



THE DEBT COLLECTOR

Michael Lewis is a financial-disaster tourist who wanders the ruins of the global economic crisis. He says the Greeks are morally bankrupt, the Germans are naive, the Irish are blissfully bonkers, Icelanders are megalomaniacs and the Americans are to blame for it all. By **John Arlidge**

PORTRAITS: **STEVE SCHOFIELD**

Who are the winners in the financial crisis, the people who benefited while the rest of the world went to hell? One lot is easy to spot. The financial whizzes who realised that the American housing market had become a vast bubble before anyone else and, at just the right moment, began to place huge bets that it would burst spectacularly, have got richer than any investors in history.

Take the American hedge-fund manager John Paulson. He personally made \$4 billion during the credit crunch — the best trade ever. His nearest competitor, George Soros, pocketed a “mere” \$1 billion

by speculating against the pound on Black Wednesday.

The other winners are an unlikely mob. Journalists and writers are usually the last people to profit from anything, but the crisis has made some pretty big careers. City and Wall Street hacks now find themselves writing screenplays. BBC pointy heads are household names. None has done as well as Michael Lewis, who has created a new genre of journalism and made his name and a pretty penny along the way.

His first book about the financial crisis, *The Big Short*, told the stories of the small band of savvy renegades who became billionaires by “shorting” — betting against — the American housing market. It became a bestseller. His second book on the ►►►



subject, *Boomerang*, released in paperback this month with a new preface, has also topped the non-fiction charts. In it, Lewis describes how what started as a crisis for banks has become a crisis for entire countries, mostly in Europe.

“The financial crisis of 2008 was suspended only because investors believed that governments could borrow whatever they needed to rescue their banks,” says Lewis. “What happens when the governments themselves are no longer credible and cannot borrow?”

In chapter after chapter Lewis wanders the economic ruins of Ireland, Greece, Iceland and Germany. "I'm a financial-disaster tourist," he says, half-relishing, half-loathing the description. He reports how and why countries ran up such vast debts in the easy-money boom years, and what happened when they suddenly found they could not repay them.

Greece cheated its way into the euro, lined its pockets with wads of the new currency that it had not earned, and is now suffering “total moral, social and economic collapse”. Icelanders became megalomaniacs. Even though they had little or no formal financial training, fishermen decided to become investment bankers overnight. They ran up the biggest bank debts in history — 850% of GDP, or \$330,000 for every Icelandic man, woman and child. They refused to pay many of their debts and the country is now on the road to recovery.

The Irish decided to stop being Irish — that is, conservative, broke and miserable. They lost their inhibitions, discovered optimism, and went on the biggest credit binge the world has ever seen. Their debts reached 25 times annual tax revenues. The government said it would repay all public and private debts, plunging the country into penury. The Germans became even more German — more cautious and less exuberant, if that's possible. They eschewed cheap credit, but ended up buying vast amounts of toxic debt anyway, because their bankers were financially naive.

And America, Lewis's home? It was the Death Star, the place where the global weapons of mass financial destruction were invented. The world's largest economy "owes the rest of the world an apology", he says.

On the front of Boomerang is a quote from the *Evening Standard*. Lewis, it says, "is so



The Bonfire of the Vanities. Lewis imagined Liar's Poker would serve as a message in a bottle, a cautionary tale from a corrupt era of financial recklessness that would soon disappear. Except, of course, it didn't. It carried on and got a billion — no, a trillion — times worse. So when the entire financial system tottered, he was the man to write the story.

"I thought, 'Hell, this is incredible. It's virgin material. Nobody has explained to me what just happened. How on Earth could supposedly smart people in big banks end up doing such stupid things? What happened in places like Greece and Ireland? What were ordinary people thinking?' I decided to do what I do, wander around being me and try to find out."

