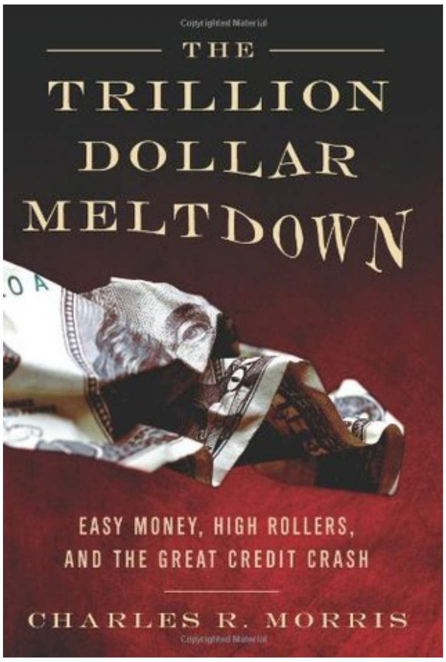

The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash

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We are living in the most reckless financial environment in recent history. Arcane credit derivative bets are now well into the tens of trillions. According to Charles R. Morris, the astronomical leverage at investment banks and their hedge fund and private equity clients virtually guarantees massive disruption in global markets. The crash, when it comes, will have no firebreaks. A quarter century of free-market zealotry that extolled asset stripping, abusive lending, and hedge fund secrecy will come crashing down with it.*The Trillion Dollar Meltdown* explains how we got here, and what is about to happen. After the crash our priorities will be quite different. But things are likely to get worse before they better. Whether you are an active investor, a homeowner, or a contributor to your 401(k) plan, *The Trillion Dollar Meltdown* will be indispensable to understanding the gross excess that has put the world economy on the brink--and what the new landscape will look like.

The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash Details

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From Reader Review The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash for online ebook

Parijat says

A must read for anyone who wants to understand the circumstances and the gravity of the situation during the 2008 crisis and what minor and major event led to such a disaster.
“When money is free, and lending is costless and riskless, the rational lender will keep on lending until there is no one left to lend to,” Morris writes.
Definitely a worthy read and a knowledge of financial system and markets isn't required to enjoy this book.

Freddy Rojas says

This is a fantastic book by Charles Morris. I think this book can fit totally in serious documentaries like INSIDE JOB, actually the second part of his book (Two trillion dollar...) was reviewed for that documentary as material for the director; the aforementioned documentary narrates the origins and aftermath of the most recent financial crisis. I am professor in economics doing research about derivatives and I could test my knowledge about each case that Charles laid out in the book; for instance, about the hedge fund manager that properly hedge 10 million dollars and wants that risk to "disappear" from books (chapter: the great unwinding, page 110). The manages enters into a credit debt swaps indexed to some credit debt obligation; thus the counterpart gets cash with a huge liability but as Charles points out "...hedge funds are experts at understanding future liabilities" I would add that because we are talking about hedge funds this liability can be spread out to a long periods, thus the risk can be handled properly. My favorite chapter is "The death of liberalism", it is a key chapter to understand how we reached that point of no return. I think the book finished too quickly but maybe it is part of a pending syllogism as introduction to the second part of the story that I hope to find in "two trillion dollar meltdown...". Thanks for stupendous book Charles!

Bart says

This book is an excellent and sophisticated treatment of how we came to the temporary end of the free market on 9/18/08. Charles R. Morris does a fine job of explaining impenetrably difficult derivative vehicles fairly well – or at least as well as can be hoped. Though the writer’s political leanings are pretty obviously to the left of center, they serve to underscore an important truth.

Every American is a free-market capitalist, however much he may have loved the Che Guevara poster on his dorm-room wall.

From that thought will come the resilience of our system. We may imitate socialism in its every facet, but in the end we still see ourselves as rapacious capitalists – right, left and center.

Morris writes with more flair than most in his field. He also shows certain daring with many of the ideas he expresses. Here are some examples:

“Intellectuals are reliable lagging indicators, near-infallible guides to what used to be true.”

