

Book review: Economic crises historically share some traits

By Paul Wiseman, USA TODAY

The people of Scotland are legendary for their tight-fistedness. They'll "bargain and argue with you to the last," industrialist [Andrew Carnegie](#) once said.

So if anyone could resist the charms of a charlatan like "General Sir" Gregor MacGregor, it would seem to be the Scots.

But, no: Back in the 1820s, MacGregor persuaded Scottish investors and London bankers to invest in the fictitious Latin American country of Poyais. The dashing swindler claimed Poyais' lands were rich in gold and timber and its supposed capital, St. Joseph, possessed "broad boulevards, colonnaded buildings and a splendid dome cathedral."

Rubbish, all of it. But MacGregor, who boasted that Poyais natives had made him their prince, succeeded in selling the country's bonds on terms similar to those of real places such as [Chile](#), [Colombia](#) and [Peru](#).

Financial folly, economists Carmen Reinhart and [Kenneth Rogoff](#) show in this groundbreaking book, knows no boundaries and has no expiration date.

Reinhart, of the University of Maryland, and Rogoff, of Harvard and previously of the [International Monetary Fund](#), tapped a massive database of financial crises, going back eight centuries and covering 66 countries. They recount banking meltdowns, episodes of hyperinflation and sovereign debt defaults. The conclusion is humbling: Humans, blinded by the prospect of easy money, just can't learn the lessons of the past.

For a book built around numbers, *This Time is Different* makes for surprisingly good reading. The authors are well aware that human nature is at the heart of the disasters they document, and they enliven the text with brief and amusing accounts of charlatans and cheats such as the mountebank MacGregor.

A recurring theme: how investors, lenders and policymakers repeatedly delude themselves during economic booms into thinking that business cycles have been repealed and that the good times will go on and on.

Good times can blind even the supposedly sophisticated. "Excessive debt accumulation, whether it be by the government, banks, corporations or consumers, often poses greater systemic risks than it seems during a boom," the authors write. "Debt-fueled booms all too often provide false affirmation of a government's policies, a financial institution's ability to make outsize profits or a country's standard of living. Most of these booms end badly."

Indeed: After the recent financial collapse, 140 banks failed in 2009, unemployment reached double digits and state and local governments had to make savage budget cuts. Any recovery is likely to be weak and largely jobless.

The authors' findings are sobering. They conclude that the road out of financial crisis is long and arduous. Financial crises around the world have been followed by five years of rising unemployment and six years of falling housing prices. Government debt typically balloons 86%.

Reinhart and Rogoff note that financial deregulation often preceded meltdowns: "It helped predict them," they write. Which might have been nice to know before Congress deregulated savings and loans in 1982, tore down the barrier between commercial and investment banking in 1999 and declared over-the-counter derivatives off-limits to regulators in 2000.

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