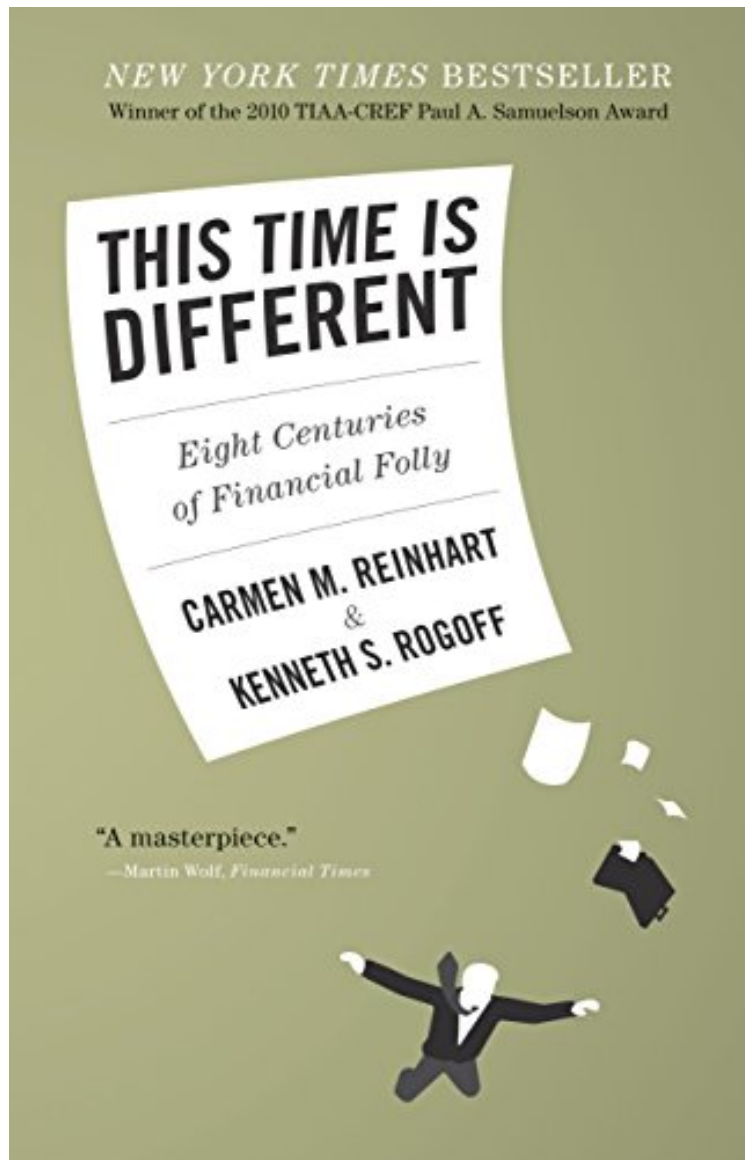


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This Time Is Different: Eight Centuries of Financial Folly

Carmen M. Reinhart, Kenneth S. Rogoff
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Carmen M. Reinhart, Kenneth S. Rogoff : This Time Is Different: Eight Centuries of Financial Folly before purchasing it in order to gage whether or not it would be worth my time, and all praised This Time Is Different: Eight Centuries of Financial Folly:

1 of 1 people found the following review helpful. From an investment perspectiveBy fitzallingThe authors put a tremendous amount of research and effort into this book and for this I value the book. By doing so, the authors render a clear service in collecting the information presented in the book and furthering our understanding of the ubiquity, frequency and depth of financial turmoil. Regrettably, their research shows that our current financial circumstances are

more difficult than usual. I had hoped to derive useful insights for investing. I have read other books - *The Big Short*, *Dying of Money*, *Lords of Finance*, etc. - with this same purpose. However, while I was greatly impressed with the authors' effort and commitment, the main lesson that I drew from the book is that financial distress is quite common and recovery from it can be painful and lengthy. I expect our recovery to be so. The book may aid an investor if one invests overseas. The historical tendencies of individual countries may be of some use. An investor may avoid some countries because of their financial history. For instance, if one loans money to Argentina or Greece with an expectation of repayment, you are quite likely to get what you deserve. The book notes that inflation is one common political response to national financial distress. Indeed, I have read a blog by Professor Rogoff observing that the United States' current overcommitted financial circumstances might be eased by inflation. This, too, probably lies in our future. The book, *Dying of Money*, about the German hyperinflation of the 1920's may provide some practical guidance on this point.

