

Partnoy, Frank – The Match King

Profile Book Ltd, 2009, [Business] Grade ★★★★★

Frank Partnoy is a Professor of Law and Finance and he is an expert in complex financial structures and regulation. Before becoming a professor he worked on Wall Street and wrote F.I.A.S.C.O about his experiences during the 90's. Besides writing several other books, he works as a financial consultant. He spent 6 years doing research for this book which resulted in an impressive bibliography.

In the first chapter Mr Ivar Kreuger sails to the US, and the reader immediately understands that he is master of deception. The author presents the Kreuger saga with plenty of color and details. The first 12 chapters are a chronological story about Kreuger's rise and fall. With the exception of J.P. Morgan, he managed to convince the entire US financial market, the political elite and the leading journalists that he was among the World's most brilliant business men. This at one point in time made him one of the World's wealthiest men.

His idea was to sell various types of innovative debt products to the American public, lending the proceeds to the cash-hungry European governments in exchange for a national monopoly in match production. Clearly this was a very risky proposition for US investors, but early on he was hugely successful which usually tends to convince the few initial doubters. Those aiding him, such as accounting firms, lawyers and investment bankers, made an enormous amount of commission and fees which eventually made them dependent on him for their careers. The book ends with two chapters that reflect on to what extent he was a simple crook or not, and whether he was murdered or not.

Kreuger fooled everyone, from presidents to friends, most notably Herbert Hoover. In Sweden even the prime minister was caught in his downfall. Carl Gustaf Ekman was handed a check of 10.000 dollars for helping out with last minute financing at a critical time. He was later forced to resign. In the beginning of the book, the author presents a quote

by Kreuger which is quite telling. "*Everything in life is founded on confidence*". Clearly Kreuger was a master at getting others to trust him. Hadn't it been for his ego in making a deal with Germany's government post the market crash he might have stayed in business much longer (he could have walked away, but he committed himself to provide \$ 125 million to Germany at 6 percent interest, even though he had only raised a fraction of that). In the end successful people tend to believe they can walk on water and often lose common sense.

This book has an American perspective and the books I have read before on the subject have been from a local Swedish perspective. Kreuger created many new complex financial instruments, shares with 1/1000 vote, and used the very lax accounting rules in the US fully to his advantage.

So how big was the fraud? Some think it's a top 5 ever. In total Kreuger provided around 20 governments, mainly in Europe, with roughly \$ 400 million. How much is that in today's terms? It's a bit like asking how long is a string. Just using CPI you multiply the loans by 17 but using a stock index you would end up multiplying with over 200. My guess is still that the latter ($200 \times 400 = 80$ billion dollars in today's money) underestimates the impact. The author of the book however claims that a lot of the lost money eventually was recovered and that the final return was not much worse than the general market decline. Kreuger did have some legitimate business and owned many of Sweden's largest companies like Ericsson (1/3 of the company was sold to ITT for \$ 11 million. This post is worth over 100 times that today).

One of the more chocking revelations to me was that the accounting firm, and the person at the accountancy firm who was bribed by Kreuger, managed to float above all issues. Enron's shareholders who saw \$ 90 billion of market cap disappear, would have appreciated a tougher stance on accounting firms already then.

Bo Börtemark, March 2, 2013