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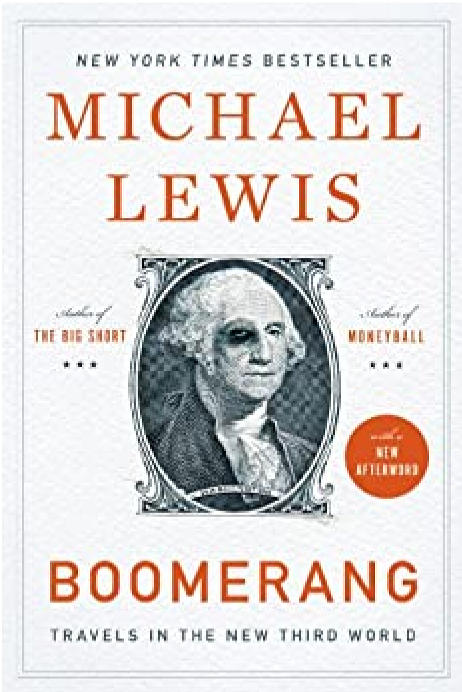
Boomerang: Travels In The New Third World



Synopsis

As Pogo once said, "We have met the enemy and he is us."The tsunami of cheap credit that rolled across the planet between 2002 and 2008 was more than a simple financial phenomenon: it was temptation, offering entire societies the chance to reveal aspects of their characters they could not normally afford to indulge.Icelanders wanted to stop fishing and become investment bankers. The Greeks wanted to turn their country into a piÃƒÂ ata stuffed with cash and allow as many citizens as possible to take a whack at it. The Germans wanted to be even more German; the Irish wanted to stop being Irish.Michael Lewis's investigation of bubbles beyond our shores is so brilliantly, sadly hilarious that it leads the American reader to a comfortable complacency: oh, those foolish foreigners. But when he turns a merciless eye on California and Washington, DC, we see that the narrative is a trap baited with humor, and we understand the reckoning that awaits the greatest and greediest of debtor nations.

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Customer Reviews

I admit to being a fan of Michael Lewis' books, so take that into consideration as you read this review. Lewis earned a masters degree in economics from the London School of Economics and went to work as a bond trader for Salomon Brothers before its scandals. His education and investment experience qualified him to write "Liar's Poker" in 1989, though I have no idea what qualified him to write such an entertaining and lucid description of the Wall Street culture of that time. Subsequently, I have read Lewis' "Moneyball" (in 2003), "The Blind Side" (in 2006), and "The Big Short" (in 2010). All of these books are very easy to read and hard to put down. They tell well-researched, interesting stories. In the case of "The Big Short" it helps to illuminate the origins of the financial crisis that broke starting in 2007.In Lewis' latest book, "Boomerang," the subtitle is, "Travels in the New Third World." Lewis is not referring to Asian or Latin American countries here. He's talking about European countries that drank the elixir of seemingly endless and cheap credit prior to the bursting of the recent financial bubble. To say that cheap credit transformed the economies in Greece, Ireland and Iceland, for example, is to understate the impact of the financial bubble on these countries. Talk about a timely book--I am writing this during September 2011, and yet this book refers to the recent downgrade of U.S. debt, which occured only last month, beginning on page 171.As in many of Lewis' books, there's a new person who you probably never heard of before to meet. In "Moneyball" it was Billy Beane, the general manager of the Oakland Athletics baseball team, and in "The Big Short" it was Steve Eisman, Michael Burry and others. This time it's Kyle Bass, the manager of a Dallas-based hedge fund, who Lewis makes sound both very insightful and eccentric. What would you call a man who owns a 40,000 square foot ranch located on thousands of acres in the middle of nowhere with its own water supply and an arsenal of automatic weapons? Or someone who would recommend "guns and gold" for his mother? Anyway, the gist of Bass' financial analysis is that mountains of shaky debt (arising from borrowings during 2002 - 2006 by people who couldn't repay) was essentially transferred from private institutions (like banks, etc.) to various governments, to the point that eventually markets would question the credibility of these governments. Put differently, the public debt of certain countries wasn't just the official public debt, but also that which came from supporting various private institutions.Bass, Lewis tells us, visited Harvard professor Ken Rogoff (coauthor of "This Time is Different: Eight Centuries of Financial Folly," which I recommend), and found even Rogoff to be surprised by the magnitude of the public debt problems. Just as Bass bought credit default swaps on subprime mortgages prior to the financial crisis, Bass later bought credit default swaps on Greek government bonds, because he was convinced that Greece would be one of the first countries to experience real problems. Bass expected the swaps he purchased for 1,100 per year per million to eventually be worth

