AN EXECUTIVE SUMMARY OF

BOOMERANG: TRAVELS IN THE NEW THIRD WORLD by Michael Lewis

Who is Michael Lewis
Michael Lewis, an American journalist, doesn’t need an introduction. Born in 1960 on October 15th, his books have managed to catch the reader’s attention quite beautifully. Lewis, a graduate from the Princeton University, attained his BA Degree (Art History) and also continued his education at the prestigious London School of Economics. He has also described his work experience during his tenure at the Salomon Brothers in other books. Read more about Lewis’s description of the new Third World in this book: Boomerang: Travels in the New Third World.

Preston and Stig’s General Thoughts on the Book
After reading Flash Boys and Liar’s Poker I was very excited to dig into Michael Lewis’s best seller, Boomerang, outlining the reason for the financial crisis in 5 countries. These countries included: Iceland, Greece, Ireland, Germany, and the US. I have to say that I was generally disappointed. Where Michael Lewis is usually skilled to use anecdotes to build up characters and a fun story, most anecdotes in Boomerang seemed trivial and uncorrelated. I often ended up rewinding my audiobook to figure out what his point was.

Luckily the book also had a few great pointers that made you think about the complexity and the inefficiency of the global economic system. The book explains vividly how the German government would send money to the EU rescue fund, who would then forward the funds to the Irish government for rescue money. And what would the Irish bank do with the money? They would be obliged to pay off their loan to German banks! Talk about full circle. Overall, the book was interesting but not something I would recommend reading.

Preface
Michael Lewis states that this book began by accident when he realized that a prediction made by an investor came true. The investor was very confident and predicted that most countries in the West – the ones that were considered First World – would probably go bust very soon. Lewis investigates more about Iceland, Germany, Greece, and also states that these countries that are almost bankrupt already have put themselves into such financial trouble that their future looks completely bleak.

Chapter 1: Wall Street on the Tundra
Iceland was ranked #1 in the UN’s Human Development area. They were known to be a nation that was organized, cultured and well-educated. With their confident behavior, it was no wonder that the Icelandic families continued to make money and grow richer. Although the banks weren’t all that experienced, they behaved almost like the banks
playing on Wall Street. The prices of real estate rocketed and banks held billions, while Reykjavik’s stock value increased by about 9 times! Interestingly, nobody knew how these countries including Iceland and Ireland became so rich overnight, and although Icelanders didn’t know why, they were quick to take advantage.

However, just a like a beautiful dream ends pretty quickly, Iceland’s banking industry crashed and chaos wasn’t far behind since the wealth was closely linked to its banking sector. They were hit with gigantic losses and the end of it all Iceland was drowning in debts, thereby collapsing in 2008. David Oddsson, the man who served as the Prime Minister of Iceland, was also responsible for the major fluctuations in the country. He privatized several industries and also lowered the taxes. Once his term ended, he also appointed himself in a high position as the governor of Iceland’s Central Bank even though he lacked experience in the banking sector.

Other bankers in Iceland – without prior experience – began buying as many assets as they could with borrowed money, although the prices of the assets were increasing rapidly. Not only did they borrow, but they also spent carelessly in the hopes that their Krona would rise eventually. While the banks pretended that they possessed capital, the public was unaware of the imminent danger. Bob Aliber, a professor serving in the University of Chicago, also declared the banks were going to face failure, and interestingly, the bankers even tried their best to prevent his speech from being reported to the public.

During the 1970s, Iceland had found a great way to transform itself through its fishing industry. Once the industry was privatized, every fisherman was given a quota, where a fixed percentage of his total catches per year would be counted. The fishermen quickly became rich once they began selling their quotas. The students were suddenly sent abroad to continue their education. Before long, they became so wealthy that their very trade became unsuitable for their younger ones, thereby turning them into investment bankers. This, among many other problems, could be the main reason contributing to Iceland’s issues. Lewis discusses about why Iceland struggled with its economy in detail in this chapter.

**Chapter 2: And They Invented Math**

In 2010, Lewis traveled to the Vatopaidi monastery located in Greece to understand the financial condition of the country. Although the European Central Bank and International Monetary Fund agreed to offer about $145M to Greece, it was probably too little for them as the country was already drowned in debt, which amounted to $1.2 trillion.

Moreover, it didn’t seem like the internal issues they faced could be eradicated easily. For instance, a normal government job in Greece would pay a sum that was at least 3 times greater than an average job in a private sector. Additionally, the National Railroad paid $400M per year as wages, although they earned only $100M as revenues. The defense companies owned by the government were in debt as well.

The country spent a lot of money on its health-care – far more than the money spent on average supplies in Europe – but it was all for naught. Greece was such a generous country that men would retire at the age of 55 and women could do it when they were only 50 years old. Lewis explains several other problems in this chapter and what makes it so astonishing is the fact that the population just gobbled everything without worrying about whether they could sustain in the future. Lewis also makes it clear that it weren’t the banks who managed to destroy Greece, but it was indeed the country that succeeded in sinking the banks.
Greece’s problems don’t only lie in the fact that it’s run by a government that has a tendency to mismanage things, but since the government can’t even collect taxes, doom is inevitable. Lewis also states that there are an increasing number of people cheating the government to make more money. They not only claim wages lower than what they really earn, but they insist that they get paid through cash! This kind of vile behavior is widespread and even if they are punished, it could take up to 15 years to derive justice and finish up with a case.

