find enough creditors to back up the deficit. Most nations, however, do not have such luxury and depend on the remedies prescribed by the IMF. In other words, not all may follow the policy of extensive spending at the cost of debt and can not easily escape the liquidity trap beyond the means offered by central bank. Krugman's recommendations are thus valid mostly to nations with good debtor credit.

The usefulness of Krugman's argumentation does not, however, rest in proposing universal solution. As already stated, he never intended to write an elaborate scholarly dispute and rather offered an explanation of current affairs easily understandable by general public. Wry humor, parables, whimsical examples and sound arguments are indeed a better way of introducing a complicated matter than a cryptic jargon adopted by the likes of Alan Greenspan. Using the Capitol Hill co-op as a model thus served his aims better than baffling statements about the "irrational exuberance." Furthermore, simple models invite reader to derive a conclusions of their own and enable another helpful parables.

And one parable seems to be especially fitting. So as the adverbial pharaoh had dreams of seven fat cattle followed by seven lean, both nations and individuals should expect a slowdown after a boom. Unless having an extraordinary debtor credit, one should prepare for the necessity to spend savings so as to be able to run a deficit after a surplus. While individuals at the brink of personal bankruptcy are able to abandon their mortgages and shed liabilities at the cost of personal comfort, states bear the burden that cannot be simply avoided. Social welfare, infrastructure and public safety require adequate spending and all statesmen should beware to plan before the depression strikes again.

While far from offering a miraculous solution for the contemporary crisis, reading Krugman's *The Return of Depression Economics and the Crisis of 2008* is indisputably beneficial in two distinct ways. First, it condemns the unsound optimism that all problems of economic circles had been forever solved and addresses the flaws that cannot be easily mended in current economic system. And, secondly, Krugman's clear prose presents complex ideas that are often detached from general public in a manner that intrigues everyone to read the book to the end. Too many sound policies failed due to the lack of public support, and without a lucid, understandable and widely read analysis other are doomed to fail too.

Michal Švajda

Michael Lewis, **The Big Short: Inside the Doomsday Machine.** London: Allen Lane, 2010. 266 pp. ISBN 978-0393072235

The Big Short by Michael Lewis is a fascinating and tumultuous read, documenting the events and personalities behind the biggest stock market crash since the Great Depression. The story doesn't focus itself around the powerful figures – the bankers, CEOs and politicians – that are normally featured in such an account, but rather on a select few people who had the intelligence, bravery and luck to be on the other side of the market, finding themselves predicting the downfall of sub-prime mortgage bonds. The title of the book, the Big Short, is a play on the fact that these characters end up shorting the system and the biggest financial players to make millions out of the financial crisis. They are not, however, portrayed as the bad guys; these men did their best to notify the authorities and institutions as to the blatant fraud and money manipulation going on, but when nobody listened, they simply decided to bet against the system and ride out the devastation that would be caused when it eventually collapsed.

The book deals frankly with some major economic concepts: sup-prime mortgage lending, credit default swaps and short selling. Sub-prime borrowers are those borrowers with poor credit histories or no history at all, who present a substantial risk to lenders. Historically, these people have found it very difficult to get loans, but as the US economy boomed in the 1990s and 2000s, banks and financial institutions became more flushed with money, enabling them to lend to a more diverse base. To deal with the risk of the sub-prime borrowers, they often lent to them with a sneaky ploy: two years at a low, fixed rate, which after the two years becomes adjustable, usually with a base rate of much higher than the initial one offered (borrowers were enticed with, for example, 5% interest, but after the end of the two-year period they saw it jump to 12%). So long as housing prices were growing, however, these kinds of loans presented little risk, as the borrower could always refinance or the bank could seize the valuable assets. A credit default swap involves spreading the risk of a default on an investment or bond to other parties to limit the risk to the investor. The buyer of a credit swap receives credit protection, while the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap. In the event of a default, the seller must pay the investor the value of the investment that was defaulted upon. Short selling involves the selling of a security that the seller does not own. Short sellers assume that they will be able to buy the stock at a lower amount than the price at which they sold short. The opposite of short-selling is going long (betting that a price will go up), so basically is is a bet that the value of the product being shorted is going to decrease.

The book reserves its most scathing remarks for what is known as CDOs – collateralized debt obligations. Basically, a CDO is made up of the worst parts of the sub-prime loans. They are the bottom-level triple B tranches of the sub-prime tower, but then repackaged as new financial products, which somehow got rated as triple A, through the creative devices of the financial institutions and the gross incompetence of the ratings agencies. The book quotes one of the main characters, Steve Eisman, as referring to CDOs as: "the equivalent of three levels of dog shit lower than the original bonds." For the first part of the book, the main buyer of these is AIG, the American Insurance Group, but it later opts out, leaving smaller investment groups and hedge funds to pick up the slack.