“In its modern form, Chicago school economics has mutated from a style of analysis into a Theory of Everything. For almost any public or social issue, adherents believe, the free market, if allowed to work without obstruction, will consistently produce optimal outcomes. The omnivorous streak in Chicago economics has drawn it into the realms of crime, welfare, education, health care, and other areas once thought to be mostly outside economics purview.”

“As a general rule, only the very smartest people can make truly catastrophic mistakes.”

This book is a short but sturdy treatment of a crisis that Morris and other predicted, and that we are currently in the throes of. Morris stops short in more or less the same place George Soros does – arbitrarily taking a late-channel spot of capitalism and defending it from other economic systems. One wonders if, by the time this crisis is through, the average American will not conclude that capitalism, always and every time, ruins itself. That will likely end the privatizing of profits – or at least the socializing of losses.

Abeisu says

I borrowed this book from my local library.

To me, Michael Lewis' The Big Short was excellent in its focus on the few individuals who saw the financial crisis of 2007-2008 coming. Lewis took a micro approach and focused on those people and their actions. He covered a lot of material in a short book.

Morris does the same, but goes in the opposite direction. Starting in the late 1970's and stopping in 2007, he covers how the private and public organizations all played a role in creating the subprime mortgage market catastrophe.

A good bit of the material from one book crosses over to the other, that is to be expected. But Morris also goes into detail on how two financial incidents in the 1990's presaged the biggest crisis of the 21st century so far.

At only 177 pages (excluding notes and the bibliography) the book was a breeze to read.

As the 10th anniversary of the financial crisis is already in full swing it's disheartening to note the mindless anti-regulatory spiel coming from Washington and New York. None of the public policy directives Morris listed at the end of the book have been put into effect. I think Morris knew that was going to happen. Despite being a decade out from an incident that nearly destroyed the global financial system, people in and out of power still have not learned anything from their mistakes.

The crimes that they commit will be left up to future authors to grimly record.

Kay says

I wanted to rad this book after seeing the documentary 'Inside Job'. The book is not written with too much jargon, and the issues are complex are explained well. Economics is a difficult subject and one that is now on my list to understand better after reading this book. Its certainly one i will read again and perhaps with extra knowledge next time round.

Frank says

Behind the alphabet soup of Wall Street acronyms (CDO, SIV, RMBS), what is it that our great financial engineers actually do? Charles R. Morris understands the process from the inside, brilliantly summarizing the mathed-up hocus-pocus that got us into the current mess. I found this vignette particularly compelling:

"Consider the tale of Travelport, a Web-based reservations company. The Blackstone private equity firm and a smaller partner bought Travelport in August 2006. They paid $1 billion of their own money and used Travelport's balance sheet to borrow an additional $3.3 billion to complete the purchase. They doubtless paid themselves hefty investment banking fees, which would also have been billed to Travelport."

"After seven months, they laid off 841 workers, which at a reasonable guess of $125,000 all-in cost per employee (salaries, benefits, space, phone, etc.) would represent annual savings of more than $100 million. And then the two partners borrowed $1.1 billion more on Travelport's balance sheet and paid that money to themselves, presumably as a reward for their hard work. In just seven months, that is, they got their $1 billion fund investment back, plus a markup, plus all those banking fees and annual management fees, and they still owned the company. And
note that the annual $100 million in layoff savings would almost exactly cover the debt service on the $1.1 billion. That's elegant-what the financial press calls "creating value." Another word that springs to mind is "looting.""

Morris also spends time at the end of his book reflecting on inequality at the end of the book, swiftly dispatching the Cato-based apologists for current trends.

"Between 1980 and 2005, the top tenth of the population's share of all taxable income went from 34 percent to 46 percent, an increase of about a third. The changing distribution within the top 10 percent, however, is what's truly remarkable. The unlucky folks in the 90th to the 95th
percentiles actually lost a little ground, while those in the
95th to 99th gained a little."

"Overall, however, income shares in the 90th to 99th percentile population were basically flat (24 percent in 1980 and 26 percent in 2005). Almost all the top one-tenth's share gains, in other words, went to the top 1 percent, or the top "centile," who doubled their share of national cash income from 9 percent to 19 percent."

