

Reinhart, Carmen & Rogoff, Kenneth - This Time Is Different*Princeton University Press, 2009, [Economics] Grade* ★★★★★

It's very rare for a book to become an instant classic, but this book made it. The reason was the subject, a great work effort and the perfect timing of the book. In 2009, when the financial crisis reached its nadir, this book seemed to give some answers on what had happened and what will happen going forward. The authors have impressive resumes. Kenneth Rogoff, formerly at FED & IMF is currently professor at Harvard and Carmen Reinhart at the National Bureau of Economic Research etc. Both of them have continued to be very important in the current debate. Not the least Mrs Reinhart, who a year ago started to talk about "financial repression", which since then has proven to be a new concept which everyone talk about. Google it!

Reinhart and Rogoff have built a huge database, with economic data spanning over 800 years and 66 nations. The basic message from all this data is that there are remarkable similarities in today's financial crisis with experiences from other countries and nations, i.e. this time is not different. The common theme is that any excessive debt accumulation (by governments, banks, corporations or consumers) often brings great risk and is difficult to deal with as imbalances build up, as "everyone" looks like a winner. 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). The basic problem is that large-scale debt build-ups has a lot of short term winners who all enjoy the rally but they make an economy vulnerable to crises of confidence.

The book is divided into 6 parts, which is very helpful, since it's easy to navigate to areas which the reader wants to focus on. If I simplify a bit, part 1-4 is about how they did their research, built up the database, some theories and a lot of

charts and tables. It's somewhat difficult to read because of the huge amount of data but it's very impressive. I would like to highlight chapter 10 and chapter 12, banking crises and inflation as especially readable to better understand where we are now and what we can expect going forward. However, if you are like me, you will find the most interest in the texts about the latest financial crisis. This is discussed in chapters 13-17, and can be read as a standalone. Bottom line is that the US showed all the standard signs of a financial bubble just prior to the financial crisis.

The book is a highly recommended read for everyone who wants to better navigate the next decade. In general people, even very senior ones, have experienced a limited number of financial crises. This book gives you an easy access, to all financial crises, with quantitative conclusions. And the authors' basic message is simple: we have been here before. On average real house prices fall 35% over 6 years, the stock market falls by 56% over 3-4 years, unemployment rate rises on average by 7 percentage points over 4 years and government debt increases by 86%. Clearly, this has been and will continue to be a problem. The authors' goal with this book is nothing less than to improve the global financial system, reduce the risk of future crises and better handle financial catastrophes as they happen. Personally I think that anyone reading this book will be much more conservative going forward. However, I highly doubt that, it will be different in the future. Human behaviour is hard to change.

If you need one more reason to read this book, read this. *"I would say that her [Carmen Reinhart's] book with Ken Rogoff on debt crises and financial crises is an extraordinary piece of work."* - Federal Reserve Chairman Ben Bernanke, speaking before the House Budget Committee (6/9/2010).

Bo Börtemark, April 19, 2012