Bust- Greece, the Euro, and the sovereign debt crisis
Matthew Lynn

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In 2011 this Cassandra predicts the eminent financial collapse, taking with it the Euro.   Premature, but not wrong.

The copyright date is 2011, less than a year after the "resolution" of the Greek debt crisis over what Lynn calls the "trillion dollar weekend" of May 8 and 9, 2010. The Greek debt crisis was solved in exactly the way that the initiators of the euro project, notably the Germans, has said it should not: by throwing money at it.

The leaders of Europe decided that they had to break the rules they themselves had established. Rule number one said that no European government would bail out another government when I got into financial trouble. They bailed out the Greeks. Rule number two said that the European Central Bank would never intervene in financial markets. They intervened in a big way, buying corporate debt and corporate stock. In doing so they created a vast moral hazard. If there was no consequence for breaking the rules, countries and the European Union itself were free to run deficits as large as they pleased.

Lynn concluded in 2011 that it wouldn't work. The concluding paragraph of the book is "Most significantly, Europe and the United States won't be able to just burrow themselves out of trouble anymore, nor paper over the feelings of their own economies with more and more debt. They are bust. And like all bankrupt, they will have to slowly and sometimes painfully pay down their debts and find new ways of making a living."

Lynn is certainly right in the long term. He has been dramatically wrong in the short term. On the eve of 2018 the central banks are papering over their problems at an increasingly furious pace. Mario Draghi of the European Central Bank has promised to do "whatever it takes" to prevent another financial crisis. The United States Federal Reserve, The Bank of Japan, and essentially all other European central banks are doing the same. What Lynn observed was a house of cards that could not stand, and predicted would fall within a year or two, has been built higher and higher. Though wobbly, it is still standing after seven years.

This book is valuable for what Lynn observes about why it cannot last forever. All of the developed countries are in a demographic vise. There are more and more all people, fewer and fewer young working people. The pensions and health benefits that have been promised simply cannot be paid. The banks, private and central, or holding increasing amounts of debt that will never be repaid. Rather than allowing bankruptcies, they continually "extend and pretend" that the debts can be serviced and eventually extinguished.

The pernicious downside, which has become much more visible since Lynn wrote this book, is the squeeze of the middle class and the pensioners. There is simply no safe place to put one's money. The banks offer almost no interest. Lynn observed, commonsensically, that one cannot reduce interest rates below zero. In defiance of all logic, European banks have done exactly this. A pensioner cannot live off bank interest. Stocks pay almost no dividend. One cannot live off dividend income. The reduction of dividends and interest has resulted in a huge, unrealistic, unsustainable inflation in the value of financial assets such as stocks and bonds, and an echo increase in the value of hard assets such as real estate. This has priced housing out of the range of the middle class. The economic policies that Lynn said in 2011 could not endure have in fact endured. They have brought a great deal of discomfort to all except the financial elites throughout the world.

Moreover, this financial house of cards must fall. He quotes Carmen Reinhart in [[ASIN:0691152640 This Time Is Different: Eight Centuries of Financial Folly]] to the effect that uncontrolled money printing inevitably leads to financial collapse. All that they are doing differently is forestalling it.

We learn a few interesting things from Lynn, such as the origin of the term of art "quantitative easing." It means nothing – which is precisely as intended! It obscures rather than clarifies the process of printing money.

I bought this book intending to learn more about Greece in particular. I have recently reviewed "looting Greece," and "adults in the room," specifically about the crisis in Greece. This book does not add much illumination. Rather, it sets the context. It provides a history of Greek economics, indicating why including Greece and the euro in the first place was folly. Rather than lead the reader step-by-step through the scenes in the drama by which Greece failed, Lynn is content to paint in broad strokes a picture of why it was bound to fail. This is valuable because, as every reader knows, Greece is not the only vulnerable country. In the end they all will fail.

It is a five-star effort. The strengths of the book are the history of the first decade of the euro, the 2000's, and a strong argument for why it must ultimately fail. The arguments remain as valid today as in the year 2011. Nothing has been fixed. Lynn has waited quite a while for his vindication, but reading the book leaves the reader absolutely certain that it is coming.