

a quarter from ads, and a quarter from bookstore sales. Last year they received \$40,000 from a benefactor, “about a third of our annual budget,” Gessen says.

N+1 has met with mixed response—accused of elitism and negativity and applauded for its passion and quality. Some have puzzled over the editors’ resolve

to publish print in a digital age teeming with blogs and social media sites. “If you still think a print magazine has value,” Gessen says, “its function has to be different.” The editors believe there are audiences for their products. Gessen describes conversations with supporters who say, “I think it’s great what you’re

doing, I think it’s really important—but you understand, nobody cares except me.”

“When you hear enough people talking like that,” he says, “you want to tell them, ‘If you would all just admit in public that you care about this stuff, then maybe we could get somewhere.’”

# What This Country Needs

*On detecting economic crises*

by DAVID WARSH

**N**EVER MIND the five-cent cigar. What this country needs is a good economic bull-detector program—along the lines of the faculty that Ernest Hemingway famously advised writers to develop—available in formats ranging from an iPhone application and giant SAP software to a free Linux version downloadable from the Web. Such a sensibility, put on a computer and run, would be especially useful with respect to those putative forms of non-fiction known as investment advice and

political persuasion. The power of money to amplify a message is surely very great: a press release, an analyst’s report, a favorable book, multiplied by many millions of dollars, can turn a plausible wish into a widely shared conviction. The power to structure or to disguise information, even to withhold it, is greater still.

But such mastery is far from absolute. If you can measure what is entailed by a proposition, if you can express it in numbers, you have a chance of knowing something about it. Lord Kelvin, shake hands

with Mr. Hemingway: empiricism, meet narrative. *This Time Is Different: Eight Centuries of Financial Folly*, by Carmen M. Reinhart and Kenneth S. Rogoff, Cabot professor of public policy, is an unusually powerful bull detector designed to protect investors and taxpayers alike—eventually, at least, and provided the spirit is willing.

At this time of global and domestic economic crises—with their concurrent political and diplomatic ramifications—all of which seemingly took policymakers, investors, and the public by surprise—any evidence that warning signs of such disasters can be analyzed in advance is to be warmly welcomed. And in fact, here it is, useful not only for the present circumstances but as a brisk reminder of the recurrence of human folly, or the willful ignorance that passes for it.

Seldom has a book arrived containing more moving parts between its covers. For instance, it is easy to mistake *This Time Is Different* for the many books that have appeared over the years about the history of international financial crises, long on story-telling flair but short on data. The most famous of these, Charles P. Kindleberger’s *Mania, Panics and Crashes*, is wonderful fun to read. There are, however, few yarns in Reinhart and Rogoff’s book. Instead, *This Time Is Different* is really about a massive database that the

Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton, \$35)



authors have constructed, tracking debt (both external and internal), trade, national income, inflation, exchange rates, interest rates, real house prices, and commodity prices, encompassing virtually all the major financial turmoil reported since the thirteenth century. The book's most memorable passages—what the authors call its “core life”—are to be found not in colorful stories about long-ago personalities (such as fill Liaquat Ahamed's *Lords of Finance: The Bankers Who Broke the World*), but rather in its various tables and figures. They take some time to comprehend, but any responsible citizen can and ought to consider the evidence they present. It is overwhelming.

Then there's the portion of the book devoted to the analysis of the subprime meltdown and what the authors call “the second great contraction,” a 100-page section blandly labeled Part V. In fact, its message long ago made its way around the world, in the form of a pair of terse technical papers, each delivered (in consecutive years) to the annual meetings of the American Economic Association. The first of these, in January 2008, argued that what then seemed a “special” problem of the subprime meltdown was probably the beginning of an episode that would prove not very different from five other large-scale crises associated with long-lasting recessions (Spain, beginning in 1977; Norway, in 1987; Finland and Sweden, in 1991; and Japan, in 1992)—except that this event was happening in the United States, whence recession might be expected to spread around the world. There is nothing controversial about such a view today; but this prescient analysis appeared nine months *before* the recession began. The second paper, in January 2009, made the case for massive government stimulus around the world by showing that severe banking crises take a very long time to work out: asset markets collapse (real estate in particular); unemployment remains high; and, because tax receipts fall with declining output, government debt explodes. The simple statistical graphics from those two papers can be found today on the walls of most nations' central banks. The authors have demonstrated that with appropriate evidence, the problems we are suffering through *can* be foretold.

