James Grant, the man who saw the crash coming

The financial journalist who outsmarted the market with his predictions of economic doom believes the worst is yet to come

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The presiding cliche of the current financial crash is that 'nobody saw it coming'. It's not true.

Throughout the last decade, James Grant has been the Sibyl of the American financial empire, foretelling disaster and the awful retribution that inevitably results from overloading an economy with too much debt, with screamingly over-valued stocks and houses and with mortgage-backed securities so complex that nobody could tell who owed what to whom. The proof is in his recently published book, *Mr Market Miscalculates: The Bubble Years and Beyond.*

James Grant is the founder and editor of *Grant's Interest Rate Observer*, a New York-based fortnightly which is "an independent, value-oriented and contrary-minded journal of the financial markets" (for British readers, a year's subscription would cost $890).

Grant's scepticism about the modern financial world has been on the money

Mr Market Miscalculates is a 400-page collection of James Grant's ruminations covering the period from the dotcom folly of the late 1990s to, as he puts it, "the house price levitation of the 2000s and the subsequent worldwide mortgage collapse". Mr Market is the fictional manic-depressive whose irrational swings of mood and purblind pursuit of the pack embody the ups and downs of the stock market.

James Grant - an enthusiast for gold as a foundation for value, an admirer of the classical economic liberalism of Grover Cleveland and a firm advocate of "correct business attire" - can sometimes sound like a cross between Mr Pecksniff and the bank inspector in *It's a Wonderful Life*. But his disdainful, fretful scepticism about the new-fangled enthusiasms of the modern financial world have proved to be consistently on the money.

Not only did he think that high-tech stocks were absurdly over-valued in 2000, when they crashed, "they looked grotesquely over-priced in 1997 and 1996. I myself thought the market was a little high in 1992." His reward for such "persistent and unprofitable bearishness" was to earn "pride of place in a 1997 *Wall Street Journal* report on the slow learners of the great bull market". But who's got egg on their face now?

Mistaking a financial boom for economic stability, Alan Greenspan and Gordon Brown were the architects of a palace of debt

The *Wall Street Journal* gets a swipe round its chops in every other essay in James Grant's book but the targets for his most withering and unwavering censure are - as he put it in a telephone interview with *The First Post* yesterday - "the criminally negligent and incompetent financiers" who cooked up this mess; and "our masters in central banks and governments" who "keep making determined efforts to thwart the price mechanism as an elegantly simple instrument of deliverance" from our present woes.

Allowing that mechanism to work unhindered would, in James Grant's view, "deliver General Motors to its deserved fate - which is bankruptcy"; and, though he was reluctant to be drawn on the question, Grant would prescribe the same fate, in principle, for RBS.

"The habits of mind of central bankers are perilously close to central planning in their conceits," he said. No individuals personify those conceits more, in Grant's book, than Alan Greenspan, former chairman of the Federal Reserve Board and his acolyte Gordon Brown. Mistaking a financial boom for economic stability, they were the architects of a palace of debt, with flying buttresses of over-valuation, as fanciful as Ludwig II's Neuschwanstein Castle.

"Collectively," says Grant, "we were in the position of a row-boat floating in a calm sea but loaded to the gunwales with water so that it could be sunk by the faintest perturbation in the ocean."

What, then, would James Grant be advising President Obama to do now? "Resign!" he laughingly answered. "It might be a bit unseemly after two days but it would be a smart move in view of what lies ahead." ■