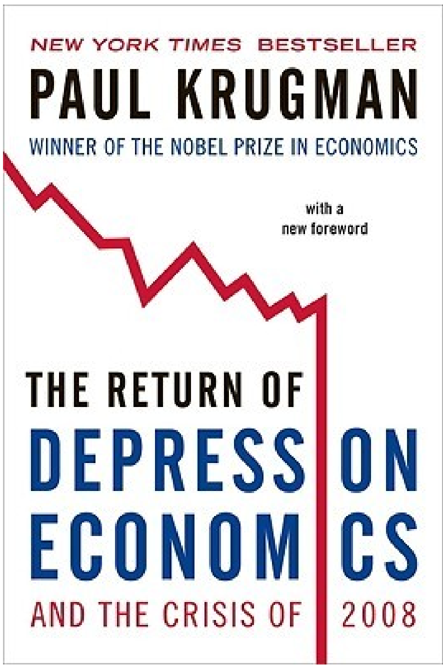

The Return of Depression Economics and the Crisis of 2008

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In 1999, in *The Return of Depression Economics*, Paul Krugman surveyed the economic crises that had swept across Asia and Latin America, and pointed out that those crises were a warning for all of us: like diseases that have become resistant to antibiotics, the economic maladies that caused the Great Depression were making a comeback. In the years that followed, as Wall Street boomed and financial wheeler-dealers made vast profits, the international crises of the 1990s faded from memory. But now depression economics has come to America: when the great housing bubble of the mid-2000s burst, the U.S. financial system proved as vulnerable as those of developing countries caught up in earlier crises and a replay of the 1930s seems all too possible.

In this new, greatly updated edition of *The Return of Depression Economics*, Krugman shows how the failure of regulation to keep pace with an increasingly out-of-control financial system set the United States, and the world as a whole, up for the greatest financial crisis since the 1930s. He also lays out the steps that must be taken to contain the crisis, and turn around a world economy sliding into a deep recession. Brilliantly crafted in Krugman's trademark style--lucid, lively, and supremely informed--this new edition of *The Return of Depression Economics* will become an instant cornerstone of the debate over how to respond to the crisis.

The Return of Depression Economics and the Crisis of 2008 Details

Date	:	Published December 1st 2008 by W. W. Norton & Company
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From Reader Review The Return of Depression Economics and the Crisis of 2008 for online ebook

Trevor says

This isn’t nearly as good a book as it could have been – the book it could have been is Freefall: America, Free Markets, and the Sinking of the World Economy, which, if you were looking for a book to read on the GFC that is quick, easy and jaw-dropping, that is the one I would recommend.

This book was really looking at the Asian Financial Crisis, but has been updated to include information on the GFC of 2008.

The most interesting parts of the book relate to the need to re-regulate the financial system. When capitalism is booming there is a general desire by capitalists to get rid of all regulations. However, it is precisely this removal of regulations that sets up the Ponzi schemes (what used to be called Pyramid Schemes) that inevitably lead to bubbles and in their turn to crashes. Capitalism’s worst enemy is its own excessive self-belief. Was there ever a boom in which the participants did not claim busts had become a thing of the past? Was there ever a boom in which participants warned that things might be getting out of hand or attempted to do something to take the heat out of the boom before the inevitable bust?

With the smashing of the wealth of Middle America, with the crushing impoverishment of large swathes of the US population (lose your house and you lose most of your wealth), it will be interesting to see what happens next. Will the vast majority of US citizens just roll over and take the consequences of their financial security evaporating into thin air? Will the majority of Americans continue to accept that the only way to have a secure financial future is to direct ever more billions to the people made rich in the bubble and who remained rich after it burst? So far it looks like the most likely outcome of the GFC is that the Republicans will be re-elected in the next election. The most likely outcome of that will be another round of excessive social security directed at the already obscenely wealthy. The kind of reverse Robin Hood syndrome you would think most people would find revolting in the extreme, but that the poorest seem to cheer along with as long as Fox News is singing its praises.

We live in interesting times. It is hard not to be pessimistic, in fact, I’ve given up trying.

Peteralee1 says

First, I'm not a huge Krugman fan to begin with, so keep that in mind. I tried to be as objective as possible when reading his book, however.

Most of the book is just background of various financial crises of the past 100 years. Of course in hindsight, Krugman in all his wisdom can see how if the different parties in the crises had just done what he thinks they should have, everything would have turned out fine. I'm not an economist, so I can't really argue intelligently about his conclusions. Maybe he's right. But who cares, that's all in the past.

When it comes to the current crisis, he comes out with a whole lot of nothing. Maybe I missed it, but there was no big "here's how we fix this". Maybe that wasn't his intent, but it sure felt like he was leading up to that sort of moment. So overall, I was left with a distinct feeling that there really wasn't a point to his book except for him to make money. Luckily I didn't help with that, someone else bought the copy I read.