He started out angry. He knew from his experience at Salomon Bros that bankers had created a system that encouraged them to cheat to get rich on bad debt and then consciously ignore the inevitable losses. "The real

scandal is that the people who got it wrong in the boom years were rewarded for getting it wrong. There are plenty of ordinary people who got it wrong, and they paid a price. They lost their homes. But not the bankers. They made so much money along the way that when it all finally went wrong the costs they paid were trivial in relation to what they had already made."

The more he wandered, the more he uncovered and the angrier he got. Researching Boomerang, he found that the American investment bank Goldman Sachs had helped the Greek government cook the nation's books to meet the conditions necessary to join the euro. "If a Wall Street firm helped a corporation disguise its books the way that Goldman helped the Greek government disguise its books, people would go to jail for that. It should be a worse offence to do it with a country."

In Ireland he uncovered evidence that Merrill Lynch knowingly advised Dublin to pursue a debt-reduction strategy that benefited the bank, which held tens of millions of dollars of Irish debt, but actually harmed the Irish economy. But he insists he is not motivated by score-settling. He's no campaigner. "I'm not a bomb-thrower. I live in Berkeley! [the Californian city is notoriously crunchy]," he

**A SINGLE ARTICLE
BY LEWIS FOR
VANITY FAIR COSTS A
STAGGERING \$125,000**

good everyone else may as well pack up". How did he get there? "I had a head start," he says as he sips a latte in his office, a rough-and-ready wood cabin in the hills above Berkeley, California. "I had been there, done that."

In the 1980s, when he was in his twenties, Lewis worked for the now-defunct US investment bank Salomon Bros, largely in London. He lived next door to Judi Dench in Hampstead. But he didn't much care for banking, finding it "pretty dull". So, after a couple of years he left the goldmine before collecting the gold, to pursue his passion to become a writer.

His first book, *Liar's Poker*, was based on his time at Salomon Bros. His tale of venal bankers who fleece an undiscerning public is considered one of the texts that defined Wall Street during the 1980s, along with Bryan Burrough and John Helyar's *Barbarians at the Gate*; The Fall of RJR Nabisco, and Tom Wolfe's

FRONT-ROW SEAT
Michael Lewis (below)
outside his office in
California. He toured the
ghost estates of Ireland
(top left), and Greece
(below left), where
he found holy men
doing unholy deeds



laughs. "I don't think, 'Oh, I can make the world a better place by writing this piece.' I think instead, 'There's going to be a really good story. It's going to be fun to do.' It's mostly selfish literary opportunism." Nor has his experience made him a big west-coast leftie. "I think markets are useful but, boy, they can really get things wrong." Better regulation of Wall Street and the City of London is essential, he says.

Rattling through the new edition of *Boomerang*, it's easy to think that writing this kind of stuff is easy. Of course, it's anything but. Finance is an arcane, private world. Many bankers and economists are reluctant to talk to writers or anyone outside their narrow circle. Those who do speak, speak jargon, not English. Their idea of chit-chat is discussing "the importance of a credit default swap on a double-A tranche of a sub-prime-backed collateralised debt obligation".

How does Lewis pull it off? He has a name, a reputation that opens doors. "I'm lucky. Because of Liar's Poker, it's easier for me to go see who I want to see. If I go to a country I've never been to before and I ask to interview the finance minister, chances are he or she will agree."

He also had the right kind of experience to understand and explain the crisis. At Salomon Bros he learnt how markets work — and, more importantly, how they can get things wildly wrong. When he started advising multimillion-dollar global institutions and hedge funds on how to invest in financial instruments, known back then as futures and options and today as derivatives, he thought markets “broadly got value and prices right”, he recalls. As a student at the London School of Economics (LSE) in the 1980s, where the outgoing Bank of England governor, Sir Mervyn King, was his tutor, he had learnt efficient-markets theory — the idea that markets self-correct to avoid boom and bust. But soon he began to see how markets misvalued things, especially himself, and were “every bit as capable of idiocy as the labour markets”.

