Book Reviews by Ian Robertson

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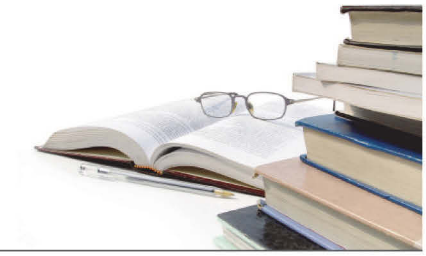
Title: ***Too Big To Fail***

Author: **Andrew Ross Sorkin**

First Edition: **Penguin (2009)**

Reviewed: **November 2012**



Rating:

★ ★ ★ ★ ★

Out of 5 Stars

New York Times writer Andrew Ross Sorkin's *Too Big To Fail* is an important book that deserves to be read by all with an interest in the competitive, clubby world of finance. The book begins just after Bear Stearns' forced takeover by JP Morgan and spans Fannie Mae and Freddie Mac's government bailouts; Lehman's collapse; Merrill Lynch's forced marriage; Washington Mutual and Wachovia's demise as independent banks; AIG's government bailout; and ends with the government's implementation of TARP (Troubled Asset Relief Program). The events are already familiar to all, but they are relayed here chronologically in gripping detail, reconstructed through countless interviews and woven together in a story so fast moving and far-fetched, it seems almost unbelievable.

At one point, during hastily-called talks to plug a sudden $50,000,000,000-plus funding shortfall at AIG (yes, that's right, suddenly they were short about 50 billion dollars), one of the investment bankers involved does a quick calculation that his firm could make $2,500,000,000 in underwriting commissions. Is it any wonder that folks on Main Street have a deep mistrust and antipathy towards Wall Street? The whole situation seems too bizarre to even pass as fiction. In the end, AIG was sinking too quickly, and the government bailed them out; the investment banker would have to look elsewhere for a $2.5 billion fee.

Bear Stearns' collapse happened in March 2008, and Sorkin spends the first third of the book providing interesting background details on the major players, both individuals and institutions, and letting Lehman's precarious situation build. By mid-summer, events begin to unfold quickly, with the mortgage lenders Fannie and Freddie reaching crisis, and Lehman's over-leveraged position starting to look untenable. From there, it's a whirlwind of both private sector and government orchestrated meetings, phone calls, panic, solutions, more panic and self-preservation, and more meetings. Each and every company is both a fierce competitor and wading in the same quicksand, which adds to the fluidity of the crisis.

The cast of characters listed at the book's start runs seven pages. Lehman's CEO Dick Fuld comes off particularly unsympathetically, though in the end is as much a tragic figure as villain, and SEC Chair Christopher Cox seems completely out of his depth. Treasury Secretary Hank Paulson and New York Federal Reserve Bank Chair Tim Geithner come off as incredibly hard-working, capable, and action-oriented. Of all the investment firms, Goldman Sachs is the most interesting. Other investment banks recognize Goldman's talent, success, and position in the pecking order, but clearly don't trust them. During the crises, apparent conflicts abound, and again Goldman more than the others seem to either skate through them or blatantly capitalize on them. With so many ex-Goldman people in both public and private leadership roles, there are inevitable references to "Government Sachs," though Sorkin does make it clear that Paulson, an ex-Goldman CEO, is keenly aware and works to minimize any appearances of conflict.

One conflict that seems to escape nearly every player is that deals, including side deals about prospective leadership roles for CEOs, are discussed and settled completely outside the normal and proper board structure. Financial companies' Boards of Directors are in most instances mere afterthoughts in this crisis-fuelled, free-wheeling world of mergers and takeovers – hardly a model of corporate governance. Only in the final pages of the book do the Boards play an active role. Perhaps this is because Sorkin failed to or chose not to interview many of the corporations' Directors, though he does manage to describe the Board dynamics during Cox's unprecedented call to the Lehman Board, exhorting them to file for bankruptcy. Similarly, Bernanke's presence is clearly underrepresented when compared to his actual role, again perhaps due to Sorkin's poor access to information from the Federal Reserve, or perhaps because he felt there was enough material to just focus on Treasury Secretary Paulson's role in stemming the crisis. In any case, the second half of the book is Paulson's and Geithner's show.

In his epilogue, Sorkin reflects on many of the events from a policy perspective, and agrees with many critics that the government erred in letting Lehman fail, a conclusion that he appears to have reached only in hindsight given his depiction of events at the time. It's true that the repercussions were felt around the world in a way no one imagined, and Lehman was in the end the only one allowed to fail. In his excellent narrative, though, Sorkin conveys how quickly events were unfolding, how complex the issues were, how some hoped for outcomes that failed to materialize, and the moral hazard the government faced. While the government did not want to provide a bailout for all troubled firms and allowed Lehman to go under, they subsequently and very quickly discovered that a massive bailout was the most palatable option.

Details about the events of 2008 are still being uncovered (for example, months after the book's publication, internal emails from AIG were made public that showed some at the firm were already questioning the firm's liability exposure in 2007, a year before their liquidity crisis), but in this book Sorkin has delivered a long but gripping read, one that is sure both to edify and madden readers on Main Street.