Julie Christine says

My hope is that a) this book is on the nightstand, desk, bathroom book caddy, and coffee table of every economic policy wonk this side of the Potomac (and the other side, too!) & that b) these wonks read it. Krugman, who wrote this book in 1999 and updated it during the 4th quarter of 2008, clearly and succinctly presents the multiple case studies, warning signs and missteps that led to our current economic crisis. From Mexico and Argentina fiscal failures in the 1980s and early 90s to the Japanese recession and the Asian Tiger meltdown of the 90s to the tech stock and housing bubbles bursting in our own country, Krugman offers concrete insights as to the why and well-reasoned solutions that we could have and still can use to pull ourselves out of the quagmire.

Any fan of Krugman's and anyone new to his philosophies will appreciate his lucid, layman, refreshing writing style. He does not present his facts and opinions with the doom and gloom of a partisan propagandist. He speads the blame and the praise equally and there is always a gentle sense of humor and a respect for the intelligence of his readers. Big hand clap for this Nobel-winning economist. I feel better knowing such calm and wise minds continue to speak loudly in defense of common sense and compassionate economics.

Brian says

Paul Krugman, if you haven't been paying attention to economics for a while, writes a column for the New York Times. He has a reputation as a modern-day Cassandra, who repeatedly describes the state of modern economics and lays out policy goals for how to fix them, only to not be listened to by anyone in power. His columns have definitely become more annoyed over the past five years because of that, and he even has his own image macro:

...which is honestly pretty appropriate, considering the utter idiocy coming from both sides of the political divide nowadays (thought not in equal amounts, admittedly)

But this book was written before any of that happened! Long before, actually--the original The Return of Depression Economics was published in 2000 in response to the Asian financial crisis of the late 90s, and this version updates it with additional thoughts about the banking crisis of 2008 and how its roots are traceable in the same sort of problems that caused the Asian financial crisis.

I originally had this as five stars, but changed it to four stars after a bit of thought. The why is down at the end.

Most of the beginning of the book is a parable of economics in the form of the Capitol Hill Baby-Sitting Co-op. A group of couples composed of staffers on Capitol Hill get together and start a baby-sitting co-op, where they agree to provide baby-sitting for each other. They print up a bunch of coupons, distribute them evenly to all founding members, and each coupon is good for one hour of baby-sitting. Anyone who wants to go out more will have to baby-sit more and save up the coupons to spend later. Here, you have the basics of an economic system.

Now, what happens if a group of couples are worried that in the future, they'll want to go out several nights in a row, and maybe a bit after that, and they won't have enough coupons saved up because the supply is limited? They stop going out now and start looking for more opportunities to baby-sit. The problem is, that reduces the pool of available baby-sitting nights for everyone, so pretty soon more people start worrying that they won't be able to go out when they want to, and *they* stop going out, which makes things worse and worse as more and more baby-sitters are chasing fewer and fewer baby-sittings.

Congratulations! You're in a recession!

The main reason Krugman brings this is up is to show how malicious or stupid (or both) most arguments about recessions tend to be. It's not because workers are lazy, or because their skills don't fit the new economy, or because regulations are too tight, or because of some quirk of "Capitol Hill culture," or whatever the excuse is. Perfectly rational people can drive an economy into recession by following perfectly rational goals.

One way to fix this is for the co-op to issue more coupons. If the supply of coupons is larger, than the couples worried that they won't have enough coupons will be assured that there will be plenty of chances to get them, so they start going out now, thus increasing the supply of chances of baby-sit, thus mollifying everyone else who was worried, and bringing things back to normal. And that's why banks issue more money during recessions, and what the point of quantitative easing is.

Another way is for coupons to devalue over time. Since fewer people want to go out in the winter, the logical choice for any single couple is to baby-sit in the winter and go out in the summer, but that leads to supply issues in both seasons. But if each coupon buys one hour of babysitting in winter, but only 45 minutes of babysitting in the summer, couples have an incentive to spend them instead of hoarding them, thus keeping them circulating, and so the co-op economy survives. And that's why persistant inflation can be a good thing.

Obviously, this is incredibly simplified, and in a real economy there are dozens or hundreds of other things to consider, but it's a surprisingly good example for how concise it is and how silly it seems.

I don't want to go into too much detail about the various crises covered in the book, because Krugman does an excellent job, but a lot of them come down to three things: A) speculators gonna speculate or B) failure by the government to properly regulate or C) moral hazard.

Moral hazard is probably the most immediately relevant to Americans like myself, since it's a huge reason for the banking crisis that's currently still going on and was never properly dealt with. The basic principle is that betting with other people's money means you don't really care as much when you lose, and most of modern finance is betting with other people's money without risk--the government will always bail out the banks, then if they win they keep all the money, and if they lose they suck the extra from the government, and thus win either way.