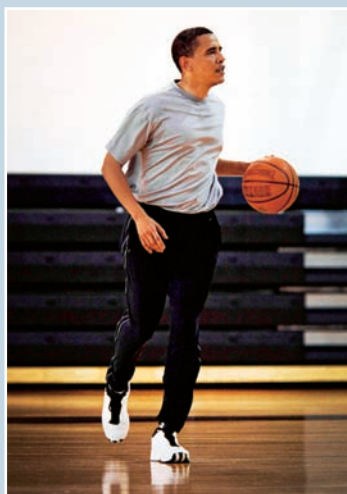
Salomon Bros paid Lewis a starting salary of around \$100,000 a year when he was 24 — around \$200,000 in today's money. By the end of his second year he was making more than \$200,000 — almost half a million dollars today. That was more than his father, a successful New Orleans lawyer. The only problem was, he hadn't earned it. "I was telling

people what to do with their money, but it was bullshit. Wall Street floats on bullshit. At the bottom of it is the belief that someone can tell you what's going up and what's going down. They can't.

“I knew what I was saying was without value. And yet they were throwing money at me to say it. It was mad. I began to think, ‘If the market can misvalue me this way, what else can it misvalue?’ A lot of what has interested me in stories since then grows out of that understanding of the idiocy of markets.”

His eye for idiocy and his background as a journalist — he used to write for the now-defunct Sunday Correspondent — helps him to root out the absurd, humorous and the shocking. That's why his books, which tell tragic stories of financial calamity, are surprisingly easy, and even fun, to read.

In *The Big Short*, he reveals how, at the height of the sub-prime housing boom, a Mexican strawberry-picker in California, who did not speak any English and whose annual take-home pay was \$14,000, was given a \$724,000 mortgage that he had not asked for and did not want. In *Boomerang* he finds Greek monks pulling property scams. He meets ►►►→



BOUNCING SOUNDBITES OFF BARACK

The cosy six-month interview with the president that ended in a row over 'quote approval'

Over six months, Michael Lewis spent a day "here" and a day "there", one on one with Barack Obama for a recent Vanity Fair story. They played basketball, he hung out in the private residence at the White House and flew in Air Force One. All of Obama's aides opposed granting Lewis such close access, but the president overruled them.

Lewis described the huge demands of being president. In a

few hours, Obama goes "from celebrating the Super Bowl champions to running meetings on how to fix the financial system, to watching people on TV make up stuff about him, to listening to members of Congress explain why they can't support a reasonable idea, simply because he, the president, is for it; to sitting down with the parents of a young soldier recently killed in action. How does anyone become used to this?"

Lewis has been criticised for agreeing to the widespread but rarely disclosed practice of allowing Obama to "approve" his quotes. The New York Times announced shortly afterwards it was banning quote approval.

I interviewed Lewis on the day he checked the quotes with the president, before the row blew up. He was relieved, he said, because Obama had asked him to remove almost nothing **JA**

plastic surgeons who make millions every year, but only declare a taxable income of €12,000 — and get away with it. He has coffee with a Greek tax inspector who tells him the job of a Greek tax inspector is not to collect any tax. If somehow he does manage to collect tax, he is fired.

During Ireland's credit binge, he reports that the rise in prices of homes implied that in just over two decades the country would become three times richer than America, the largest economy on Earth — *and people believed it*. Everywhere in Ireland people "thought each day would be sunnier than the last".

All the examples above are about people, not markets. That's trademark Lewis. He never forgets that booms and busts are made by silly and greedy people. He uses his journalistic nous to track down these people and then his charm, humour and mastery of motive, to get them to confess their sins. Along the way, he has the knack of explaining what went wrong in global finance in ways main street, not just Wall Street, can understand. He uses a simple domestic analogy to explain credit default swaps. Those are the instruments short-sellers used to bet against the mortgage debts held by American banks, that the banks thought would be repaid but the short-sellers knew were toxic. "It's like buying cheap fire insurance on a house engulfed in flames."

