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Financial Bubbles, Real Estate Bubbles, Derivative Bubbles, and the Financial and Economic Crisis

Conference paper

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of the unfolding financial and economic crisis: the accumulation of several bubbles and their interplay and mutual reinforcement have led to an illusion of a "perpetual money machine" allowing financial institutions to extract wealth from an unsustainable artificial process. Taking stock of this diagnostic, we conclude that many of the interventions to address the so-called liquidity crisis and to encourage more consumption are ill-advised and even dangerous, given that precautionary reserves were not accumulated in the "good times" but that huge liabilities were. The most "interesting" present times constitute unique opportunities but also great challenges, for which we offer a few recommendations.

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2. In this respect, note the information from Reuters, Santiago, March 27, 2009, reporting that Chile’s President Michelle Bachelet unwittingly embarrassed British Prime Minister Gordon Brown when she said Chile had put aside money during good economic times to help it through the downturn. “I would say that because of our decision during …the good times in copper prices, we decided to save some of the money for the bad times and I would say that policy today is producing good results.”

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