1 of 1 people found the following review helpful. Proof Financial Mismanagement Repeats Itself and Important Lessons from History By Jerry Zakariasen This is a very important, "must read" book. An excellent analysis of history, and where the monetary and fiscal policies of western world central bankers and governments are going to lead us. Sadly these people, who are bent on making the rich richer and the middle income populace into the working poor, are eventually going to crash the global monetary system. In individual economic regions/countries it has happened over a hundred times before, and the authors prove it will happen again. The title of the book is of course "tongue in cheek" because history has proven that "this time" is never different. Today, because of our highly integrated and interdependent global financial system, the next crash in a major economic region will likely crash the entire planet. We live in a world of finite resources, and yet our monetary system only functions in the presence of ever expanding exponential growth built on exponentially increasing levels of debt. We are now starting to bump into the limits of sustainable debt levels in many countries, and are rapidly approaching what the authors call a BANG moment when system breaks down. That is the nature of "faith" based, fiat currency systems. As soon as faith is lost, economies can completely fall apart within weeks. Those who are unprepared and holding paper assets stand to lose almost everything. In the past, (think Weimar Germany) life savings of millions were lost in a matter of weeks. In 2008 we came within hours of a complete breakdown of the system. The massive bailouts and liquidity injections into the system (at taxpayers expense) only served to forestall the inevitable. The next crisis is nearly upon us, and will make what happened in 2008 look like a birthday party by comparison. If you doubt this is true you had better take off your blinders and read this book!

11 of 11 people found the following review helpful. More questions than answers By William Whipple III Under ordinary circumstances, "This Time Is Different" would be of interest primarily to professional economists and students - but given the timing of its publication, smack dab in the middle of a financial crisis, the book has caught on with a wider audience. Go to a forum about the recent (or current?) financial crisis, and someone will probably brandish a copy in the air as though to say, "I read it." And at a May 26, 2010 meeting of the Fiscal Commission, which has been charged with proposing fixes to the nation's fiscal woes after the November elections, testimony of Professor Reinhart plus her responses to questions took up a goodly share of the 2-1/2 hour televised session. Ergo, people who are more interested in policy issues than in quantitative economic data may want to read the book just to be "in the know." In my case, the clincher was a personal recommendation from a friend who used to play chess with Professor Rogoff (but never managed to beat him). The basic thrust is to summarize and draw conclusions about financial crises from reams of historical data - a very different tack from Niall Ferguson's qualitative survey in *The Ascent of Money: A Financial History of the World*, Penguin Press (2008). (Ferguson praises "This Time Is Different" in a jacket blurb, by the way, as making "a truly heroic contribution to financial history.") Be prepared for dozens of tables (data), figures (graphs), and boxes (sidebars), plus discussion thereof in the text - delivered without a lot of ideological baggage (which right away distinguishes this book from most of what has been written about the financial crisis). Such an approach lends credibility to the central theme, which must be articulated 100 times, that private and public policy makers are prone to forget the lessons of the past and take risks that will eventually backfire based on the assumption that they are smarter or luckier than their predecessors. For readers who would dispense with the historical background and get right to the present day situation, the authors suggest the option of starting with Part V, "The U.S. Subprime Meltdown and the Second Great Contraction." I elected not to do this, reading the book from start to finish, but did skip over some of the tables and figures. Here are some takeaways from the book, which are amply supported by the data presented:

1. The basic cause of financial crises is debt, taken on in good times, which cannot be supported when reverses occur and/or lenders lose confidence. Sometimes the debt is issued by banks and other private firms (banking crisis), sometimes the debt is issued by governments (sovereign debt crisis), and not infrequently the second type of crisis follows the first.
2. Banking crises have been experienced over the years by developing and developed countries alike, but until recently it was thought that developed countries had graduated from sovereign debt crises. It now appears that this conclusion may be wrong.
3. The so-called "Second Great Contraction" is the first global financial crisis of the post-World War II era. It is necessary to go back to the Great Depression in the 1930s to find an economic crisis of comparable size and scope. Nevertheless, striking parallels exist between the current situation and lesser country or regional financial crises of the past 60+ years. Notably, the postwar data show that a banking crisis typically results in a big run-up (86% on average) in government debt over the

next three years. (See Figure 10.10, page 170.) No wonder that a sovereign debt crisis often follows a banking crisis, and may yet do so in the current situation.⁴ Another important insight is a greater role for domestically held debt in government debt crises than had generally been assumed. Other analysts may have gone astray, apparently, because domestic debt data are harder to come by for many countries than external debt data. Factoring in domestic debt helps to explain why so many countries have experienced debt crises at what appeared to be manageable debt levels. Typically, governments are more reluctant to renege on domestic than external debt, for which reason debt crises involving domestic debt tend to be more pronounced and of longer duration. However, the data do not resolve the policy questions - they simply establish that the answers are important. A. As for whether the U.S. government should pull in its fiscal horns or continue trying to stimulate the economy in hopes of promoting a hopefully rapid recovery, the authors say (page 290) "the surge in government debt following a crisis is an important factor to weigh when considering how far governments should be willing to go to offset the adverse consequences of the crisis on economic activity." Well, that certainly settles the question! B. Can future financial crises be avoided, and if so how? The suggested answers boil down to demanding better data (Moody's ratings, etc., are ranked at the bottom of the spectrum), empowering some sort of international financial institution to ride herd on profligate national governments, and a lot more humility. Chapter 17.

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.