"Even within the top centile, however, the distribution of gains was radically skewed. Nearly 60 percent of it went to the top tenth of 1 percent of the population, and more than a fourth of it to the top one-hundredth of 1 percent of the population. Overall, the top tenth of 1 percent more than tripled their share of cash income to about 9 percent, while the top one-hundredth of 1 percent, or fewer than 15,000 taxpayers, quadrupled their share to 3.6 percent of all taxable income.
Among those 15,000, the average tax return reported $26 million of income in 2005, while the take for the entire group was $384 billion."

Morris's book is exceptional because he simultaneously grasps the technical details of the financial crisis and the money-driven politics that gave us the regime that made it possible. I can't recommend this book highly enough. These chilling words are as accurate a portrait of our current direction as I've read in some time:

"A broad[:] pattern of official and unofficial initiatives
. . . seem aimed at permanently locking in the advantages
of America's new baronial class. There is no conspiracy
against the poor and the middle class. It's more the inevitable
outcome of our current money-driven political system combined
with 'the disposition to admire, and almost to worship,
the rich and powerful,' which Adam Smith fingered as 'the
great and most universal cause of the corruption of our moral
sentiments.'"

Morris expertly and entertainingly makes the case for this sobering conclusion.

Aron says

This is a fantastic resource for understanding why the economy is melting away before our eyes. And while that alone makes it worthwhile reading in my opinion, what makes this book unique is that the author doesn't seem to be biased.

No, really.

I get sick of reading the opinions of people so far on either end of the spectrum that they seem blind to even the possibility that the other 'school' of economics could have some merit. While they could be making a perfectly intelligible and convincing argument, there's always those blips of "*clearly blah blah blah is the case because THE OTHER SIDE IS PUUUURE EEVIIIIL.*" Just stop it. The real world is not that black and white. Charles Morris recognizes that, and he criticizes and praises free-market and top-down economic policies wherever they're due. A summary of his opinion, which coincides with mine (at least right now), is that yes, free-market economics are extremely powerful and often useful. They carried us out of the 1980s lull far more quickly than Japan and Europe were able to (who relied on more regulation in the interest of stability), but things have gotten way out of hand. We've done far too much deregulating and greedy people in positions of power took extreme advantage of it, and now we lowly plebians are stuck paying the bill in a big way.

I learned a lot from this book, and I can vouch that the material is digestible for people with no background whatsoever in economics - provided you're willing to look a couple things up. I ended up writing definitions in the margins so I could flip back later for quick refreshers. The foreword is probably the most jargon-dense section, so if that's something that worries you, you may want to start with the first chapter instead. That being said, the foreword is also pure gold. I read it first, and I gleaned a better understanding of the current situation than I'd gotten from everything I'd read previously - by far.

I was planning on summarizing the content of the book, but an excerpt from that foreword does it nicely:

"*I wrote this book to tell the story of the credit crisis as briefly and crisply as I can. I walk the reader through the instruments involved, how they work, and how they are abused. I untangle - as far as possible - what the outstandings are, why they are shaky, and build up to the probable loss scenarios and unwinding scenarios I just described.*"

The entire foreword is available for preview via Google books here. That excerpt and the continuation of it (which goes into more detail) are on pages xxii and xxiii.

Kate says

I borrowed this from my parents' bookshelf when I was visiting them, not realizing it was published basically DURING the meltdown. It's obviously outdated by now, but has a pretty useful history of events leading up to the crash and some good suggestions (from the perspective of 2008) for correcting the problems that led to it.

Eduardo Almeida says

Leaving Wall Street (or the financial system) on its own is like a teacher asking 4th graders to behave. They won't behave! Regulation is important, but people keep labeling it "a leftist move". Liberalism, in order to be fair, needs to be regulated, because there are greedy people in the world and the good people will fall victim to them. Homo homini lupus.

This is a great book. It's not left wing as people would generally say. It does not propose an intrusive State, but a State capable of keeping a fair game for all the players. Actually, if the State allowed players to buy their position in the game, that would be really scary. But it is exactly what happens.

We're tired of seeing governments holding people's assets and handling them to the banks, but somehow we still believe that free market is equal to deregulation. This is predatory and primitive and we wouldn't have formed States if not to protect people from the actions of other people, fro our primitive nature. Legislation is important and we created them to hold people accountable for their actions, to go further as society not just as individuals.

