This Time is Different: Eight Centuries of Financial Folly

Carmen M. Reinhart and Kenneth S. Rogoff. Princeton University Press, 2009; 463 pages; £19.95
Reviewed by Stephen Buckles

Carmen Reinhart and Kenneth Rogoff have put together a fascinating tour of world financial history over the past eight centuries. The contribution of the work is to place a variety of financial crises in perspective. The text is completely convincing that financial cycles are normal and to be expected.

The work is one-fourth data appendices and a variety of brief summaries of past financial crises. Those data and crises descriptions provide researchers, paper writers and teachers with a wide variety of source material, examples and references.

The theme is met early on when the writers state and then eventually show that 'all the red lights were blinking in the run-up' to the current crisis, but were ignored due to widespread assumptions that this time is different. They demonstrate convincingly that 'this time is different' is a common theme and assumption among financial institutions, investors, economists and policy makers.

Reinhart and Rogoff divide their work into discussions of sovereign defaults, both domestic and foreign, exchange rate crises, inflation crises and banking crises. The financial crisis of the late 2000s is only the latest manifestation of the theme. Their clear explanations of shared causes and common traits of all of the types of crises make it much easier for a researcher, writer or teacher to understand the commonality. If you ever catch yourself thinking or saying that this time is different, pick up this book again. Look through the summary tables. You will quickly remember how common that thought has been, and how foolish the thought is and will continue to be.

Many readers will at first be overwhelmed by the number of examples and the data summaries; do not let that stop you. I recommend that you do not read the entire book straight through. Instead, you should read chapters for a specific type of financial crises – banking, currency, external and internal sovereign debt, or inflation. The currency debasement discussions in the early parts of the book are also instructive.

If you are interested only in the current crisis, then chapters 13 and 14 are 'must read' chapters. They are relatively self-contained and bring a fresh look at what led up to the current crisis, the warning signs and the so obviously wrong 'this time is different'. The chapters are clear about who sent warning signals and why they did. The authors are just as clear as why more observers and participants argued that this time is different, clearly demonstrating just how seductive that trap can be.

This reviewer has been perplexed as to how the economics and financial professions largely missed understanding the events leading up to the most recent crisis. The authors answer those concerns clearly and convincingly.

When a reader finishes this work, he or she will not be surprised to learn that the Greece/European Union sovereign default issues of 2010 were preceded by Greece being in default for 100 of the past 200 years. But maybe this time is different. Perhaps, we should not worry because of the reduction in risk provided by the existence of credit default swaps on Greek sovereign debt.

The book is a rich source of analogies and explanations for faculty writing and lecturing at a wide variety of levels, particularly for those teaching macroeconomic policy, trade policy and economic development courses. I cannot imagine discussing macroeconomic policy or financial markets at the introductory economic level or within advanced courses for majors without using some of the analysis and historical examples found in Reinhart and Rogoff. It should be a great historical example source for students who are writing research papers and honours theses on current and past financial crises. The data sources and past research reviews are a goldmine for interested student writers.

The book itself is not appropriate for most undergraduate courses nor do I believe that it was intended to be. Some chapters or sections may well be useful and appropriate for more advanced policy courses. An advanced undergraduate course focusing on sovereign debt, currency, banking and inflation crises could successfully use the work as a primary text. But be forewarned; the book is comprehensive and will be challenging for many undergraduates.

For faculty teaching those courses and for graduate students considering writing in these areas, the book is essential. It will help readers understand the causes of economic crises, the warning signs that a crisis just might be developing, and perhaps most importantly, that this time is not different.

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