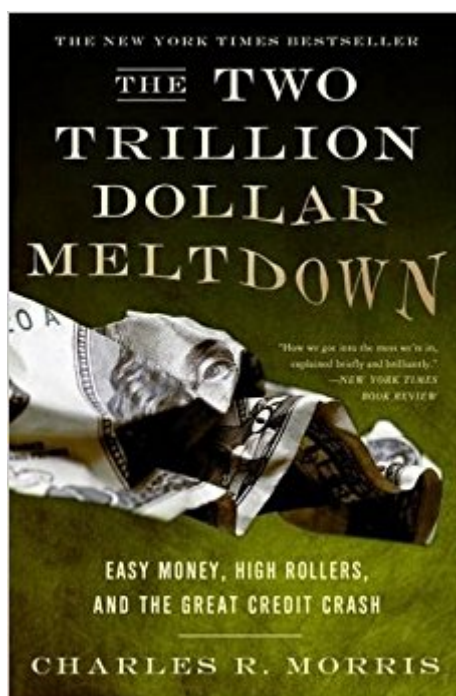


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# The Two Trillion Dollar Meltdown: Easy Money, High Rollers, And The Great Credit Crash



## Synopsis

Previously published as *The Trillion Dollar Meltdown* Now fully updated with the latest financial developments, this is the bestselling book that briefly and brilliantly explains how we got into the economic mess that is the Credit Crunch. With the housing markets unravelling daily and distress signals flying throughout the rest of the economy, there is little doubt that we are facing a fierce recession. In crisp, gripping prose, Charles R. Morris shows how we got into this mess. He explains the arcane financial instruments, the chicanery, the policy misjudgments, the dogmas, and the delusions that created the greatest credit bubble in world history. Paul Volcker slew the inflation dragon in the early 1980s, and set the stage for the high performance economy of the 1980s and 1990s. But Wall Street's prosperity soon tilted into gross excess. The astronomical leverage at major banks and their hedge fund and private equity clients led to massive disruption in global markets. A quarter century of free-market zealotry that extolled asset stripping, abusive lending, and hedge fund secrecy will go down in flames with it. Continued denial and concealment could cause the crisis to stretch out for years, but financial and government leaders are still downplaying the problem. The required restructuring will be at least as painful as the very difficult period of 1979-1983. *The Two Trillion-Dollar Meltdown*, updated to include the latest financial developments, is indispensable to understanding how the world economy has been put on the brink.

## Book Information

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## Customer Reviews

Financial writer Morris explains the current sub-prime mortgage crisis that is affecting countless

numbers of families in the United States and the economy as a whole. Morris details, in great length and description, where the market went wrong and the economic downfall that is soon to be ravaging the country and the global market. Nick Summers does his very best to make all of this sound as interesting as he can, but the material is overly depressing and incredibly monotonous. Summers spices things up a bit by offering a slight shift in tone and intention when reading quotes by the big business honchos responsible for the downfall, summoning a cutting sarcasm to portray them in a more comical and often realistic light. All in all, listeners will be hard-pressed to stay the course. A Public Affairs paperback. (Aug.) Copyright © Reed Business Information, a division of Reed Elsevier Inc. All rights reserved. --This text refers to an out of print or unavailable edition of this title.

• "New York Times Notable Book of the Year" • "[The Trillion Dollar Meltdown] is an absolutely excellent narrative of the horror that we have in the credit markets right now.... It's a wonderful explanation of how it happened and why it's so rotten, and why it will take a long time to unwind." • Paul Steiger, former Mng Editor, Wall Street Journal • "However up to date it may seem, this book is no rush job. Morris deftly joins the dots between the Keynesian liberalism of the 1960s, the crippling stagflation of the 1970s and the free-market experimentation of the 1980s and 1990s, before entering the world of ultra-cheap money and financial innovation gone mad... [Morris's] provocative book is...a well-aimed opening shot in a debate that will only grow louder in coming months." • Economist, March 6, 2008 • "Will provide some important background that will help decipher the meaning behind today's gloomy financial headlines. For those who wonder "Why?", here's a place to get some answers!" • Watsonville (CA) Register-Pajaronian, March 13, 2008 • "Charles Morris, author of The Trillion Dollar Meltdown, isn't one for sugarcoating. His analysis is dour and grim, but certainly not dull. And when read against a backdrop of an ever-weaker economy, increasingly anxious economists and a stream of gloomy predictions, it can be downright scary....Morris serves up a sharp, thought-provoking historical wrap-up of the U.S. economy and its markets, along with clear scrutiny of today's economic woes." • USA Today, March 31, 2008 • "[A] shrewd primer... [Morris] writes with tight clarity and blistering pace." • James Pressley, Bloomberg News • "Morris offers a persuasive diagnosis of the long-building credit crash.... An especially graceful writer, Mr. Morris accessibly explains Wall Street's arcane instruments.... This is a smart layperson's guide." • The New York Times, April 6, 2008 • "In his brief but brilliant book, Morris describes how we got into the mess we are in |. Few writers are as good as Morris at making financial arcana understandable and even