> "I have had men watching you for a long time and I am convinced that you have used the funds of the bank to speculate in the breadstuffs of the country. When you won, you divided the profits amongst you, and when you lost, you charged it to the Bank. ... You are a den of vipers and thieves."
> -Andrew Jackson

And almost 200 years later, things aren't that different.

The book says that austerity is precisely the wrong way to deal with the kind of crises depicted within, because seizing up a market further when the flow of money has already been choked will just make things worse. And in the years since this was written, with what's happened to Europe and it's own policies of austerity, which have multiple times threatened the very existence of the Euro and brought Greece to the brink of financial apocalypse (youth unemployment is above 50%)...well, no wonder they call him a modern Cassandra. Here is the warning, and it was not listened to. He suggests that the government temporarily nationalize the banks and directly lend to the consumer while the financial system was sorted out. Unfortunately, due to supply-side idiocy and Protestant work ethic moralizing that economy needed to "suffer" to purge out the "rot," none of that happened.

And now housing prices in Southern California are approaching or exceeding the level they were before the crash, bank profits are at an all-time high, and unemployment remains above 7%. Crash 2.0, anyone?

Unfortunately, the book loses a star from me because I don't think that the solutions proposed really work. Krugman says that governments need to be sure to regulate the "shadow banking system" that provides a lot of the benefits of the actual banking system without the same restrictions. Most of the solutions are on the national level, but as Krugman admits, a lot of the problems were caused by global finance, and without any sort of international organization to regulate that, the end result of regulations in any individual country are the creations of more Monacos and Cypruses and Canary Islands.

> Exactly what form the next response should take isn't clear, but financial globalization has definitely turned out to be even more dangerous than we realized.

Indeed. But if we, and Europe, can't even handle our own national financial systems, how can we regulate the international system?

If only we had an answer.

Andrew says

Mostly very good. Krugman's claim at the front of the book that he intends to make it more readable to the wider non-economic savvy public doesn't really hold up by the end sadly. There are many head-scratching paragraphs that I had to read multiple times to properly understand. Economics to me is like most sciences, I'm sorry, but no matter what people say, they are the sort of subjects that can never be fully accessible to the average Joe. The very nature of their subject requires jargon, near impenetrable concepts and a hefty dose of a good Maths background to properly appreciate.

Still, Krugman is better than most, and has some very funny turns of phrases here and there. His baby co-op metaphor at the beginning of the book for the way the housing market was treated by banks was particular inspired, and an excellent way to clarify the complex clusteruck of CDOs, sub-prime mortgages, derivatives and others that lead to the crash.

Overall, his analysis is one I agree with. Unregulated banking, along with their wanton stupidity and their ever increasing, never ending demand for more money (that all capitalists share alike) led to the collapse. Not, as the pernicious, worthless, dishonest little scum in the UK Conservative Party have managed to suggest, because of Labour's spending (A ludicrous claim. How does a spending deficit cause a banking collapse?)

Krugman provides a clear, insightful, hugely detailed outline of how things went wrong, and subsequently gives an informative plan for a global recovery. Sadly, the book, being published in 2009, now seems a disappointingly lost cry, as his plans for a worldwide economic recovery (V.Keynesian spending and growth increases) have not been pursued. In actuality, we have the perverse situation in which a neo-liberal free market capitalist failure is trying to be resuscitated with a neo-liberal, free-market capitalist solution. In continental Europe it's been an absolute disaster, with mass unemployment and huge political and economic unrest stemming as a result of it. In the UK it would seem to be on the surface doing much better (high employment, low inflation etc.) which is a shallow cover for a deeply flaky recovery, with jobs being self-employed, very low paid until very recently, on zero-hour contracts, and with no chance of it being a long-term secure recovery. It may well be shown to be made of sand when the winds of another economic judder (which under neo-liberal free-capitalism is almost certain) possibly putting people's lives at risk again.

Also, the wider and more crucial point to make is that austerity, if not an economic red herring based on shaky and ill-founded principles (the report George Osbourne used to justify his austerity plans were subsequently proven to be dogshit, which numerous data errors in it), has utterly failed on a moral level. It is an absolute obscenity to humanity.

It has produced a destroyed NHS health care system, which (as Noam Chomsky has so astutely identified) is a classic case of stealth privatisation, where you defund something to the point of collapse, look at the numerous failings, let the media go "look! See! Public services don't work!" and then usher in for the private vultures to come and feast on it.

