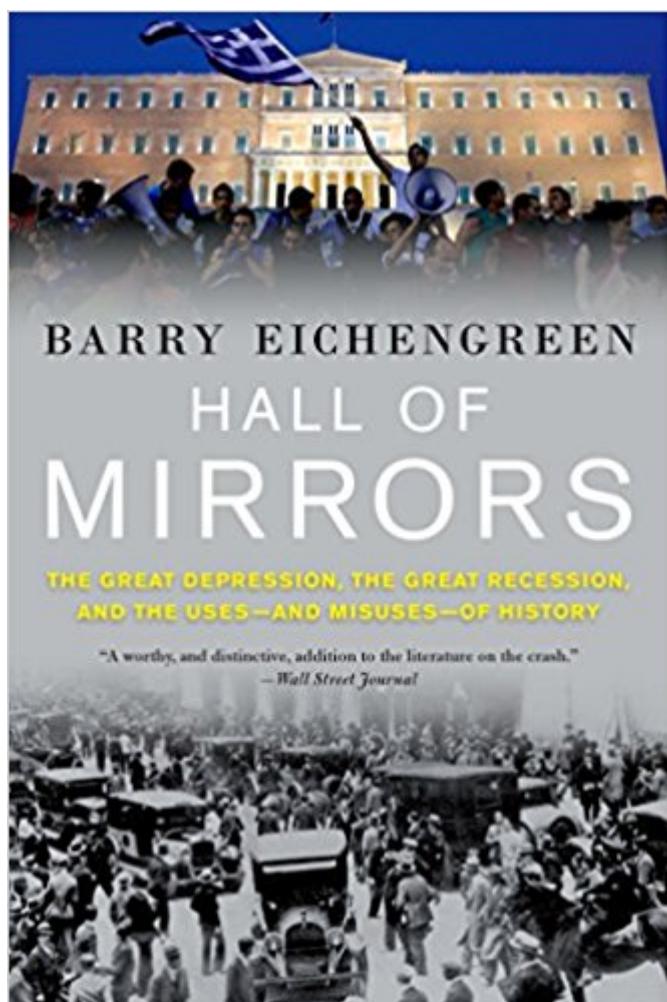


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# Hall Of Mirrors: The Great Depression, The Great Recession, And The Uses-and Misuses-of History



## 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.

## Book Information

File Size: 2021 KB

Print Length: 518 pages

Publisher: Oxford University Press; 1 edition (December 1, 2014)

Publication Date: December 1, 2014

Sold by: A Digital Services LLC

Language: English

ASIN: B00P9JTQL6

Text-to-Speech: Enabled

X-Ray: Not Enabled

Word Wise: Enabled

Lending: Not Enabled

Screen Reader: Supported

Enhanced Typesetting: Enabled

Best Sellers Rank: #140,807 Paid in Kindle Store (See Top 100 Paid in Kindle Store) #7

in Kindle Store > Kindle eBooks > Business & Money > Economics > Comparative #35

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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. There isn't an equation in the book; he has deliberately avoided abstract theorizing both to appeal to a broader audience and to

assure a more complete and comprehensive perspective. I have no doubt that what he is saying will stimulate both theoretical and econometric work, some perhaps from his own pen. But this is the right place to start. Early in the book, on page 9, Eichengreen says, "Where Keynes relied mainly on narrative methods, his followers used mathematics to verify their intuitions. Eventually those mathematics took on a life of their own. Latter-day academics embraced models of representative, rational, forward-looking agents in part for their tractability, in part for their elegance. In models of rational agents efficiently maximizing everything, little can go wrong unless government makes it go wrong." Which is a polite way of saying that economists of this stripe take "government" as a word of art, referring not to any actual institution but to the sum of "irrational" forces that they cannot model, or choose not to. If you are one such I suggest not reading this book, which will only bewilder and annoy you. But if you are genuinely interested in understanding the Great Depression and Great Recession and have no fixed preconceived notions then I thoroughly recommend this book.

This is a very deep and analytical book. You better already have some serious understanding of the financial complexities of the 2007- 2008 Great Recession as well as some familiarity with the Treaty of Versailles and 1920's - '30's economic history in Europe, Asia, and the US. The basic premise is to show how decisions in the post-war period regarding reparations, war debt payments, currency stabilizations, gold, and The Great Depression were to some degree avoided in dealing with the 2007-2008 crisis. Lessons learned were utilized and kept the financial world from repeating policies that helped exacerbate the Great Depression. I've read clearer individual examinations of both The Great Depression and the financial hi-jinx involved in the Great Recession. Eichengreen refers to credit default swaps, collateralized debt obligations, and spv's without much description. I am sure he's got an audience in mind that is already familiar with these. He also discusses the gold standard in detail, but isn't really trying to convey basic concepts to those not conversant with its intricacies. All this is just to say that the book is very detailed, thoroughly researched, and assumes you are ready for some esoteric argument and policy-work economic analysis. It's not an introduction to the complex monetary, fiscal, and political machinations that led to, dealt with, and helped solve two of the greatest financial crises in modern history. Eichengreen adroitly jumps back and forth between the two crises and dissects how each was affected by decisions taken - some coldly calculated, others made in the heat of the moment. This is an excellent book, but it's not for everyone.

I have read several books on both the Great Depression and the Great Recession and this counts as one of the best for both and certainly the best for making comparisons, of which, as the author

explains there are many. The book is written in a clear and easily accessible style. I particularly enjoyed the author's description of how his research on the Great Recession changed his view on the Great Depression (greater understanding for the policy uncertainty the decision makers were under). In classic Eichengreen style, the author asks whether an explanation also work in another time period or another country, which helps refine the argument. I learned a lot of new things in this book and I am looking forward to re-reading it soon.

Professor Eichengreen has done a masterful job comparing the Great Depression and the most recent financial crisis in both the United States and in Europe. He clearly describes the historic origins of both events along with the often confused (and sometimes counterproductive) official responses. His conclusion that the modest success of the most recent interventions prevented deeper thinking and more profound reforms rings true for me.

The author does a good job of providing a historical perspective on the economic dynamics of this period, and he does not shrink from offering his own perspective and analyses. I would offer the following observation. The author points out repeatedly how policy makers--political leaders and financial leaders--allowed their self-confidence (if not arrogance) to get in the way to notice signals and indicators that might have humbled them to realize that there was much about what they thought they knew but did not (they did not know what they didn't know). Their actions were often guided by the well-learned lessons of the past without recognizing what was different about the economic dilemmas/challenges they faced. As I finished the book, I could not help but wonder if the author had fallen prey to the same mistakes in his own prognostications and prescriptions for the future.

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