James W. Elkins says

Book explained the 2009 economic meltdown of $2 trillion credit because of the housing crisis.

Clare Fitzgerald says

Looking back on my books from 2013, I realized I'd only read one book from the large pile of financial-catastrophe-related books I'd borrowed from Paul a while ago, and figured I'd need to start making better progress than that if I'm going to return them this decade. So I picked up a nice slim one, Charles R. Morris' The Trillion Dollar Meltdown Easy Money High Rollers and the Great Credit Crash.

The Trillion Dollar Meltdown chronicles the major developments in the finance industry and in government economic policy from about the 1970s until 2008, when the book was written. Towards the end, he makes a series of educated guesses about how the next several years could turn out. Five years later, most of what he says still seems pretty sensible, if a bit disheartening (we really should have done more by now).

There are two things I particularly appreciated about this book. One is that it is very good at concisely explaining how various financial instruments and markets work, which is extremely important for me in reading any book about banking or finance, because I have no head for dealing with any of the mathy stuff, and I sometimes forget things I learned from one finance book to the next. The other thing I really appreciated is the discussion of politics and finance as being cyclical, and the inevitability of having to continually adjust the way countries and markets are run (i.e., there is no one, lastingly perfect system). From what I can tell, the author comes off as being a moderate (an actual moderate, not a golden-mean type of false equivalence moderate) who is currently in the position of pushing left-wing views as a direct result of thirty years of free-market fundamentalism. He gives a brief overview of Arthur Schlesinger's hypothesis of twenty-five to thirty-five year shifts in political consensus, and posits that we're probably at the end of a conservative cycle. In terms of public political opinion, he seems to be spot-on—economic populism looks to be making a comeback. (Whether the government will actually do much about it is obviously another question.)

The earlier part of the book is largely concerned with government monetary policy in recent history, discussing inflation, stagflation, demographics, the oil price shocks of the early seventies, and Paul Volcker's victory over inflation. (I really appreciate that the book, despite being very short, still touches on demographics; a lot of discussions of economics I've seen are surprisingly willing to completely leave out questions of "how many people are competing for these resources anyway" even though economics is literally the study of allocation of resources among people.)

From there it goes into the meatiest (and most intellectually challenging) part of the book, walking us through a number of historically and economically significant market failures, from the development of asset bubbles and the invention of new, complex financial instruments through the profit-seeking behaviors of various banks, funds, and investors, and how they ended up collapsing. The brief overviews of the 1994 residential mortgage crisis and the 1998 Long-Term Capital Management crisis are extremely helpful in understanding foundations of the subprime mortgage crisis, the catalyst for the 2008 crash. We learn about the derivative financial instruments created out of mortgages, and particularly the collateralized mortgage obligations (CMOs) that allowed large quantities of subprime mortgages to be turned into double- and triple-AAA rated securities, and how this rather suddenly caused banks to not only lose all their prior reluctance to extend mortgages to people deemed to be credit risks, but actively develop lending practices designed to get more people to sign on for subprime mortgages (some of these practices seem to be developed to ensure that the loans would never get paid back, and yet the ratings of the derivative instruments based on these loans were determined according to the usual assumptions of the numbers of people who default on their mortgages) (but finance people get paid more than us regular working Joes in other industries, because they're *so smart*).

After walking us through the beginnings of the crash, Morris identifies other similarly shaky credit markets and why they are shaky (shady accounting practices, overly optimistic views of the real assets they are based on, overleveraging leading to extreme sensitivity to minor market shifts… there's a whole load of unstable things going on in the world of high finance), and gives some estimates for what could be affected and how badly in the coming years. (I haven't gone and fact-checked all of his predictions, but I Googled a few of them while I was reading and he seems to have been broadly correct on the ones I was curious about—there was a big spate of bank write-offs of consumer credit card debt, for instance.) (The fact that this book was rereleased a year or two later with some updates and under the title "The Two Trillion Dollar Meltdown" seems to indicate that he underestimated some things, but I'd have to find a copy of the rerelease and look at the new information to see what it is.) He also points out a couple of areas where he says it is imperative we bring in some reasonable regulation, and discusses the issues with the current systems. Everything he mention has become a hot-button issue in the past few years: he talks about our expensive but embarrassingly inefficient healthcare system (including our abject failure to apply technology to healthcare administration in anything resembling a sensible way), the student loan debt load and the shady practices of loan servicers like Sallie Mae, and the need to reinstate some kind of reasonable federal oversight of banking, such as reinstating an updated version of the Glass-Steagall Act.