Lurking behind the book are a set of concerns that are implied but never addressed—perhaps a story for another



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## MONTAGE

day. What about the debts and currency of the United States? Might the country itself go the way of, say, the state of California—that is, become stuck in political deadlock—and, because the nation possesses the sovereign power that California lacks, begin to inflate away the burden of its debt? Or see the value of the dollar plummet in a classic currency crisis? Such collapses of confidence often have their roots in government's unwillingness to adopt consistent fiscal and monetary measures. Just how deep is the debt hole from which the United States must climb in the coming years, when off-balance-sheet liabilities including unfunded pension and medical liabilities are taken into account? Reinhart and Rogoff write, "[T]hat basic data on domestic debt are so opaque and difficult to obtain is proof that governments will go to great lengths to hide their books when things are going wrong, just

as financial institutions have done in the contemporary crisis." The price of stability is vigilance.

Reinhart and Rogoff began their collaboration at the International Monetary Fund: he was its chief economist from 2001 to 2003; she was his deputy. Both are well-qualified by temperament for the job of professional skeptic. Reinhart left Cuba with her parents in 1966, when she was 10, carrying what was permitted in those days: three changes of clothes, no more. Today, she is a professor at the University of Maryland, a veteran of many crises and probably the most widely cited woman in the profession. Rogoff, a son of liberal parents, attended high school in Rochester, New York, where the dropout rate was greater than 50 percent (and included him). A U.S. grandmaster in chess at 14, he moved to Europe after his sophomore year to compete in tournaments. At 18 he

## Chapter & Verse

Correspondence on not-so-famous lost words

**Marty Mazzone writes:** "My mother used to say, as fast as she could, 'The high uffum buffum and the compound presser and squeezer and the beeper dog trim.' At least, that's what we think she used to say. She would never repeat it for us on the spot. Can anyone identify the origin of this very strange, unGoogle-able phrase?"

**John Sundquist requests** the origin of the assertion, "Love is the determined caring for the good of another."

**Alejandro Jenkins writes:** "In his autobiography, *Witness*, Whittaker Chambers refers twice to a 'print [by] a nineteenth-century Italian painter' showing 'a hooded skeleton, beckoning to its embrace a line of proletarian figures with bundles—rather like a scene in an Ellis Island waiting room.' The caption was *Il Conforto—Death, the Comforter*. What is the work in question, and who made it?"

"**Love and war**" (November-December 2009). Paul Reid, coauthor with the late William Manchester of the forthcoming third volume of *The Last Lion: Defender of the Realm*, writes: "It is doubtful that

Churchill said this. The expression does not appear in Richard Langworth's definitive collection of Churchill quotations, *Churchill by Himself*, the index of which contains more than 60 entries under 'war' ('love' does not appear in the index, Churchill not being one to declaim on matters of the heart). Likewise, the expression is not to be found in Kay Halle's classic, *Irrepressible Churchill*. As well, a word-search of Churchill's speeches (edited by Robert Rhodes James) spanning 1935-1963 fails to yield the phrase. Nor is it mentioned by any of the numerous diarists who recorded Churchill's remarks, including Jock Colville, Anthony Eden, Alexander Cadogan, Harold Macmillan, Harold Nicolson, and Alan Brooke. A web search also yielded no results. I believe the quotation Mr. Ehrenreich seeks to verify cannot be traced to Churchill. It lacks the snap and crackle of Churchill's impromptu remarks (most of which were well rehearsed)."