700,000.Anyway, Lewis interviewed Bass years ago in preparation for writing "The Big Short," but he "left Kyle Bass on the cutting room floor." Lewis returned to Dallas two and a half years later, this time to find that Bass was betting most heavily against Japan and France at the time. Bass also had literally bought 20 million U.S. nickels (don't ask how), because he said the value of the metals in each nickel was worth 6.8 cents. The majority of this book is devoted to Lewis' travels in Iceland, Greece, Ireland and Germany, and to his discoveries during his travels. To get a flavor for the book and Lewis' writing style, here are some of Lewis' passages, in his own words:Iceland: "Iceland instantly became the only nation on earth that Americans could point to and say, `Well, at least we didn't do that!'"Greece: "As it turned out, what the Greeks wanted to do, once the lights went out and they were alone in the dark with a pile of borrowed money, was to turn their government into a pinata stuffed with fantastic sums and give as many citizens as possible a whack at it."Ireland: "But while the Icelandic male used foreign money to conquer foreign places--trophy companies in Britain, chunks of Scandinavia--the Irish male used foreign money to conquer Ireland. Left alone in a dark room with a pile of money, the Irish decided what they really wanted to do was buy Ireland. From each other."Germany: "Either Germans must agree to integrate Europe fiscally, so that Germany and Greece bear the same relationship to each other as, say, Indiana and Mississippi (the tax dollars of ordinary Germans would go into a common coffer and be used to pay for the lifestyles of ordinary Greeks) or the Greeks (and probably, eventually, every non-German) must introduce `structural reforms,' a euphemism for magically and radically transforming themselves into a people as efficient and productive as the Germans."Quoting Lewis quote UCLA neuroscientist Peter Whybrow in the book's last chapter (on California's financial problems, not European countries), Lewis writes, "'Human beings are wandering around with brains that are fabulously limited. We've got the core of the average lizard.' Wrapped around this reptilian core is a mammalian layer (associated with maternal concern and social interaction), and around that is wrapped a third layer, which enables feats of memory and the capacity for abstract thought. 'The only problem is our passions are still driven by the lizard core.' Even a person on a diet who sensibly avoids coming face-to-face with a piece of chocolate cake will find it hard to control himself if the chocolate cake somehow finds him. Every pastry chef in America understands this, and now nueroscience does, too. 'In that moment the value of eating the chocolate cake exceeds the value of the diet. We cannot think down the road when we are faced with the chocolate cake.' ... Everywhere you turn you see Americans sacrifice their long-term interests for a short-term reward."Love him or not, Michael Lewis is a talented writer, and I truly believe that most readers will have a hard time putting this book down. If you have enjoyed his earlier books, the decision to purchase this one seems to be a no-brainer. If you haven't read one of his earlier books, this one is worthy of your consideration.

Iceland, Ireland, Greece, Germany, California....Lewis again talks to people hither and yon and makes interesting, if wholly unscientific, observations about national/racial psychological types and how these predilections lead the various groups to screw their clients or screw themselves in their efforts to earn easy income from investments that they don't understand. And of course, the root of all evil is the inability ofour species in general to forego instant gratification and act as if we were all members of one community and to see our own long term self interest as indiscernible from that of each and every other member of our community.Eventually, when the haves find themselves vastly outnumbered by the have nots, there is a period of upheaval and the haves find out too late that their moats and drawbridges are not going to keep them or their stuff safe. I still don't understand why everyone doesn't follow Iceland's example.....

This book was a great follow on to his last book The Big Short. It shows the problems with Wall St and how they screwed up the rest of the world except for Iceland who told the world to go take a flying #$%#$ and defaulted. Lots of insight. As always Lewis' writing holds you with humour, insight, and easy flow. He uses characters that you relate to enjoy the book. If you read this earlier about Greece, you would understand just how screwed up the country is and how it is doomed to be separated from the rest of the EU. Lewis is an excellent, and very honest writer. I can't imagine anyone not liking this book or finding it useful