One of the people that the book follows is Steve Eisman, a Jewish New Yorker, who, despite being a lawyer, ended up on Wall Street thanks to the contacts of his parents. In the 1990s, while working for Oppenheimer, an old-fashioned Wall Street partnership, he was one of the people pushing for sub-prime mortgages, as he saw it as a way of evening out the playing field between the rich and the poor – taking the consumer out of high-interest credit card debt and into a lower-interest mortgage. He first published a report damning sub-prime mortgage loans in 1997, after being tipped off by a colleague, much to the consternation of the industry. There were big problems in the industry in 1998, but instead of examining the causes of the problems, the loans, the industry saw it as an indictment on dodgy accounting practices. He eventually becomes the most vocal and influential critic of the CDOs, and consequently spends years trying to figure out what was going on in the industry. He comes up with the idea of credit-default swaps on CDOs, and approaches the major Wall Street banks to ask if they will offer them to him. They had to be created, but he gets what he wanted in the end. Interestingly, the banks think that he is dumb money, which turns out to be exactly the opposite.

Vincent Daniel, one of Eisman's colleagues, despite growing up in a lower-middle-class family, always seemed to be the one raised with a silver spoon in his mouth. He was a pessimist, always looking to see how somebody was trying to screw him – a quality that later became an asset as they worked against Wall Street. He had the skill with numbers that Eisman did not, which made them a valuable working team. He was the person on Eisman's team that first noticed the problems with sub-prime loans, as he found irregularities in the loans of people with mobile homes. The irregularity was that people were defaulting, but the financial institutions were saying differently, calling the defaults "involuntary prepayments."

Michael Burry is one of the more compelling characters in the story, and you find yourself strangely attached and transfixed by him throughout. He has one eye, is autistic and, despite being on residency to become a doctor, devotes extraordinary amounts of time to mundane things like reading the financial prospectuses, contracts, basically anything in detail, of Wall Street firms or anything to do with finance. From doing so, he set up a financial website which soon became widely-read. He was soon able to set up a hedge fund, called Scion Capital LLC, through which he ended up hedging bets that the market would fall apart in 2007. It is a difficult path for him; at the beginning, he was able to bring in great returns, but the more convinced he became about the collapse of the sub-prime mortgage market, the more investors began to doubt him. Just months before his bets were vindicated, he nearly lost a lot of his clients, only keeping them because he worked around a clause in their investment contracts. He became reviled in the financial community, and a number of newspaper articles and editorials called his actions into question. When the market in the end collapsed, as we all now well know, it did not give him the elation he craved. He closed his business, more-or-less removing himself from society, although as a much richer man. During the eight years he was running it, his company brought in a net profit of 489 percent, and he exited with a cool $100 million. But the money was not what he wanted, and he walked away a bitter and sad man, not triumphant as he had expected.

The book lambastes the incompetence of the ratings agencies and government regulators in particular. The main ratings agencies are shown to be poorly-run outfits, operating on the meager scraps that Wall Street left for them. The fact that, or at least according to the author, the ratings agencies accepted data so readily from the institutions they were supposed to be watching was laughable. The fact that the main tenet of deeming the data acceptable was that the American house prices would continue appreciating in value without fail was downright stupid. The author describes the workers at the ratings agencies as the bottom of the barrel; the leftovers that Wall Street didn't want to take. The fact that several of the main characters approached the ratings agencies to warn them, but were laughed off, says something about the massive mismanagement. The ratings agencies were, as it turns out, in the employ of the very people they should have been examining the investments of. The financial institutions paid them for the ratings, so it was worth their while not to dig too deep. The government regulators, on the other hand, don't take up too much print space, as the author sees them as barely worth mentioning, considering how much of an ineffective non-entity they are.

The book does manage to demonize many of the typical character you would expect: chapters are devoted to Bear Sterns, Goldman Sachs, Merrill Lynch and the like, and, in particular, their leadership. One of the more interesting so-called villains is a man named Wing Chau, who out of his own incompetence and arrogance ended up entirely on the wrong side of the market. He was the end buy of the sub-prime CDOs that the book focuses so much of its attention on, and the scene where Eisman ends up sitting beside him during a dinner party is amusing, if not deeply disturbing. Wing Chau acted as a conduit for the events of the crisis – without people to buy the CDOs, there would have been no market for them and they would have disappeared. Eisman, after a long conversation with Mr Chau, returns to the others and tells them that they have to bet against him. Whatever Chau was offering, he wanted to short it. Mr Chau's business eventually ended up imploding under the weight of the CDOs, but Chau himself was able to walk away with a handsome profit, as he himself only managed the investments, taking a sizeable commission.

Overall, this is a thrilling read. I personally found it unputdownable, as I found myself riding the waves of the economic boom right up to its collapse. The author has a frank and believable style, without flourish or unnecessary additions. You believe this re-telling of the tale, and it makes you ask yourself a great number of important questions: Why did nobody listen? Why did nobody wake up to what was going on, considering all of the evidence? Where were the government regulators and ratings agencies in this, and are they at least partly culpable? How is it that hardly anything has been done to punish the perpetrators? Nobody really knows the answers to these questions, but the book does at least attempt to answer them. This is a book about human ego, complacency and incompetence, and how in the end they will always result in the fall of Rome.

James King

Roy Rempel, Dreamland**: How Canada's Pretend Foreign Policy Has Undermined Sovereignty.** Montréal: McGill-Queen's University Press, 2006. 189 pp. ISBN 1-55339-118-7

Roy Rempel, a former foreign and defense policy advisor of Steven Harper's government, wrote a critical analysis of contemporary Canadian foreign policy named: *Dreamland:*