

THE TETT OFFENSIVE

Review by Reg Rumney

Financial journalist Gillian Tett observes in her book – *Fool's Gold, How Unrestrained Greed Corrupted a Dream, Shattered Global Markets, and Unleashed a Catastrophe* – that the complexity of finance serves the purpose of the financiers well. “When bankers talk about derivatives, they delight in swathing the concept in complex jargon,” she points out. The resulting opacity “reduces scrutiny and confers power on the few with the ability to pierce the veil”.

Stressing that derivatives are as old as finance itself, she notes: “As the name implies, a derivative is, on the most basic level, nothing more than a contract whose value derives from some other asset – a bond, a stock, a quantity of gold.”

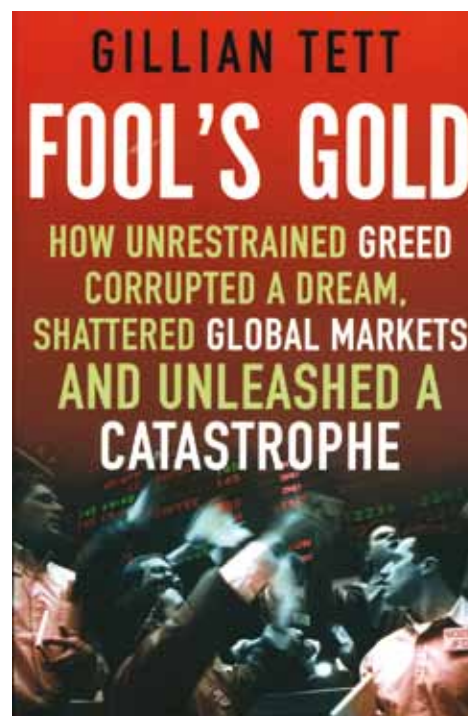
Fool's Gold does an admirable job of lifting the veil so that we can look at the derivatives that led to the crisis. This is the strength of the book. It is also the reason that people who know Tett's writing in the *Financial Times* will want to read it.

I suspect the subtitle is an attempt to latch on to the loathing for financiers now prevalent, but it is also misleading. It could have been called, *Financial code: Everything you ever wanted to know about CDOs and other derivatives but were afraid to ask*.

Tett does point out that a lack of holistic thought in financial circles, a detachment from the real world, had devastating consequences. She is angry, along with millions of families, most of whom never knew derivatives existed, and who have suffered “shattering financial blows”.

Tett does not sit in judgment of those who created the complicated financial engineering. She writes: “The story of the great credit boom and bust is not a saga that can be neatly blamed on a few greedy or evil individuals. It tells how an entire financial system went wrong, as a result of flawed incentives within banks and investment funds, as well as the ratings agencies; warped regulatory structures; and a lack of oversight. It is a tale best understood through the observation of human foibles, as much as through economic or financial analysis. And while plenty of greedy bankers play crucial parts in the drama – and perhaps a few mad, or evil, ones too – the real tragedy of this story is that so many of those swept up in the lunacy were not acting out of deliberately bad motives.”

What Tett goes on to tell is the story of how a small group of clever and inventive bankers at the venerable JP Morgan came up with ideas that were gradually transmuted into the monsters that broke not only JP



Morgan, but several large banks and financial institutions. Those who invented these innovative products were certain, not only that they had a money-making proposition, but also that they would benefit banks and ultimately business in general. But, these derivatives did turn out to be, in Warren Buffet's prescient words, “weapons of mass destruction”.

Several times Tett refers to journalists not being particularly interested in report-

ing on the areas of finance that feature in the book. No wonder.

Tett does a fine job of explaining how derivatives worked – and subsequently didn't work. Her writing epitomises the journalistic tradition of the *Financial Times* where she runs global market coverage, which is not assuming that her audience wants or needs obfuscatory, number-intensive jargon. Clarity and simplicity are the watchwords, yet even her journalistic explanatory skills at times creak under the strain of explaining the inexplicable.

Also, without at least just a little prior knowledge of the world of finance the reader may find this book heavy going. You have to have at least regularly read the Alex column that appears in South Africa in *Business Day* to get an idea of how perverse the incentive structures of modern finance have become.

Though the content is not as sensationalistic as the title pretends, the book reads like a thriller. This is no mean feat for a volume whose real villains are Synthetic Collateralised Debt Obligations and Credit Default Swaps. How does she manage this? The clue is in her awareness of the humanity of those who dealt in these arcane and cerebral financial products, of the mundane realities of their lives, of the personalities involved. The book is both a vindication of the kind of journalism that is not satisfied with the exclusionary jargon of insiders, and an example of good journalism's ability to explain the apparently arcane without oversimplification.

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