

Report on **Business**

Is this time different? Not with all the debt

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This book is different. Economists Carmen M. Reinhart (University of Maryland) and Kenneth S. Rogoff (Harvard University) - having examined the financial crises of the past 800 years - identify the singular cause of great economic contractions with a clarity that is absolutely crystalline. Here is academic analysis that transcends smart and clever. Here is academic analysis that touches, and perhaps encompasses, an elemental truth. In a front-cover blurb, celebrated Harvard historian Niall Ferguson, author of the best-selling *The Ascent of Money*, describes it as "quite simply the best empirical investigation of financial crises ever published." More than most, he would know.

The name of the book is *This Time Is Different: Eight Centuries of Financial Folly*, the assertive subtitle implicitly mocking the hubris of our own era of irrational exuberance. Its message is simple enough. This time was not different. The Great Depression was not different. The Second Great Contraction (as the authors call the first global meltdown of the 21st century) is not different - and is far from finished. Other than in time and place, the financial crises of the past millennium were not, from one to the next, in any significant way unique. Succinctly put, they all followed excessive accumulation of debt.

"The essence of the this-time-is-different syndrome is simple," Profs. Reinhart and Rogoff say. "It is rooted in the firmly held belief that financial crises are things that happen to other people in other countries at other times. The old rules of evaluation no longer apply. We are doing things better. We are smarter. We have learned from past mistakes." The problem is, they assert, that these assumptions are always false.

The historical record, the authors say, shows that the accumulation of debt shoves national economies to the very edge of the financial cliffs - where they wait "for chance and circumstance" to provoke the crisis of confidence that pushes them over. These plunges happen all the time and, in erratic rotation, around the world. No wonder, then, that investors' confidence in debt is a fickle thing.

And rightly so. Governments have borrowed to excess from the beginning of time and have customarily rid themselves of their [debt obligations](#) either through inflation or through sovereign default. Even governments capable of paying down debt have occasionally opted for default - because not paying can be much easier (and more politically attractive) than paying. The authors detail the

phenomena, default by default, conversion - the dumping of a devalued currency and the creation of a shiny new currency to replace it - by conversion. (When Zimbabwe introduced a new currency last year, it swapped 10 billion old dollars for one new dollar.)

Profs. Reinhart and Rogoff concede that some countries are more "debt tolerant" than others. But none is exempt from the abrupt withdrawal of public confidence in a government's capacity to pay its debts and the subsequent risk of economic meltdown. Canada is one of the few countries - along with Australia, New Zealand, Denmark and the United States - that has never defaulted on its debt to [foreign investors](#). On this fascinating fact, alas, the authors offer no explanation.

The authors do note, however, that default-free countries suffer the pains of economic contraction as intensely as countries that do default. And Canada has come too close for comfort - especially through bank crises. In a comprehensive, 40-page list of bank failures going back to the turn of the 18th century, the authors record Canadian bank crises in 1837, 1866, 1873, 1906, 1908, 1912, 1923 and 1983-85 - when 15 members of the Canadian [Deposit Insurance](#) Corp., including two banks, failed.

Why can't governments simply insure themselves against default- as governments now try to do with bailout money after a meltdown has occurred? Profs. Reinhart and Rogoff reply: "The problem is that when one provides insurance to everyone, everywhere, [one] will be bankrupt in short order." This explains why only select institutions and people get government help.

Indeed, the authors warn, governments have spread around far too much money - increasing global debt at the very time that they should be frugal. Endowed with a fourfold increase in funds, for example, the [International Monetary Fund](#) has scattered easy money around the world - enabling governments with poor credit ratings to go yet deeper into hock.

Can governments prevent economic meltdowns? Profs. Reinhart and Rogoff say it's really not all that difficult - provided that they are "sufficiently frugal." They must consistently run budget surpluses. And when they do borrow, they must avoid issuing bonds with shorter than 10-year maturities (to lessen the financial shock caused by erratic changes in interest rates).

The paradox now is that governments everywhere are plunging further into debt. Profs. Reinhart and Rogoff call the global consequences "sobering." Most people, however, appear to disagree - perhaps assuming that this time will be different.