fascinating.ââ "New York Times Book Review, April 20, 2008 Ââ "The Trillion Dollar Meltdown' by Charles R. Morris and 'Bad Money' by Kevin Phillips avoid the wild predictions of mass economic destruction, instead giving thoughtful, if alarming, histories and analyses of how we got into the mess we're in today.ââ "Bloomberg News Ââ "My favorite single book account [of the subprime crisis].ââ "Business & Economics Correspondent Adam Davidson, NPR.org Planet Money podcast, September 16, 2008 Ââ "[A] masterful and sobering book.ââ "Commonweal, September 12, 2008 Ââ "a primer.ââ "Jim Pressley, Bloomberg.com, #1 book on the financial meltdown, September 19, 2008 Ââ "Charles R. Morrisââs THE TRILLION DOLLAR MELTDOWN (PublicAffairs) was handed to the publisher last Thanksgiving, a fact that gives Morris, a former banker, rock-solid status as a predictor of the crash. He homes in on the complexity and the paradoxical unpredictability of these financial instruments, which were supposed to manage risk and ended up magnifying it...ââ "The New Yorker Ââ "Charles Morrisââ informed and unusual book, The Trillion Dollar Meltdown, provides a decisive rebuttal to allââ excuse-making and blame of ââ government.ââ Morris makes clear that it was an unquenchable thirst for easy profits that led commercial and investment banks in the US and around the worldââ .Morris has described the intricacies of the American investment world as clearly as anyone.ââ "Jeff Madrick, New York Review of Books, February 12, 2009 Ââ "If you don't know a lot about this current financial crisis, this is a great way to get some of the major contributors, including the role of mortgage-based securities, very quickly and simply. It's a short book; it's a well-argued book.ââ "Wall Street Journal, financial experts Laura Tyson and Angela Chan, 4/7

Given the fact that I am \*woefully\* ignorant when it comes to high finance, I've been looking for a good book that could explain to the layman exactly what the hell is going on. The problem was that most books I have scanned are a) out of date or b) written by partisans of either side (Free-market ideologues or anti-market partisans/socialists.) Morris is no anti-market zealot, and indeed he confirms that the free market policies of the Reagan Era are primarily responsible for the prosperity after the collapse of Keynesian liberalism in the 1970's. However, in his discussion how the massive credit crisis came upon us (or, in writing in 2007, \*will\* come upon us) Morris explains how financiers have managed to use the absence of regulation to devise ever more ingenious, and ever more shaky, credit instruments to increase their leverage and control more and more money. Morris does an excellent job of explaining the origin and function of financial instruments that I had never heard of before, things like "credit default swaps" and "collateralized debt obligations." And more than describing how these instruments work, Morris explains their origins in what reads like a history

of the financial industry for the past 20 years. Extremely informative and interesting. The best recommendation for this book lies in its prescience. Morris finished writing this book in November 2007, after Bear-Sterns but before the meltdown. He predicts that sometime in 2008 there will be a massive credit bubble burst, the credit markets will seize up and the economy will grind to a halt - with trillions of dollars of wealth evaporating. Seems pretty spot on.

As a lawyer and former investment banker, Charles Morris can appreciate the power of free-market capitalism to drive economic growth and financial innovation. Now, however, he believes the era of market fundamentalism has come to an end, just as Keynesian interventionism came to an end in the 1970s. He estimates conservatively that the recent writedowns and defaults of residential mortgages, corporate debt, credit card debt, and bonds will be about \$1 trillion. But this book was written before even more recent revelations such as the Bear Sterns insolvency. It is now estimated that the bill could be 3 or 4 times as high. Morris gives a brief but excellent history of events that led up to the current credit crunch that is paralyzing global financial markets. Disasters have many fathers, but Morris lays much of the blame on bond rating agencies, financial insurance companies and the Federal Reserve under Alan Greenspan. After 9/11 the Federal Reserve lowered the interest rates below the rate of inflation, essentially giving banks free money. Banks then lent money for fees up front and then repackaged the loans - turned them into securitized debt - and sold them to investors. It was basically cost free and risk free, so they lent money as if there was no tomorrow. These securitized debts or CDOs (collateralized debt obligations) were sold and resold throughout the global financial system and no longer did anyone know how to measure their value or their risk. Add to this the fact that homeowners were using the rising equity of their homes as ATMs and pumping another \$4 trillion into the economy. Also add to the mix \$700 billion annual trade deficit that indicates that much more consumption over production. The party was really in full swing. But the party couldn't last forever. The bubble started to deflate last summer when housing prices began to fall and homeowners began to default on their mortgages. The government initially thought it was just a typical market adjustment, but with the imminent collapse of Bear Stearns they finally took decisive action. Bear Stearns was holding \$46 billion worth of securitized mortgages with an estimated value of 30 cents on the dollar. As the crisis has been unfolding, it has been estimated that the federal government has authorized about \$1 trillion in new lending through agencies such as Fannie Mae, Freddie Mac, Federal Housing Finance Board, and the Federal Reserve. This was done solely to keep the economy afloat. But no one knows yet where this will end. Massive infusions of money will lead to a weaker dollar, as we have already seen. A weaker dollar against

the background of rising oil and food prices tells us the crisis is far from over. Morris does not tell us exactly how we will get out of this mess, but he is sure that in the end a new system of financial regulation will be in place.

Many authors and speakers will claim credit for being among the first to call the downturn. But, author Charles Morris is among the first to publish a book...and a quality book at that...on the meltdown. For that alone, I give him a 5 star rating. The few critics of this book on suggest that he was exaggerating with his suggestion of a trillion dollar problem. With the benefit of the history of what has transpired in the ensuing six months since publication, Morris has proven that he was not exercising hyperbole. (In fact, I believe history will likely show that his trillion dollar number is conservative.) Let there be no doubt, there will be better books eventually written on the meltdown. There will be books with more in-depth analysis. There will be books that delve more into the personalities that contributed to the problem. And there will be books that with the benefit of more history, offer even better suggested corrective actions. But, in a world where speed is so important, Morris has written and gotten to market a very worthwhile starting point for readers looking to understand the fundamentals of what is happening and why this all happened. Because I believe this meltdown is one of the most important events of the last century, I highly recommend this quick read book as a starting point for understanding what is transpiring.

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