Paul Krugman, **The Return of Depression Economics and the Crisis of 2008.**
New York: W. W. Norton, 2009. 191 pp. ISBN 978-0-393-07101-6

The economic crisis troubling the United States has brought to the bookshelves several inspiring titles. The reedition of Paul Krugman's *The Return of Depression Economics*, however, stands out even in the broad variety of recently issued books. The language used to describe the turmoil of the twenty-first century remains to be accessible for the general public even though the author addresses the matter in a complex manner.

Krugman, a Nobel Memorial Prize winner, extended his first edition printed out in 1999 and assessed past material anew. Krugman's grim warning that despite the optimism a major depression might return became true and the reedition of *The Return of Depression Economics* explains why. Furthermore, rather than merely drawing a comparison with past and analyzing the causes leading to the latest bubble, Krugman offers conclusions relevant in our near future.

Albeit a foremost clarifying title, *The Return of Depression Economics* is partly limited by Krugman's approach to the topic and by the short scope offered by a revised edition. The book was written with an intention to present ideas in a form accessible to people at large rather than to construct an intellectual edifice and compresses the development of past decades in less than 200 pages. The content thus serves as a narrative to the contemporary development rather than detailed explanation of the latest trends.

The new edition, however, stresses one crucial aspect of the crisis of 2008. While in the 1990s people of the developed world believed that the crisis happen elsewhere and that the dot-com bubble was merely a glitch in the system, the housing and investment downfall in the United States has proved them wrong. *The Return of Depression Economics* is thus a book instrumental for better understanding of the ills troubling present world and both the original and new chapters deserve close attention.

The original content issued in 1999 introduced the depressions of the 1990s in three steps. First, a belief that the depressions are a matter of the past led to maladjustment during the crisis in Latin America. Then the booming Asian "tigers" failed to learn from the development in Mexico and Argentina and had to experience the lesson on their own. The third part, the conclusion, warned that all should be aware of similar prospects and anticipate the malevolent tendencies. Ten years later Krugman justly assessed these factors anew and exposed past crisis as even more relevant.

Compared to the downturn of new millennium seems the unfounded optimism of the 1980s boastful especially after previous warning slumps. While the 1960 brought up a belief that the business circle had been tamed, the next decade coined term stagflation and witnessed the oil crises. However, in comparison with the Great Depression, all shortcomings seemed to be only minor inconveniences and even affluent pundits succumbed to the illusion of continuous prosperity. But, as Krugman noted already in late 1990s, examples of the opposite were quite abundant.

Countries in Latin America, East and Southeast Asia consequently failed from each other's mistakes. Most importantly, first Mexico stumbled upon insufficient devaluation of

peso, Argentina's currency board failed to avoid the run at currency, Japan narrowly tiptoed around liquidity trap and several Southeast Asian countries borrowed heavily from abroad till they effectively undermined own currencies.

While most of problems of developing countries seem irrelevant for the economic giant of the likes of the United States, all of the above mentioned examples shared interesting pattern. A seemingly unimportant factor doubted the general prosperity of particular country, like the growth of GDP in Mexico, but the rate of investment led to the claims of sound economy. Following troubles were then either addressed by insufficient reaction, in case of devaluation of Mexican peso, or spread beyond the capability of a single government like in the case of Thailand. In other words, a seemingly minor shortcoming might mark larger structural problems that might not be contained conventionally.

And, as explained in chapters 6 to 8, conventional wisdom regarding the demand-side fluctuations left many economic pundits ill equipped to deal with the emerging crisis. Believing that the economic circles had been tamed, mainstream research focused on the productivity and long-term growth rather than on hypothetical flaws distorting the demands. The optimistic expectations that new technologies and theories will solve everything were epitomized in the rise and fall of Long Term Capital Management, but the failure to outsmart the market was not the only reason why a demand crisis struck so hard.