He points out simple truths simply. On the collapse of Lehman Bros he writes: "The problem wasn't that Lehman had been allowed to fail. The problem was that Lehman had been allowed to succeed." He reduces the 15-year boom and bust of the Celtic tiger economy to a single sentence: "The Irish decided what they really wanted to do was buy Ireland — *from each other*." That's the simplest and best explanation of a property bubble you will find.

There are numbers, of course, but Lewis

keeps the maths to a minimum, only producing statistics when they are searingly revealing. He reports, for instance, that total worldwide debt — public and private — more than doubled between 2002 and 2008 from \$84 trillion to \$195 trillion. It's the same with dialogue. He cherry-picks the most salient lines. He reports how one banker told a hapless

'I FEEL LIKE BRIAN, WHEN PEOPLE KEEP SAYING, "HE'S THE MESSIAH!" I'M NOT'

investor drowning in mortgage debt: "You have no way out of this swimming pool but through me, and when you ask for the towel I'm going to rip your eyeballs out."

Lewis has not done it all on his own, of course. He has some very powerful and wealthy supporters. Boomerang is based on a collection of articles he wrote for Vanity Fair. In an age when most newspapers and magazines are cutting back investment in editorial, the Vanity Fair editor, Graydon Carter, has thrown Wall Street-style money at the greatest financial story in history.

Taking everything into account — flights, hotels, subsistence, research, photography, editing, fact-checking and fees — Lewis says one of his articles for Vanity Fair costs \$125,000. That's more than the annual editorial budgets of entire magazines, for a single piece. "It's a huge sum of money," he acknowledges.

Lewis's success has seen him feted as a financial guru. He has been invited to testify before Congress, and bankers all over the world have written to him to tell him that they had no idea about some of the things that he uncovered. It's a role he hates. "I'm a Monty Python fan.

I feel like Brian when people keep saying, 'He's the Messiah!' I'm not the Messiah. There are way smarter people than me who can explain what's going on."

He points out that his stewardship of his own money was so poor, he managed to buy several thousand dollars' worth of Lehman Bros stock — in 2007. "Look. I'm a writer, a dilettante. I just skim the surface. If you are asking me for help, that's a really bad sign." Perhaps, but since I'm sitting in his study, his wife, Tabitha, and their three children not due to return for hours, here goes.

Why did the financial crisis happen? That's one he will answer. Its roots, he says, lie in the failure of western economies to grow and create ever greater prosperity. "European and American society is premised on belief in social mobility, that you're going to be doing better than your parents. That's no longer true. The prospects for my children do not look as good as they were for me. It's probably the same for your children.

"What the banks and individuals did in the years before the crisis was a response to essentially middle-class despair. People found — or at least thought they had found — new ways to take money, say, out of their home. People were borrowing money instead of making money because they couldn't make it in the same way as they had before and their parents had before them. It worked really well for a while. But then the lie was exposed."

Who, or what, does he blame for the world's seemingly never-ending financial woes? "America's fingerprints are all over the crisis. Every one of the countries I go to, there is some story of the pernicious behaviour of American firms. Wall Street incentivised a lot of really bad behaviour. They could have been a brake on the system. They could have slowed things down; instead they sped things up."

He singles out the way Wall Street firms ➤➤➤



BIG PITCHER
Brad Pitt plays the manager of the Oakland Athletics baseball team in *Moneyball*

knowingly disguised bundles of dud mortgages as triple-A investments and sold them to German banks. "Wall Street firms put of lot of energy into selling crap to Germany that they knew Germany should never have bought. The Germans got raped every which way by American investment bankers."

Then there's Goldman's Greek chicanery and Merrill Lynch's dealings in Ireland. He could go on but, instead, concludes: "America owes the world an apology."

Can I tempt him into a few predictions? What, say, will happen to the euro? "Greece is beyond salvation. It either walks or it gets thrown out," he frowns. I don't know whether he got food poisoning in Athens, or Olympic Air lost his luggage leaving him stranded on an island in the height of summer with a single pair of Y-fronts, but Lewis has no time for the Greeks. "In our societies there still is some sense of a common good. But this just doesn't exist there. Nobody trusts each other. Nobody trusts the government. So, there's nothing really to build on. They shouldn't have come in to the Eurozone and they're gonna go out, and they'll have a drachma or something that's a much cheaper currency. They'll be able to export more, which is good. But the standard of living will fall a lot."

