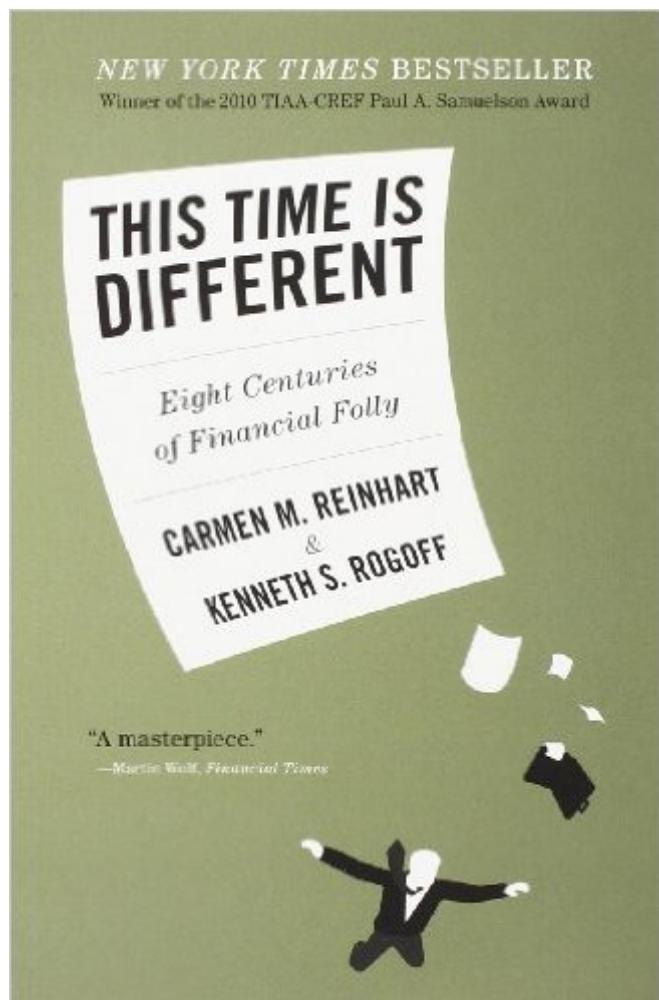


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# This Time Is Different: Eight Centuries Of Financial Folly



## Synopsis

Throughout history, rich and poor countries alike have been lending, borrowing, crashing--and recovering--their way through an extraordinary range of financial crises. Each time, the experts have chimed, "this time is different"--claiming that the old rules of valuation no longer apply and that the new situation bears little similarity to past disasters. With this breakthrough study, leading economists Carmen Reinhart and Kenneth Rogoff definitively prove them wrong. Covering sixty-six countries across five continents, *This Time Is Different* presents a comprehensive look at the varieties of financial crises, and guides us through eight astonishing centuries of government defaults, banking panics, and inflationary spikes--from medieval currency debasements to today's subprime catastrophe. Carmen Reinhart and Kenneth Rogoff, leading economists whose work has been influential in the policy debate concerning the current financial crisis, provocatively argue that financial combustions are universal rites of passage for emerging and established market nations. The authors draw important lessons from history to show us how much--or how little--we have learned. Using clear, sharp analysis and comprehensive data, Reinhart and Rogoff document that financial fallouts occur in clusters and strike with surprisingly consistent frequency, duration, and ferocity. They examine the patterns of currency crashes, high and hyperinflation, and government defaults on international and domestic debts--as well as the cycles in housing and equity prices, capital flows, unemployment, and government revenues around these crises. While countries do weather their financial storms, Reinhart and Rogoff prove that short memories make it all too easy for crises to recur. An important book that will affect policy discussions for a long time to come, *This Time Is Different* exposes centuries of financial missteps.

## Book Information

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## Customer Reviews

Reinhart and Rogoff's book provides a quantitative history of financial crises derived from over 600 years and 66 nations. The basic message from all their data is that there are remarkable similarities in today's financial crises with experience from other countries and nations. The common theme is that excessive debt accumulation by government, banks, corporations, or consumers often brings great risk. It makes government look like it is providing greater growth than it is, inflates housing and stock prices beyond sustainable levels, and makes banks seem more stable and profitable than they really are. Large-scale debt buildups make an economy vulnerable to crises of confidence - especially when the debt is short-term and needs to be refinanced (the usual case). Reinhart and Rogoff go on to conclude that most of these booms end badly. Outcomes include sovereign defaults (government fails to meet payments on its debt), banking crises (heavy investment losses, banking panics), exchange rate crises (Asia, Europe, Latin America in the 1990s), high inflation (a de facto default), and combinations of the preceding (1930s, today). What did the authors learn from their data digging? Severe financial crises share three characteristics: 1) Declines in real housing prices average 35%, stretched out over six years, while equity prices fall an average 56% over 3.5 years. 2) The unemployment rate rises an average of 7 percentage points during the down phase (average length = four years). Output falls more than 9% over a two-year period. 3) Government debt tends to explode, an average 86% in real terms. The biggest driver of this debt explosion is the collapse in tax revenues; counter-cyclical fiscal policy efforts also contribute, as well as spiking interest rates.

On April 15, 2013, a year and a half after I had first published this review a study by Thomas Herndon, Michael Ash, and Robert Pollin from the U of Massachusetts came out and refuted the authors main thesis that once a country reaches a Debt/GDP ratio of 90% sees its economic growth contract nearly automatically. This had become a covenant of libertarians such as Paul Ryan and Europeans promoting fiscal austerity. It turns out that Reinhart and Rogoff studies were completely wrong. R&R made numerous mistakes pointed out by the U of Mass team. The main one was to exclude three years out of the New Zealand data during a high Debt/GDP period. During those three excluded years New Zealand had grown very rapidly which contradicted R&R thesis. Once you make those corrections (including a few others that were minute by comparison), there is no statistical difference in growth rate between countries with high Debt/GDP ratio vs ones with lower ones. So much for Austerity. This is a devastating blow to what we thought was a classic study on

the subject. Below see my original review. Notice that I had also observed many other flaws with their work but not the one mentioned above since I never saw the data firsthand. This book is both fascinating and flawed. Starting with the flaws: First, the book is mistitled. It covers the last 200 years not the last 800. Second, their crisis framework is convoluted relative to the crystal clear framework of Charles Kindleberger in *Manias, Panics, and Crashes: A History of Financial Crises* (Wiley Investment Classics).

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