Send inquiries and answers to "Chapter and Verse," *Harvard Magazine*, 7 Ware Street, Cambridge 02138, or via e-mail to [chapterandverse@harvardmag.com](mailto:chapterandverse@harvardmag.com).

returned to Yale, did his graduate work at MIT, and, after teaching at the University of Wisconsin, the University of California, Berkeley, and Princeton, came to Harvard in 1999 (see “Harvard Portrait,” January-February 2004, page 51). A registered Republican, he advised John McCain’s campaign in 2008.

The good news, then, is that *This Time Is Different* contains the beginning of just such a bull detector for international finance. Better instrumentation is required, much more data of the sort that the authors have assembled, including measures that take into account off-balance-sheet government borrowing and implicit debt guarantees. Better regulation, too, in the form of stringent capital ratios and greater transparency for banks—perhaps even a new international body designed to provide some support to national legisla-

**Reinhart and Rogoff help us understand how “a thunderous atmosphere” becomes a financial rout.**

tors facing domestic political pressure, a beefed-up version of the Bank for International Settlements, which has performed a diluted version of the role as a shadowy club of central banks since the 1920s. Most fundamental of all is precisely the start that Reinhart and Rogoff provide, with their charts of crisis sequences and tables of the various early warning signs—a better understanding of the intricate pathways by which “a thunderous atmosphere” one day can turn into a full-scale rout the next—or subside into business as usual. Banking crises may have been to this point “an equal opportunity menace,” as the authors maintain, afflicting rich and poor countries alike. But the hope is that at least the biggest nations will get wise to themselves by adopting the sort of system of disciplined international accounting that Reinhart and Rogoff propose. □

*David Warsh '66, author of Knowledge and the Wealth of Nations: A Story of Economic Discovery, is proprietor of the weekly online column economicprincipals.com.*

## What’s New on the Web

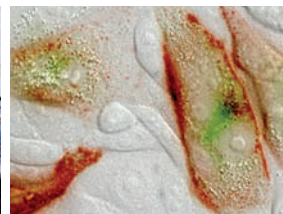
**HM** WITH THIS ISSUE we debut a new interactive feature: posing a question to readers, using an article from the issue as a starting point. As reported on page 8, Harvard economists Claudia Goldin and Lawrence Katz have found that financial-sector workers have a harder time than most balancing work and family.

Visit [harvardmag.com/extras](http://harvardmag.com/extras) to answer, and see what other readers have to say about, this question: *Did you consider work-life balance in choosing your first job? How have these concerns affected your career choices since?*

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**HEAR AN EXCERPT**  
from our interview with the host of NPR’s witty current-events quiz show, *Wait, Wait... Don’t Tell Me!* (see page 13)



**READ ABOUT HOW**  
a photographer created the arresting nanoscience images that appear in the feature on page 32



**FOLLOW THE ROUTES**  
Harvard alumni traveled across Europe helping to save art treasures stolen by the Nazis (see page 36)

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**In response to “Harvard 14, Yale 10” (November 21, 2009)**  
Yale going for it on 4th & 22 with the lead & a couple of minutes to play makes one question whether they really are an Ivy League school. Fight fiercely Harvard! Go Crimson! ~Chuck Breaux '78

A notable example of Yale snatching defeat from the jaws of victory.  
~John Wernette '64

**In response to “The Ph.D. Problem,” by Louis Menand (November-December 2009)**  
This piece is so important for incoming Ph.D. students that it should be included in every application. ~Matt

So long as the principal funding mechanism for English grad students is teaching classes completely unrelated

to their own research, they will always take longer to finish their dissertations than students in the sciences who are paid to work in labs or on studies directly related to their dissertation topic. ~Shane in Utah

**In response to “Ayn Rand: Brief life of an iconoclastic individualist” (November-December 2009)**  
What?!? You still take Ayn Rand seriously? You must be kidding!  
~Eugene Ea

What?!? You don’t take Ayn Rand seriously? What other person has explained the world as it really is through an understandable philosophical system of metaphysics, epistemology, ethics, politics, and aesthetics?  
~Steve McCarron