Once Greece leaves, will the contagion spread and the entire currency implode, as many fear? "The euro was a mistake from the beginning and it's hard to see how it hangs together. I don't imagine it all falls apart at once. I imagine it goes in pieces. Maybe Greece goes and then maybe Spain and Italy, which shouldn't be in there either, really.

'THE EURO WAS A MISTAKE. GREECE, ITALY AND SPAIN SHOULD NOT BE IN IT'

What you have left is this block of northern countries and Ireland. It will be interesting to see if the Irish decide they want to be part of it. I think they will. They seem inclined to put up with anything. They almost enjoy the pain. If you go to an Irish party, the person who holds the floor is the one who has suffered the most lately."

What of bank reform? Will it really happen? It already is, says Lewis. Big Wall Street is in decline and its biggest institutions will be broken up in the next decade. "Society will decide that it can't tolerate having the capitalists back-stopped by the government. And the only way to avoid that is for them to be small enough that they can fail. 'Too big to fail' has to be done away with."

How? "The way I would do it, I would say you can either make bets with your own money, like a hedge fund does, or you can advise customers. So you can be Charles Schwab, or you can be a hedge fund. But there's no such thing as Goldman Sachs any more, where you can both advise clients and trade."

Finance is already changing, he adds. You can feel it. "Just see how desirable it is for a kid coming out of Harvard, Princeton, Yale, Oxford, Cambridge or the LSE to go and work at Goldman Sachs. It's still desirable, but not nearly as desirable as it was five years ago. And look at the policy-makers in Washington

and London, too. Nobody wants to be seen as a friend of Big Money these days."

Like the Woodward and Bernstein of economics, Lewis follows the money. He has even applied his market theory to sport. In *Moneyball*, which became a film starring Brad Pitt, he reveals how baseball values and misvalues players. But he is interested in politics too. As governments and ordinary people scramble to come up with ways to stave off a double-dip recession, he believes western countries and voters have yet to come to terms with what the financial crisis means politically. "The really big question is why there has been so little political change alongside such big economic change. People aren't really throwing rocks. It's amazing how tranquil it has been."

The peace is partly a result of central bankers' decision to print money to keep the cogs of the economy turning — so-called quantitative easing. "Central bankers have gotten much, much better at numbing the pain from financial crisis. Ben Bernanke [chairman of the US Federal Reserve] is a great hero. It's amazing what he's done. America should be living with twenty-something per cent unemployment. Instead, it's 8%."

But the anaesthetic will eventually wear off and then things will get really interesting. "We are at the beginning of change. Out there are the seeds of a big political movement. You see these spasms, the Tea Party, the Occupy movement. Political movements are youth movements and young people have more reason than ever to be angry and they're going to be increasingly idle, too. We're going to be living through quite some period of social transformation."

There is, of course, one question that Lewis is asked more than any other. When is the crisis going to end? "I'm sorry, but I see it lasting another decade. This is going to be a long one. My next assignment is in southern Europe and I'm going to wait until next year. I have no doubt that the story will be just as strong then, if not stronger."

That's bad news for the rest of us, but good news for Lewis. It doesn't just mean more books and \$125,000 Vanity Fair articles. It means more films. He has just finished writing the screenplay for *Liar's Poker* for Warner Bros. The studio's first choice of actor to play the young Lewis? Zac Efron. Journalists never get played by heart-throbs. They get the goofy *Briddish* actors, like the chap who played the Guardian reporter in *The Bourne Ultimatum*. Like I said, Lewis is a winner. Damn him ■ *Boomerang* (Penguin, £8.99) is available from the Sunday Times Bookshop on 0845 271 2135, at the reduced price of £8.54 including p&p