This Time It's Different by Carmen Reinhart and Kenneth Rogoff
Princeton University Press

For whatever reason the kafuffle erupted, omissions from an Excel doc which altered figures *somewhat* got a lot of press. This should in no way diminish the important insights these authors have suggested.

In their introduction to "This Time It's Different" the story of the origin of the phrase is told. Vincent Reinhart worked for the Federal Reserve for twenty-five years. Attending a meeting of the board of governors and market practitioners, one trader with an uncharacteristically long memory declared, "More money has been lost because of four words than at the point of a gun. Those words are, "This time it's different."

In the book, eight centuries of financial folly are described. In focusing on the US subprime mortgage crisis of 2007, which came to be called The Second Contraction, the phrase was lofted for the following reasons:

The United States, with the world's most reliable system of financial regulation, the most innovative financial system, a strong political system, and the world's largest and most liquid capital markets, was special. It could withstand huge capital inflows without worry.

Rapidly emerging developing economies needed a secure place to invest their funds for diversification purposes.

Increased global financial integration was deepening global capital markets and allowing countries to go deeper into debt.

In addition to its other strengths, the United States has superior monetary policy institutions and monetary policy makers.

New financial instruments were allowing many new borrowers to enter mortgage markets.

All that was happening was just a further deepening of financial globalization thanks to innovation and should not be a great source of worry.

Then Fed Chairman Alan Greenspan rhapsodized about the new market instruments which he said lowered risk.

Could red lights have been seen. One common predictor of financial crises to come is the rapid escalation of housing prices – 100 percent over five years in the run up to the crisis.

The patterns post crisis are the same over time. The asset market collapses. There are declines in output and employment. The value of government debt explodes.

The authors make the case for a new international regulatory agency. None of the existing institutions, including the International Monetary Fund, are able to do this job. We need a fresh start.

Part II of comments on this book with look at the international implications of monetary crises.