The benefit social security system has ripped to pieces, with the mass majority of people who need benefits to, you know, live, being cruelly stripped off it, leaving them starving and reduced to poverty because of the fanatical determination of the Conservatives to stamp out the minuscule crime of benefit fraud (which counts for something like 3.0% of benefit spending). Disabled people have suffered even worse through the social cleansing programmes, being chucked out of their wheelchairs in order to be shunted back to work, and sometimes actually killing themselves out of despair.
For the youth of today, they have seen public education struggle, their EMA cut, and higher tuition fees.

For women, lack of money into the police force they are failing to record 800,000 crimes a year, including one in four sex offences in the UK. Also, 74% of austerity money grabbing has come from women's pockets, with women now being the majority of low-paid workers. Women are left caring for both small children and the elderly as their childcare services are cut. Funding for refuges and rape crisis centres has also been cut.

At local levels, councils have essentially become a pointless club where councillors and local MPs meet to sit around twiddling their funds, as local government money have been so slashed it has left services such as local NHS hospitals in dreadful states, and libraries constantly under threat of closure, and with little to no power left to them.

I could go on. There is a litany of abuses and abominations committed under the guise of a rational "technocrat" way of dealing with the economy. It is of course, not technocratic, but deeply ideological. The right wing have always hated the concept of the state. They've always hated social democracy. They've always hated the idea of helping the poor and protecting the weak. They've always sneered and spat on the concept of a society worthy of being called one, where the poor, the working, women, ethnic and racial minorities, the disabled and the young are treated equally and with fairness and decency. They've harboured these hatreds since the end of WW2, but put on a brave face and pretended to go along with the enormous social and economic changes produced after WW2. Thanks economic crash, it has given the Right the chance to utterly and finally destroy the state, and drag us all back to their utopia of the 1930s reborn. Their decades long plan to get rid of all that "universal suffrage bullshit" (in the words of fanatical Right-winger and hack blogger Paul Staines) is nearly complete.

I feel glad that people like Paul Krugman are around to constantly poke holes and demonstrate the lies and idiocy surrounding right-wing neo-liberal thinking. I only wish more people had listened to him. The three stars is because although very detailed, and containing a vast knowledge of economic catastrophes of roughly the past 30 years, it’s still quite dry. It acts more like a textbook sometimes than a work of political theory (which is probably what it was meant to roughly be :/). But it is still very erudite, and a great educational tool for understanding the mess we're in now.

In conclusion, when reading Krugman's account of the myriad of economic recessions and crashes from the 80s onwards, finally ending in its tragic crescendo with the 2008/09 crash, never before have Marx's words about how under the constant insatiability of capitalism "All that is solid melts into air, all that is holy is profaned" seemed so apt.

Daniel says

This is an excellent review of the reasons why the American economy has turned into the debacle that is before us. Must read explanation at the end of Chapter 8 which dispels all the partisan B.S. and fingerpointing about the alleged causes behind the meltdown and focuses blame where it should properly reside.

Very interesting as well is the way that he deals with "moral hazard" not making judgments but allowing the reader to determine if this is a factor in causing fiscal chaos or not. How much of economics is just an extension of psychology and sociology? Well, Krugman doesn't say, but he shines a light on the topic and lets you decide. Market prejudices, self-fulfilling prophecies, short-sale exacerbation of problems are all presented in matter-of-fact positions that outline them as trip-wires in the process without calling them good or bad. He takes on the Keynesian notions of free-market and explains why Paulson's TARP and stimulus packages should work, but at least freely admits when they aren't as effective as predicted.

A great and easy read for the layman trying to understand the difficulties of the current economic crisis.

Daniel Solera says

Though I have a reasonable grasp of the current global financial crisis, I wanted to know a little more about its inner workings. After reading several articles by Paul Krugman, I decided to pick up his book, especially since it now has updates from the 2008 financial crisis.

Krugman strikes a fine balance between simplifying global investment banking and unloading the economist jargon. In order to explain the basic characteristics of a recession (and several other market fluctuations) he uses the parable of a babysitting co-op, where each family has coupons worth 1 hour of babysitting that they can earn, spend and save. The simple transactions between couples signify market activity and resources. Eventually, even this parable gets a bit involved, but serves its purpose well.

Though I must admit that many of the book’s topics were over my head, I did come out with a better understanding of global banking. One particular point of interest concerned what Krugman calls the "Keynesian Compact", an unwritten agreement between the public and the state, which says that the citizenry of a given nation will respect and practice capitalism as long as the government can keep the system running and able to withstand crises.

It is with this understanding that Krugman wrote this book in the first place. He argues that the Great Depression gave the world a taste of financial catastrophe but also provided the history and macroeconomic theory to prevent future collapses. Despite that, there have been many brutal recessions that could have been avoided had policy-makers taken the proper steps. Krugman details the events that led to the Tequila crisis in Mexico of 1994, Japan's Lost Decade, the Asian crash of the late 90's and Argentina's crisis of 2002. For good measure, he throws in a de-glorification of Alan Greenspan.