I would definitely recommend this book to anyone who wants to learn some basics on the how and why of the financial crash, and I would particularly recommend that you read this book rather slowly (at least, if you're not a finance person). At less than 200 pages, it doesn't go into too much minor detail on any subject, but there's still a lot of information packed into such a little book. While the writing style is blessedly conversational—and occasionally even mildly funny—finance is a world of acronyms, jargon, and slippery concepts based on other slippery concepts, and it's easy to mix stuff up or forget what a structured investment vehicle is.

Ericka Clouther says

The first third is the history the US economy after WWII, the middle third is the 2008 financial crisis, and the final third is systematic problems in our economic and political system.

I thought it was going to be a book just on the financial crisis, and if that's what you're looking for there are better books on that topic, such as The Big Short. I agree with the analysis in the last third, and that was my favorite part of the book, but I think that for people that don't already hold these views (or no views on the issue) Morris will fail to convince anyone.

Andréa Aline says

Análise histórica e econômica das origens e causas da crise de 2008 não por um economista (pasmem!) , mas por um advogado com uma vasta experiência profissional como banqueiro e com muito conhecimento sobre o mercado financeiro.

Apesar de parecer mais uma redação sobre o famoso colapso da economia mundial, esse livro mostra que esse fenômeno começou bem antes da tensão do chamado "subprime".

Ps: apesar disso, não recomendo para quem não gosta de detalhamento histórico e vocabulário técnico: para esse público, o livro pode ser tedioso.

Shin Furuya says

I enjoyed a lot. It is a dense and informative book.

Apart from relatively good and detailed analysis of some of the major factors/incidents of recent/ongoing subprime and credit crisis with historical context, it is interesting to see the fact that some of mainstream financial writers such as him started to question the current dominant and deeply embedded paradigm of '(regulation-) free market economy' or past decades of overtly simplified 'government evil versus market/private good' thinking might not work, and revisits ancient memory of 'government might be a part of solution' by 'balancing' both, whatever that means.Making these two antitheses may be a very good example of an oversimplification…At least, he said rich folks got too rich and there should be some sort of government intervention with enforced regulation.

On the other hand, it is also interesting to see underlying/internalized and persistent skepticism toward the government function among these mainstream writers even after these decades with arduous financial/social paroxysms caused by financial ‘high rollers’ and even for him, with his ciriticisms toward the lack of government monitoring role. This is true for even those who claim to take 'non-Chicago' position such as Morris. Well, he at least argues against excessive market driven economy or market fundamentalism, which has been a dominant force in economic ideology for decades even though he still believes 80's growth was a success.

I liked the avenue he took toward Ch.6 and Ch.7, which he directed his writing toward social disparity/class strife through informative descriptions of concrete examples such as health care and educational loans especially considering those who tend to read this book.

His short but specific suggestions regarding banking/financial regulations are also helpful to think about broader issues as well as specific issues such as education and heakth care.

Nathan says

You really cannot judge a book by its cover. . . The first couple of chapters start out with a reasoned, well toned analysis of the sub-prime mortgage collapse and the history that led up to it. The it takes a sharp turn left and becomes the soapbox for the authors agenda. I could almost swallow it except for the sarcastic, condescending and arrogant position from which the author gives his point of view. Apparently, he had no substance to back up his view because his only devise was to say the reader was stupid if you did not see the obvious truth of his viewpoint. I am guessing this bitter, childish author also had been personally offended by Alan Greenspan by the way he went after him in his book. He did not explain where he disagreed with the Fed Chair's policies - he just attacked and insulted him. The last three chapters were so filled with inflammatory rhetoric and propaganda language it would have made Joseph Goebbels blush. Tripe

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