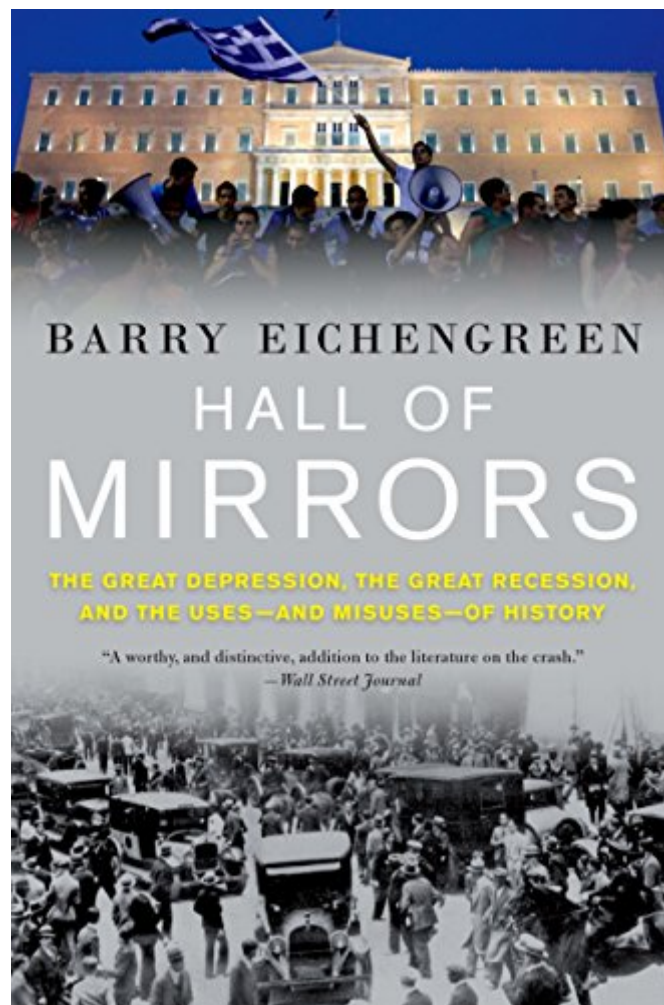


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# Hall Of Mirrors: The Great Depression, The Great Recession, And The Uses-and Misuses-of History



## Synopsis

The two great financial crises of the past century are the Great Depression of the 1930s and the Great Recession, which began in 2008. Both occurred against the backdrop of sharp credit booms, dubious banking practices, and a fragile and unstable global financial system. When markets went into cardiac arrest in 2008, policymakers invoked the lessons of the Great Depression in attempting to avert the worst. While their response prevented a financial collapse and catastrophic depression like that of the 1930s, unemployment in the U.S. and Europe still rose to excruciating high levels. Pain and suffering were widespread. The question, given this, is why didn't policymakers do better? *Hall of Mirrors*, Barry Eichengreen's monumental twinned history of the two crises, provides the farthest-reaching answer to this question to date. Alternating back and forth between the two crises and between North America and Europe, Eichengreen shows how fear of another Depression following the collapse of Lehman Brothers shaped policy responses on both continents, with both positive and negative results. Since bank failures were a prominent feature of the Great Depression, policymakers moved quickly to strengthen troubled banks. But because derivatives markets were not important in the 1930s, they missed problems in the so-called shadow banking system. Having done too little to support spending in the 1930s, governments also ramped up public spending this time around. But the response was indiscriminate and quickly came back to haunt overly indebted governments, particularly in Southern Europe. Moreover, because politicians overpromised, and because their measures failed to stave off a major recession, a backlash quickly developed against activist governments and central banks. Policymakers then prematurely succumbed to the temptation to return to normal policies before normal conditions had returned. The result has been a grindingly slow recovery in the United States and endless recession in Europe. *Hall of Mirrors* is both a major work of economic history and an essential exploration of how we avoided making only some of the same mistakes twice. It shows not just how the "lessons" of Great Depression history continue to shape society's response to contemporary economic problems, but also how the experience of the Great Recession will permanently change how we think about the Great Depression.

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## Customer Reviews

I held off writing this review until I had read the book thoroughly, an essential precaution I'm pretty sure several of the other reviewers have not taken. It's particularly important here because Eichengreen is making a very rich and nuanced case that cannot be distilled into a simple theoretically pure thesis. If you don't read it all, you're going to miss something important. I have read many other books and articles about the Great Depression and the Great Recession, but I nevertheless found much that was new and illuminating in Eichengreen's treatment here. I've recently re-read his earlier *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (Nber Series on Long-Term Factors in Economic Development) which I feel is the best single stand-alone economic analysis of the Great Depression. (No, I'm not a committed true believer in "real business cycle" theories, or in liquidationism for that matter; if you are you probably won't like this book very well.) I'm not about to throw away my copy of *Golden Fetters*, which goes more deeply into some important details, but if you can only read one book on either the Great Depression or the Great Recession then *Hall of Mirrors* is the choice. The great strength of the book lies in Eichengreen's masterful use of the comparative method of analysis, for he shows that considering both cycles in the same frame yields insights not to be gained from examining either alone. His method permits him to explain many features of each that would otherwise be quite puzzling. Eichengreen is an economic historian rather than a theorist.

Barry Eichengreen, an economics professor at UC-Berkeley, is a scholar of the first order on The Great Depression. His *Golden Fetters* on how the operation of the gold standard during the inter-war years was a significant cause of The Great Depression is a classic. He argues in the Keynesian tradition on what the crisis managers of 2008 learned, perhaps too well, the lessons of 1929-33. Thus readers who prefer the views of James Grant's *Forgotten Depression* will differ greatly with this history. The analogues between the 1920s and 30s with the 2000s are many. Here are only a few highlighted by Eichengreen:

- Bernie Madoff was the equivalent of Charles Ponzi.
- The Euro of today works the way the gold standard of the 20s worked.
- The bailout of the Dawes Bank (Central Republic Trust) was similar to the Bear Stearns bailout.
- Letting Lehman fail was analogous to the moral hazard issue associated with allowing the Ford controlled Guardian Group of Banks to fail in 1933.
- There were real estate booms in both eras. The lessons our modern day policy makers learned were to flood the system with liquidity, bailout the banks, engage in fiscal stimulus policies, avoid protectionism and avoid debacles like the London Economic Conference of 1933 through international cooperation. However, unlike the 1930s the problem in the system was not really in the banks, but rather in the shadow banking system that grew up in the 1990s and reached full adulthood in the 2000s.

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