Finally, he ties it all together with the Hydra that is our current financial crisis, one that combines calamity in housing, credit and currency. Although his attitude is cautious optimism, it is apparent that we're not out of the woods yet. For anyone looking for a succinct breakdown of the current financial crisis, this book does the job.

Peter says

Good book. A little light on specifics, but only because the scope was so big. Krugman is thinking about some of the collapses in several non-us economies during the 1980'0 and 1990's. He makes a case that serious turn downs are not a thing of the past and wonders why these down turns are handled without regard to what is known about economies suffering from lack of consumption. He makes it quite clear that the global financial economy (he is writing in 2000) is a difficult and complicated affair to which crisis is and probably will be a regular visitor. He advocates trying lots of things and stepping away from too much orthodoxy. It all seems like good sense. I thought some of what he was saying about Japan was really quite interesting. I had never really understood how controlled inflation works to simulate spending in an economy hunkered down in a liquidity trap. I wonder if it would work?

There were several things the book got me to thinking about: (i) I wonder when we will be more discriminating about the nature of the growth in an economic expansion. All growth is not the same. And (ii) How does one put into effect regulations that might restrict the incentives for investments for which moral hazard is an issue.

Several thoughts occurred to me, all of which amount to cleaning out the investors involved, abandoning the usual notion of what it means to maintain conference in a market place and instead actually invest money equal to the loss at the top into the economy at the bottom. If investors, hedge funds and managers of our so called public companies were to be the big losers when a company fails, or when they try to manipulate markets that are not and probably cannot be protected by the law, and the workers in aggregate (which now means seems to refer to anyone earning less that 500,000 a year) would not be hurt, who knows what would happen? I certainly don't. But I am going to think about it some more.

Tim Owens says

Two generations ago we solved the economics of the great depression of the 1930 19s and many economist thought it wouldn 19t happen again. Unfortunately we still don 19t learn from our mistakes. Paul Krugman uses a baby-sitting co-op as his economic model to explain how an economy can become imbalanced as to supply and demand. The US has been ignoring the demand side of this equation.He next explains recent economic crisis in Latin America and Asia, before addressing the panic of 1907 and the great depression of the 30 19s. His explanation of what has happened recently to cause our current recession is relative to these previous crises. How we get out of this mess isn 19t rocket science since we 19ve been here before, but unfortunately our economic ignorance isn 19t allowing our political will to go back to what we already know. Most fascinating to me was the strange resemblance the 1907 panic is to today 19s problem and the development of the shadow banking system. Anyone who has taken econ 101 or paid close attention in high school econ class won 19t be surprised by the solutions offered.

Will Byrnes says

This is a reworking of a book Krugman released in 1999, now new and improved. It is a popular-audience piece on the current economic debacle, focusing on the mechanics of banking. Krugman gets what is going on in the world of economics better than just about anyone. The Nobel committee would agree. He links the current downfall to several that have come before across the world and shows how we have arrived at a sort of financial perfect storm condition. It is readable and very incisive.

Mark Valentine says

I read this because I wanted to hold an informed opinion about the recent financial crisis both to help me interpret many of the headlines that have appeared lately and also to help me understand just how bad it is--I mean, really, is this going to be the unraveling that will cause us to implode? Krugman clearly taught me well on both counts. Reading the initial chapters (about Japan's economic crisis in the late 80s and 90s, Argentina's in 2002, Thailand in the late 90s) I thought less beneficial until I saw how he referred to them in the later chapters. By the end of the book, I saw that his initial chapters were clearly needed for a full understanding of the what ails us. The last three chapters are worth the price of admission alone.

Take note of some of these choice sentences: "I'm tempted to say that the crisis is like nothing we've ever seen before. But it might be more accurate to say that it's like everything we've seen before, all at once: a bursting real estate bubble comparable to what happened in Japan at the end of the 1980s; a wave of bank runs comparable to those of the early 1930s (albeit mainly involving the shadow banking system rather than conventional banks; a liquidity trap in the United States, again reminiscent of Japan; and, most recently, a disruption of international capital flows and a wave of currency crises all too reminiscent of what happened to Asia in the late 1990s" (p. 165-6).

Most of the book deals with factual and detailed economical policy and since my background is in Liberal Arts, I was able to follow most of it gingerly even though it may be dispassionate reading. There are only a few times in the short book in which Krugman gives financial and moral advice. Here is one: "Nothing could be worse than failing to do what's necessary [to recapitalize the financial sector with stimulus money] out of fear that acting to save the financial system is somehow 'socialist'" (p. 186).