In the 1990s, the hedge funds and rating agencies began to rule in what is today referred to as the shadow banking system. Financial derivatives like subprime mortgages and collateralized debt obligations rationalized speculation beyond any reason and sudden confidence in risky investment led to equity and estate bubbles. Secondly, the FED was in the long run weakened by the monetary policy advocated by Alan Greenspan. Cutting interest rates to the minimum limited the options of Federal Reserve Bank to act when the real crisis came. In general, the positive expectations did not reflected the actual potential for downturn.

As Krugman concludes in two last chapters, the extent of the crisis came as a shock and the public reacted accordingly. Individuals and firms cut down spending and in the end aggravated income of others. Thus governments, rather than focusing on the outcomes of fiscal globalization, have to regain public confidence necessary for credit flow and overall spending. Krugman recommends to put in more capital and in the long run reform of the murky shadow banking.

However, he introduces his concept only briefly and thus his conclusion that the stimulus has to be sufficiently big to succeed is widely opened for criticism. Not all government have the luxury to be able to spend as much as they want and reckless stimuli contribute to hazardous belief that the government will always come for rescue. The solution for current thus greatly vary according to particular country and "filling the bowl" does not, a priori, build up public confidence. The main actor of current crisis, the United States, serves as an interesting examples of how different situations the governments face.

Despite all ills troubling the economy of the United States, Washington firmly remains in a unique position. As long as dollar remains to be the undisputed reserve currency and as long the United States maintain the lead in most economic indexes, US budget will always

find enough creditors to back up the deficit. Most nations, however, do not have such luxury and depend on the remedies prescribed by the IMF. In other words, not all may follow the policy of extensive spending at the cost of debt and can not easily escape the liquidity trap beyond the means offered by central bank. Krugman's recommendations are thus valid mostly to nations with good debtor credit.

The usefulness of Krugman's argumentation does not, however, rest in proposing universal solution. As already stated, he never intended to write an elaborate scholarly dispute and rather offered an explanation of current affairs easily understandable by general public. Wry humor, parables, whimsical examples and sound arguments are indeed a better way of introducing a complicated matter than a cryptic jargon adopted by the likes of Alan Greenspan. Using the Capitol Hill co-op as a model thus served his aims better than baffling statements about the "irrational exuberance." Furthermore, simple models invite reader to derive a conclusions of their own and enable another helpful parables.

And one parable seems to be especially fitting. So as the adverbial pharaoh had dreams of seven fat cattle followed by seven lean, both nations and individuals should expect a slowdown after a boom. Unless having an extraordinary debtor credit, one should prepare for the necessity to spend savings so as to be able to run a deficit after a surplus. While individuals at the brink of personal bankruptcy are able to abandon their mortgages and shed liabilities at the cost of personal comfort, states bear the burden that cannot be simply avoided. Social welfare, infrastructure and public safety require adequate spending and all statesmen should beware to plan before the depression strikes again.

While far from offering a miraculous solution for the contemporary crisis, reading Krugman's *The Return of Depression Economics and the Crisis of 2008* is indisputably beneficial in two distinct ways. First, it condemns the unsound optimism that all problems of economic circles had been forever solved and addresses the flaws that cannot be easily mended in current economic system. And, secondly, Krugman's clear prose presents complex ideas that are often detached from general public in a manner that intrigues everyone to read the book to the end. Too many sound policies failed due to the lack of public support, and without a lucid, understandable and widely read analysis other are doomed to fail too.

Michal Švajda

Michael Lewis, **The Big Short: Inside the Doomsday Machine.** London: Allen Lane, 2010. 266 pp. ISBN 978-0393072235

The Big Short by Michael Lewis is a fascinating and tumultuous read, documenting the events and personalities behind the biggest stock market crash since the Great Depression. The story doesn't focus itself around the powerful figures – the bankers, CEOs and politicians – that are normally featured in such an account, but rather on a select few people who had the intelligence, bravery and luck to be on the other side of the market, finding