In The Big Short Michael Lewis showed us what happened during the early stages of our ongoing financial crisis. In this new book, a compilation of more recent reportages that have appeared separately in Vanity Fair, Lewis leads us through the next leg of the story. Engaging in what he refers to as "financial disaster tourism" he hits the ground in the four locales which he regards as most emblematic of the global juggernaut that was unleashed in 2008 and that is still rolling with varying degrees of virulence over the world's economies. Lewis again employs his trademark technique of seeking out a handful of people whose individual stories communicate the essence of a macro picture. He starts in Iceland at the recommendation of Texas-based hedge fund manager Kyle Bass. Apparently Bass has long had a fascination with Iceland because, like Bill Gates, he was an inveterate Risk player as a child and he always felt Iceland's geographic niche between Europe and North America made it a strategic key in that game of global domination. Bass's adult interest in the tiny country, however, had nothing to do with its geography and everything to do with its peculiar banking system. Michael Lewis travels there with that same focus, finding in the island nation's bizarre dysfunction a microcosm for the post-2008 financial world. With its entire population roughly the size of Toledo, Ohio, Iceland had its own currency and massively outsized banks, the three largest of which collectively had assets that by 2007 had ballooned to more than ten times the GDP of the country. When the banks blew in the next year, the fallout too was outsized The origins of these queer circumstances make for an interesting story given that Iceland's economy historically was based in little more than fishing. The people had managed to parlay this economic nucleus into a surprising degree of prosperity, which enabled education and cultural development. The problem was that career opportunities were still limited in the nation's small-town milieu. And the other problem, according to Lewis, was the daredevil proclivities of Icelandic males. Perhaps stemming from genetic selection in an environment where the ability to fish in treacherous waters had always been a survival skill, male Icelanders seem prone to testing the limits of almost everything and then barreling blindly forward. Lewis, in amazement, describes this trait as though it had hardened into a kind of faulty neurological wiring that makes the men incapable of even perceiving risk, much less allowing it to moderate their behavior. Thus combining career boredom with an innate recklessness, Iceland was flirting with trouble when it's professional men discovered investment banking in the 1990's. They found they could borrow massive amounts of money in the global markets and invest it profitably for the time being in almost anything. And if regulation was weak in New York and London, it seems to have been virtually non-existent in Reykjavik. Asset values inflated into what one academic interviewed by Lewis describes as the most perfect financial bubble in the history of the world.His next stop, unsurprisingly, is Greece. And for anyone who might suspect Lewis of pursuing some kind of leftwing vendetta against the banking industry, his reporting on Greece shows him ready to apportion blame wherever he sees it, which is almost everywhere. Actually, the Greek banks come off relatively well here, and it is Greek society as a whole that Lewis portrays as bearing responsibility for the national pathos, even as he finds Greek citizens as individuals to be warm and delightful. We see a nation seemingly guided by a liberal collectivist ideology but in practice governed by private greed, fraud and universal mistrust. Hence, the Greek parliament is forever offering extravagant funding for everything Greek hearts might desire, but administration of the programs is given into the hands of corrupt officials, crony capitalists and thuggish unions who game the system at every opportunity. The cost of government is thus sky-high, while revenues to pay for it are forever lagging, due in part to almost universal tax evasion that officials do little to punish or even detect.Next is Ireland. Perhaps owing to a long history of abject rural poverty, the Irish took to residential property development like starving birds to a sudden over-abundance of corn when easy money flooded the global markets after the 1990's. The problem was that no one seemed to be paying much attention to who was going to buy all these new homes. One can picture our financial-disaster tourist wandering aimlessly, camera in hand, around what he calls the Irish "ghost estates". These are large, uninhabited new developments out in the Irish countryside which are connected to nothing. Construction was stopped on many of them when the money ran out and awareness dawned that buyers were lacking anyway even if the money had continued to flow. Since the Irish government chose to guarantee the blind and broken banks who funded all this, the hapless Irish taxpayers remain on the hook for it. Lewis also visits Germany, apparently to get a quick view from the other side of the Eurobanker's table. Americans, like non-German Europeans, seem incapable of writing about the Germans without lampooning them. Often they appear as ham-fisted martinets, other times as guttural buffoons. Sometimes they are portrayed as evil geniuses who harbor fond memories of Hitler or the Kaiser and are still bent on ruling the world. Lewis manages to find a different tack. Taking his cue from a sociologist who developed the observation, Lewis informs us that Germans have a national obsession with all things scatological. In their literature, their songs, their humor and their everyday speech, it seems the Germans, more so than other cultures, are focused on excrement. The theory then attempts to explain the German love for order and cleanliness as reaction formation against this private compulsion in the other direction. Getting us back to finance, Lewis takes the idea a step further by suggesting that the Germans have worked very hard to keep their own financial system pristine, while facilitating "dirty" finance outside of their own borders. I found all this a little strained, and