Finally, literally, the last sentence of the book (how can it be a spoiler if there is no plot?): "Some people say that our economic problems are structural, with no quick cure available, but I believe that the only important structural obstacles to world prosperity are the obsolete doctrines that clutter the minds of men" (p. 191).

I am glad I read this book.

Kristian Hermansen says

I just finished reading "The Return of Depression Economics and the Crisis of 2008" by Paul Krugman, recipient of the 2008 Noble Prize in Economics. Great read. This book, given as a gift to me by my step-mother for xmas, turned out to be a real gem. Putting it all into perspective, I believe I have a better understanding of how complex economies of scale seemingly always return into major depressions for some time, even despite vast regulations meant to compensate for sharp short-term fluctuations.

In the book, we revisit the crises of mid-90's Mexico (aka. The Tequila Crisis), 97-98 Asian markets, 2000 US market, 2002 Argentina crash, and the recent 2007/8 US and world market collapse. Most of these crashes can be attributed to situations where the markets distance themselves too far from market fundamentals. Unregulated activity and financial loopholes allow some speculators to take advantage of many situations. In the case of Britain in 1992, George Soros was able to net a cool 1 Billion dollars in a short amount of time, merely by provoking the GBP to deflate. I knew this story in passing already, but the book has the gritty details of what made this possible.

Additionally, I learned more about the IMF, and how the US utilizes them to bail out flaky third-world economies to ensure that they don't fall into complete disarray, thus perhaps ensuring their dependence on the US even further, and thus perhaps even enslaving them to our superiority. Hrmmm, chew on that :-)

In conclusion, I now recognize the gravity of the crises we are currently in. If the book is correct, our markets are in for much more damage in the coming months. Be prepared! Also, we probably won't find our way out of this official depression until 2010, judging by the data presented. We will also likely see a stimulus on the order of 4% of US GDP at least. Much of this, the author claims, would be wise to place into infrastructure revitalization, since this slump will probably be longer lived than most, thus ensuring longer term projects are more formidable. Interesting stuff. Let's see what happens!!

Cheers and happy new year...

Mark Lawry says

Many people hate economics because economists tend to argue. This would be like listening to two doctors in the halls of a hospital debating treatment options and deciding that because doctors don't always agree on such things this means modern medicine is of no value. Surely this would be a very bad takeaway. I tend to be an ardent supply-side guy myself. Krugman is a demand-side guy and loves to mock guys like me. I get it. For this reasons many of my friends hate him and find him arrogant. That's ok, many people correctly think I'm arrogant. That being said, Krugman is a must read if you have any interest in economics or finance.

One thing he points out in this book, he is not a socialist. Being a liberal does not make one a socialist. He mocks (as he does so many things) the very idea. He does not advocate the nationalization of industries. During the recent Iceland crisis banks were nationalized and then privatized as soon as possible. One of the ideas he argues in favor of here. From the perspective of the 2008 crisis. He stressed at the time of writing that any such solution should be temporary as in Iceland.

If you were an investor during the last few generations and you want to know why you lost a lot of money in one crisis or another here's your book.

Jun Chen says

This book re-ignited my interests in economics and put my college economics knowledge to shame - I had to stop from time to time and Google the terms & incidents. Keynesian vs. Austrian economics, etc. This book offers a broad review of global economic crises and government & central bank policies and solutions; and it asks some of the most important questions: how could this one single incident have this global repercussion, what we can really learn from them, etc. Paul Krugman discussed these supposedly boring and complicated phenomena in clear language and fun analogies ("Capitol Hill Baby Sitting Coop"!). I will definitely re-read the book again, and will research on the names & books mentioned are worth. A brilliant mind. I feel fortunate to be able to read this brain.

Hieu Cao says

In how many ways can economic crises happen? Paul Krugman answers: “a lot!” In his book "The Return of Depression Economics," Krugman thrills us with the fact of how little we know about crises, how vulnerable our financial system is, and how dangerous globalization could be. In fact, he gives us three reasons to be obsessed about our economy: the breakdown of Japan, the vicious circle of financial crisis, and the haunting ghosts of non-bank banks.

From 1953 to 1973, Japan stunned the world with its miracle of transforming into the second largest economy from the destruction of World War II. The economy of Japan was superior with well-educated workers, state-of-art technology, and high saving rate. Krugman points out two important sources of Japanese propensity: a prudent government with strategic designs and distinctive economic style with protections for major companies from short-term financial pressure. The result of this system was "a country able to take a long view" and develop stable development for strategic industries "one-by-one." Some would think that the propensity of Japan is unbreakable. No, it is not. The irony is that "those same distinctive characterizes - the cozy relationship between government and business, the extenuation of easy credit by government-guaranteed banks to closely allied companies - come to be labeled crony capitalism and seen as the root of economic malaise." More traumatically, the direct cause was just a slight deregulation by the Japanese government over banking system; the government gave banks "more freedom and more competition." A land bubble at the beginning of 1990 was the only need to make moral hazard spread throughout Japan's financial institution. The bubble burst and Japan's economy plummeted. Hence, Krugman shows us the first two ways that a sound economy can go wrong: crony capitalism and bank deregulation.