Another problem Greece can’t really ignore is that the general public mistrusts their government. It’s no big wonder that they are unwilling to part with their money, especially when they think that their money is going to be pocketed and squandered. These very citizens with a deep mistrust become government officials later and continue to cheat. This, including so many other issues, is what puts Greece in a fix.

Chapter 3: Ireland’s Original Sin
In this chapter, Lewis talks about Ireland’s situation when he traveled to Dublin in 2010. The banks went through gigantic losses that amounted up to 106 billion euros. A country that was the second richest in the world had crumbled down enough to be considered the one of the poorest. According to firms that specialize in Credit Analysis, it is also known as the third country that’s most likely to default, just behind Iraq.

In the 1980s, at least 1 million Irish lived in undesirable conditions, well below the poverty line; however, by 2000, the economic condition transformed astonishingly where people from different countries began migrating to Ireland in search of jobs. The secret behind this growth can be attributed to real estate, especially since a large percentage of the Irish workforce was dedicated to its housing market. This kind of explosive growth and the bubble that ensued is compared to the situation that occurred in the US; however, the US is improving, thanks to the growth in economy and employment, but Ireland continues to struggle as the prices plummet.

In 2008, the Ireland government had taken a decision to provide a guarantee regarding the debts to all the biggest banks. Ireland banks were under huge debts and Brian Cowen, the prime minister, had convinced Ireland that they were backing the losses accumulated by the banks. This decision was taken in order calm the market down.

However, the decision taken by the government was beyond comprehension because all the banks weren’t so connected to the economy that they couldn’t be left alone. It didn’t make sense at all because the government continued to make decisions that forced the taxpayer to compensate for the losses.

When Patrick Neary, a bank regulator gave a speech to reassure the public, there was widespread panic. He claimed that the loans weren’t responsible for the problems they were facing. The prime minister, Bertie Ahern also ignored the signs that hinted danger. Here, it is clear to understand that the economic problems in any country don’t suddenly pop up overnight. It happens due to years of incompetence, greed and mismanagement.

Chapter 4: The Secret Lives of Germans
This chapter is a detailed description of Germany’s state of affairs when Lewis traveled to Hamburg in 2011. Lewis also met Mr. Jorg Asmussen, the deputy finance minister of Germany. Here, the relationship between Germany and Greece is explained in detail. It is also insinuated that the minister thinks the Greeks can stay on the euro if they begin to act and think like Germans.

It seems like an insult for the Greeks, especially when a deputy finance minister from Germany makes such remarks. One can’t forget that the Greeks won’t be able to change their deficits to surpluses because they are in euros.
Mistakes at that point of time can push them into further trouble and the best solution would be for Germany to pay up the debts.

However, on the other hand, the Germans can’t be expected to the debs made by the Greeks. The German politicians had promised the public that they wouldn’t be ever asked to bail out any other country. Asmussen also tells Lewis that while other countries took great advantage of cheap credit, their country chose not to do so. But, it can be noted that while Germany has shown restraint internally, the German banks have been involved in most of the financial disasters across the world. This makes it obvious that the Germans want to stay clean, even when they have made it a habit to play dirty.

At this juncture, Lewis talks about the very purpose behind the creation of the euro. Although it was designed to link all the countries in Europe to stand united politically and maintain a steady relationship by trading, it seems to have generated a lot of negativity within the countries. Healthy European countries with good economies – mostly Northern Europe – are now worried about their southern counterparts.

Lewis further points out the irony of the situation. While the euro was created to prevent Germany from becoming a dominant power, the future of the remaining countries now depends on the decisions that are to be taken by Germany.

**Chapter 5: Too Fat To Fly**

In this section, Lewis talks about problems in the US. He begins with the observations made by a Wall Street analyst, Meredith Whitney. During a program aired by ‘60 minutes’, Whitney stated that the US wouldn’t get into any issues since they effectively passed off their problems to their cities and counties. However, the cities would face difficulties since they couldn’t pass it on to anyone else.

The problem lay in the fact that the US accumulated high amounts of debt during 2002 to 2008. Not only did the spending increase incredibly, but enough money wasn’t collected to take care of pension plans and other necessary requirements. The pension money from the state was diverted into the stock market and it rose from 23% to a whopping 60% in 2008. The predicted returns for the investments were about 8% and the Fed promised to keep interest rates to almost 0%.

When Whitney was questioned as to which state was in too much trouble financially, she was quick to answer that it was California. Lewis further says that the system in California is set up in such a way that it makes the politicians helpless, thereby forcing the public to hate them. The crux of the problem, according to Lewis, lies in the way the Californian voters think.

Basically, the Californians expect the government to offer services without increasing the taxes. Although this kind of behavior could only lead to huge problems in the future, the voters aren’t worried about it. They expect generous pay packages and benefits, even if it hampers their well-being. This point is further proven when Lewis talks about his discussion with Arnold Schwarzenegger, who was a governor at the point of time.

Lewis further talks about San Jose and the increasing number of problems occurring there. If anything, he says that the Californians are behaving just as greedy and broken as the Greeks, albeit not as violent. At the end of the book, Lewis summarizes the entire situation and also says that the US might be heading into so many adversities that they

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might have to give in to China in the future. At the end of it all, the question as to how these countries that were the richest once upon a time have now gone bust in just a matter of a few years can be answered pretty easily.