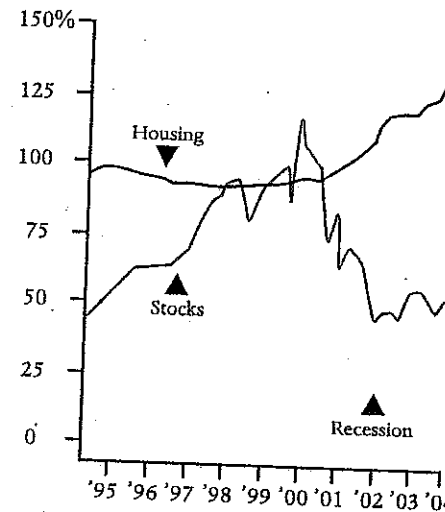
"By far the most significant event in finance during the past decade has been the extraordinary development and expansion of financial derivatives."

Alan Greenspan, Federal Reserve Chairman—3/19/99

Data: Intl Swaps & Derivatives Assoc; Bank of Intl Settlements
Source: InvesTech Research, Oct. 17, 2008

**The Replacement of Stocks by Housing
as the Pillar of U.S. Wealth Creation**

Value of U.S. stocks and homes, as a percentage of GDP



Source: Federal Reserve, Commerce Department via Economy.