The next obsession that Krugman notices us is the vicious circle of financial crisis. This nightmare circle starts with one eerie word: panic. The distressing truth in economics is that “the panic itself makes panic justified.” Similar to Japan, Thailand experienced estate and stock bubbles during 1990s, and suddenly, the bubble burst. The confidence in Thailand’s currency and economy shrank, and thus, in panic, investors exchanged baht for dollars or yen and plunged the value of the Thai currency. Meanwhile, the Thai government was stuck with the confidence game and had to raise interest rates. Consequently, financial institutions and companies were caught in a double trap of rising-value-dollars, and rising-interest-baht debts. The combination of baht depreciation and high interest rate ultimately sank the economy in deeper recession, which further washed away the confidence. The financial crisis fulfilled its vicious circle of melting down Thai economy. More importantly, panic is contagious. “It turned out that whatever the differences among all those economies, one thing they did have in common was susceptibility to self-validating panic.” The crash of Thailand initiated the domino effect leading to the crash of Asia. Thus, Krugman tells us another stories of recession. Just thinking about it chills our bones. All economies depend on confidence. A moment somebody somewhere loses his confidence, not only does his own economy quickly melt away, but also his neighbor’s economy.

Finally, the evil speculator globalizes the financial system by forming a “parallel banking system” or “shadow banking system,” “a set of institutions and arrangements that act as ‘non-bank banks.’” If we take an overall view of all crises --Tequila wreck, Japan’s trap, and Asia’s crash-- we find a striking pattern. The banking system lacks proper regulation and engages in too many risks. Then, estate and stock bubbles swell and burst. Consequently, people lose confidence and panic starts. Now you should shiver when knowing that a whole shadow bank system operated on a global scale that was “never regulated in the first place.” Those financial institutions participate in different sorts of “risky cross-border bets.” The housing market crisis in U.S creates a “transmission mechanism” driving “fresh rounds of crises overseas”. Also, there is a “special point of vulnerability” called “carry trade” in the emerging markets. The borrowing from low-interest-rate countries and lending in high-interest-rate ones complete our picture of full-scale financial globalization. When the housing bubble in the U.S. burst, all non-bank banks, regardless of country borders, shrink together in a vicious cycle of deleveraging. The mechanism of this circle is similar to the circle of financial crisis. The loss of confidence damages some institutions. “Highly leveraged players in the economic system suffered losses, which forced them into actions that led to further losses, and so on. In this case the losses occurred through the collapsing value of risky financial assets rather than through the collapsing value of risky financial currency.”

After providing us many obsessions about economies, Krugman alleviates our worries: “The world economy is not in depression; it probably won’t fall into depression, despite the magnitude of the current crisis (although I wish I was completely sure about that).” For sure, he does not intend to scare us. In fact, Krugman tries to lessen the gravity, voids all dry jargon, and enlivens the book with ton of questions and a quizzical tone. Certainly you will enjoy reading the book. However, the matter Krugman tries to convey is itself serious. About 70 years ago, John Maynard Keynes said: "We have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the working of which we do not understand." Krugman simply repeats: the machine is big and we know nothing.

Max Vouillamoz-Nicklas says

Ce livre se décrit comme étant une synthèse de l'histoire économique (et sociale) récente de la fin des années 80 à nos jours afin de saisir l'origine de la grande crise financier de 2008. Parfois un peu longuet (à ne surtout pas lire la nuit sous peine de s'endormir en temps records), il réussit toutefois à résumer les fondements de cette crise en 200 pages. C'est justement en cela que réside son point faible: résumer en 200 pages 35 ans d'histoire économique est impossible. Ainsi cet essai reste très condensé et expliques de manière superficielle les nombreuses origines de cette crise. Il n'y pas le temps d'approfondir afin de comprendre pleinement les causes et conséquences de l'explosion de la bulle immobilière et de la crise des subprimes. Cependant, l'auteur reste un prix Nobel respecté et nous transmet tout de même un certain aperçu de cette histoire conjoncturelle.

Arn Kawano says

Reading this book reminded me of The Confessions of St. Augustine in which St. Augustine expounded on all the reasons that he should be an atheist yet he could never break from his faith in God and saw his questioning as a symptom of not having enough faith. In this book, Paul Krugman describes numerous recent financial crises that naturally arise from global capitalism yet he cannot break from his faith in capitalism (perhaps because professed socialists don't get Nobel Prizes in Economics nor write for The New York Times).