Lewis's chapter on Germany is in my opinion the weakest part of his book. He fully redeems himself in the final chapter, however, where he takes us back to the United States. He finds the ultimate portrait of financial disaster in his own adopted home state of California. Here, his writing rises again to its tragicomic best. Lewis's celebrity nowadays is such that he can get his journalistic foot into almost any door he chooses. And indeed, he opens this chapter in the company of none other than Arnold Schwarzenegger, former Mr. Universe, former pop movie icon and, of course, former "Governator" of California, all professional heights he reached after arriving in America as an obscure immigrant from Austria in the late 1960's. For his meeting with Lewis, Arnold arrives offhandedly dressed and without any entourage or security whatsoever. He's invited Lewis to go biking with him, and now leads him on a spin through the chaotic exurbs of Southern California. Afterwards, barely winded, and unfazed by multiple traffic hazards, he takes his shaken new charge back to his office to tell him all about California and its intractable problems. I'm pretty sure that Michael Lewis is a Democrat, but he writes without ideological blinders. He obviously admires the Republican Schwarzenegger for his intellectual honesty, optimism and relentless energy. However, even the redoubtable strongman, by his own admission, proved helpless against the problems of California. The state's voters embraced him initially and then eight years later threw him out of office, his approval ratings having crashed through the bottom of the floor. In Lewis's rendition, the travails of California sound depressingly like those of Greece. A land of shallow idealism mired in administrative incompetence, California promises everything but is willing to pay for little. The state's perpetual budget crisis seems to be without the slightest hope of being resolved at any point in the foreseeable future. Arnold seems disappointed but has taken it all in stride and moved on with his life. He says he had fun trying. Lewis realizes he could visit just about any city in the state and find a relevant crisis to observe, so he picks a few. The mayor of one of them - San Jose - sums up pretty well the problems of his city and most of the others when he points out that he could terminate every single current employ in his government and not save enough money to pay the pensions and post-retirement benefits of the former employees. He could then tax his wealthy citizens into oblivion and, having thus destroyed his tax base, still not put much of a dent in the problem. Apparently believing themselves much richer than they were - particularly during the Fin de siÃƒÂ¨cle boom years - government officials had fecklessly backed away from confrontation with the public service unions, who were thus able to assume a largely free hand in crafting pay and benefit packages. The day of reckoning came much sooner than even pessimists had imagined. On his way out of the Mayor's office, Lewis asks as couple of his aids for suggestions about where, given his investigative focus, he should go next. Without hesitation they both point him to Vallejo, and Lewis makes a beeline for the place. Three years earlier, Vallejo became one of the few municipalities in the United States ever to file for bankruptcy, overwhelmed by reckless promises made in happier times to its public employees. By the time Lewis gets there, the city has few active public employees left and is a shell of itself. Many of its homes are in foreclosure and its taxable population is drifting away. Street maintenance is non-existent, and crime is rising. Paradoxically, though, it's in reporting on Vallejo that Lewis discovers more glimmers of hope than he has managed to find elsewhere, for much the same reason that former drug addicts can sometimes be inspirational: hitting absolute rock bottom creates a certain clear-sightedness about problems and a motivation to correct them. Lewis meets the recently-hired city manager, Phil Batchelor, who has come reluctantly out of retirement to take the job. A sober, unassuming man, his one precondition for doing so was that the city council members all sign a written pledge to him they will start behaving in a civil manner towards one another. It seems someone had recently thrown a severed pig's head onto the floor at one of their meetings. Having been able to discharge most of their debt in bankruptcy and renegotiate their labor contracts, Vallejo has the chance for a fresh start, and Batchelor is determined to make the best of it. He’s not interested is apportioning blame to anyone for past failures and is pragmatically focused on solving problems one at a time. Lewis also spends time with a 41-year-old Vallejo fireman named Paige Meyer. Meyer has seen his compensation and benefits cut sharply, but is nonetheless still passionate about his work. He treats fighting fires as though it were a calling, and is re-inventing the job to make do with fewer resources, even though Vallejo apparently has many more fires than other comparable communities. He seems to have no bitterness and to enjoy his life despite the financial devastation around him.Putting all these stories together, it’s not hard to get Lewis’s vision of what has happened to our developed Western economies. He doesn’t preach, but rather like Dickens’ Ghost of Christmas Future, he lets the grim facts unfold and speak for themselves. The common denominator here is the illusion of easy money, which our modern financial markets have conjured up for us and which has fooled everyone from multi-millionaire bankers to municipal street cleaners into thinking that everything they want is there for the taking. Lewis doesn’t say it directly, but he appears to regard the problems of places like Greece and Vallejo as indicative of what lies in store for all of us who fall prey to illusions that life is easy and money is free. Despite his gloomy subject matter, the tone of Lewis’ writing remains funny and optimistic. He closes with stories about people like Batchelor and Meyer because he wants us to see in them role-models for how to get by when our world suddenly ceases to be sustainable.

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