

# Book Reviews by Ian Robertson



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**Title:** *This Time Is Different: Eight Centuries of Financial Folly*  
**Author:** Carmen Reinhart, Kenneth Rogoff  
**First Edition:** Princeton University Press (2009)  
**Reviewed:** April 2013



This book is different; already an important and oft-cited contribution to our understanding of financial crises, this book will likely endure as both a turning point and a benchmark for economists and policymakers alike. Reinhart and Rogoff compile and synthesize centuries of economic data, draw both facts and inferences, and offer some predictions as to how the global financial crisis that began in 2006 with the U.S. housing collapse might continue to unfold. This is a truly remarkable and important work. It requires some effort to read, but at the authors' suggestion, readers can skim or skip some of the more technical parts with no loss of continuity. In fact, those with an interest in only the recent financial crisis can read just the final chapters (13-17) and be well rewarded for their time.

## Rating:



Out of 5 Stars

Because it is primary research and because of its analytical rigour, this is first and foremost an academic text. Unlike most academic works, though, it is bereft of formulas and statistical analyses, instead relying on readers' familiarity with a bit of (economic) history and geography. This is the first work to compile such an extensive set of economic data (66 countries over almost eight centuries), and differs substantially from earlier academic works such as Charles Kindleberger's *Manias, Panics and Crashes*, which had previously stood as the best *chronicle* (i.e. not 'analysis') of financial folly. In Reinhart and Rogoff's book, successive sets of historical data are explained and inferences or lessons drawn. As the lessons progress, we see that indeed it never is different; financial folly has endured for centuries and the card houses have fallen each time.

The authors identify four types of crises: sovereign defaults (domestic and international), banking crises, exchange rate crises, and very high inflation (above 20% annually). Each is explained in detail in different sections or chapters, with additional chapters focussing specifically on the recent sub-prime mortgage meltdown and some prescriptions for today's policymakers.

With respect to recent policies, Reinhart and Rogoff note that financial sector deregulation results in increased risk-taking and state that "financial innovation is a variant of the liberalization process." Banks' self-congratulatory statements about the societal benefit of decades of new financial products suddenly appear in a different light; not just risk management tools (and profitable products for banks), but rather contributors to increased systemic risk. Turning their attention to the inevitable systemic collapse and resultant ballooning government debt levels, the authors note "on average government debt rises by 86% during the three years following a banking crisis." While the debt levels may be alarming, it appears they are the inevitable short run consequences of a debt bubble.

So it's not different this time after all: financial bubble, ballooning government debt, and then ... inflation? For those who worry about a recurrence of inflation, the authors illustrate the remarkable similarity over the centuries (even millennia) of currency debasement (the dilution of precious metal content or size of coins) and the modern era's periodic high inflation. In their words, "inflation and default are nothing new; only the tools have changed."

The chart accompanying this section showing 500 years of annual inflation rates is truly astounding, and shows one consistent pattern to the early 1900s, and a quite different one from then on. What changed a century ago to cause this shift? The advent in the U.S. (and elsewhere) of central banking, the rapid development of our modern fractional reserve banking system, or perhaps the increased leverage?

This is a remarkable and thought-provoking book providing a sweeping historical overview, thoughtful analysis, and relevant commentary on our current economic and financial situation.