Mr. Krugman gives numerous examples of how capitalism fails to provide sustainable growth, yet he clings to his faith with hopes that believing in capitalism even mightier (with massive government stimulus of the capitalist system) will revive the system under cardiac arrest. One concludes Mr. Krugman's book completely confused as to the actual causes of the series of crises he chronicles. Is society just at the mercy of inter-related but seemingly unresolvable economic riddles? The best antidote to this confusion is "The Great Financial Crisis" by Foster and Magdoff. These authors are not afraid of being intellectually honest and breaking away from blind faith in capitalism resulting in a coherent analysis of our present economic predicament.

Krishna Kumar says

Krugman analyzes the many financial crises the world had in the 20th century and this decade. He derides the economists who say that the Depression is a thing of the past. The first edition of the book did not have anything to point out, but Krugman was proved right with the collapse of the financial markets in 2008.

Krugman uses the example of a baby-sitting co-op to illustrate how money supply and inflation play their part in financial booms and busts. He also provides solutions on how the simple lessons from the coop can be applied to large-scale economies of countries. He explains the dangers of large financial firms in creating modern banking crises that can devastate the financial workings of countries.

The major shortcoming of this book is that it does not consider realpolitik in the formulation of economic policies. Of course, this is not Krugman’s domain as he is an economist, not a politician. But as a practical matter, economic and financial policies in democracies are based on political considerations. Ignoring that means that the solutions will remain idealistic.

Karen says

CLIFF-NOTES VERSION: Interesting and very readable, but left some questions unanswered.

FULL REVIEW:

This book was very readable. Paul Krugman does a great job providing simple, succinct, easy-to-understand explanations of economic ideas and also to-the-point, in-a-nutshell historical information. I haven't yet found anything of his a slog to read, which I do appreciate.

His main thesis seems to be that economists don't know as much as they thought they did, and the profession needs to ditch the facile advice too many of its practitioners have been giving over the last 20-30 years and do a lot more thinking and researching.

His biggest specific point seems to be that when nations open up their economies to global capital flows (as they have been advised by the IMF etc. to do), they are also exposing their economies to risks - first and foremost being the risk of self-fulfilling panics like the one that caused the Great Depression.

He says the Latin American crisis that began in Mexico in 1994, the Japanese struggles that began in 1991, and the Asian crisis that began in 1997 foreshadowed the current global crisis and should all have served as warnings for the rest of us.

He thinks we need to find a way to protect our economies from sudden massive capital flight, which for no obvious reason afflicted Argentina as well as Mexico in 1994-5 (Argentina had been doing well and acting responsibly). Such capital-flight events are much like bank runs, because they can devastate even a sound bank - or economy.

He doesn't do that great a job tying Japan into that story.

Krugman uses the story of a babysitting co-op, which was a kind of mini-economy, as an explanatory tool. But that story wasn't fully fleshed out, and left me with a burning question: WHY did the co-op have a recession?

Why was the number of babysitting coupons fine for a while, but then somehow not fine anymore? Were some people accumulating them, causing others to have fewer? Or did everyone start wanting to have more coupons in reserve at the same time? And if so, then why? It seems to me that simply issuing more coupons may be only a temporary fix that holds the seeds of other problems down the line.

Shira says

This book is brilliantly accessible. He first chastises economists for not expaining things clearly. Then, he uses the simple example of a babysitting coop to explain the business cycle. Without using the term Demurage, he cites the Keynesian and Gesellian idea of forced spending into the economy which increases circulation and ends the deflation cycle. But he expains it without using any of these terms. Brilliant. Too bad phd students are not allowed to do this in a thesis (Yes I saw one such thesis, but I think it was sociology, not economics, nor economic social policy, which was my area.)

I recall reading this in 2006 for my thesis, and wondering how my office-mate, an economics phd student, could know almost nothing about the history of economics. Now I know, sadly, that most economists seem to ignore history. Or brush it aside. Other authors mention a roughly 19 year boom-bust world economic cycle, but the cycle is there, and is not stable.

Yet the warnings of Keynes and even Greenspan were ignored. The Asian crises had all the hallmarks of the Great Depression, and international reaction follows, it seems, the errors of the Depression. He warns

"As in the Victorian era, capitalism is secure not only
because of its successes-which, as we will see in a moment, have
been very real-but because nobody has a plausible alternative.
This situation will not last forever. Surely there will be other
ideologies, other dreams; and they will emerge sooner rather than
later if the current economic crisis persists and deepens."

Some of those dreams will be utopian, and viable if we will it, but other ideologies may not be so utopian.
Let's not "learn all the wrong lessons" again.
Shira of The MEOW CC Blog,
MEOW Date: 9 September, 12014 H.E. (Holocene/Human Era)
