

**Coggan, Philip - Paper Promises**

Penguin, 2011, [Economics] Grade ★★★★★

Many of you who read this are probably avid readers of The Economist. I am always amazed at how many great articles that are written every week and especially how quickly and concisely they are able to comment on complicated and current matters. How wonderful then that a reporter of that magazine Mr Phillip Coggan (previously, among other things, also at FT, writing the Long view) has written a book on one of the most relevant subjects today, debt. Not just that, but putting debt in an historic context. It's a story about how we all went from using gold to accepting paper money, with zero value. He calls it the wars between creditors and debtors. The book makes several interesting points, among them, please think about this: In between 1882-1982 US GDP grew 3.4% per annum, with total debt stable. How much did GDP increase from 1982 to today, and how much did debt increase? The answer is at the bottom of this page.

Key events for the author are the rise and fall of the gold standard and of Bretton Woods, and finally the current system. Mr Coggan describes all systems positives and negatives, but doesn't have clear cut views on what's best or what the endgame will be. His only conclusion, which is the same as many others like Rogoff etc, is that debt levels are too high, and that default in some form is unavoidable. In the final part of the book, he states that when paper promises breaks, this will result in an economic turmoil, which we just have seen the start of. I found his arguments convincing and the way he gives a historic perspective to current events makes this a must read if you are going to understand the world for the next 10+ years.

Paper Promises is a book that is very easy to read, with a multiple of interesting references so

it's easy to dig into whatever subject triggers further interest. However, it requires full concentration and I also think it helps to have read a few other books on similar topics like Niall Fergusson's The Ascent of Money or Cash Nexus, or Carmen/Rogoff's This Time It's Different.

My views are neither those of a gold bug nor those of Lord Keynes, but rather, the pragmatist. Reading this book gives several arguments to both sides of the debate but also a lot of critique, which I appreciate. Coggan is in the more bearish camp, payback time is now, so he has a lot of references to well-known bears. But he is not just bearish based upon the increase in debt, but also on the basis of the weak trends in demographics, unrecognised pension liabilities, ever increasing healthcare costs as well as the risks of long term higher energy prices.

That's all fine to me, but I think he misses out on some potential hopes, mainly the fact that emerging markets are growing very fast, and that could mean a relatively high sustainable global growth rate and new technology breakthroughs are not considered. So my only complaint with the book would be that it lacks an honest and sincere discussion on where he (and most intellectuals) could be wrong. If you haven't read any books on these topics, this should be your first. You could then follow up with the other books mentioned above.

On a final note – the generation that lived through the 30's, i.e his father, tended to be highly suspicious of debt after the depression. Coggan, the senior, refused to have a credit card. He cut the cards in unsolicited offers into pieces and sent them back to the card companies with stern lectures on inflation.

Bo Börtemark, May 16, 2012