This Time Is Different- Eight Centuries of Financial Folly
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The authors track five kinds of economic crises: external default, internal default, banking crises, exchange rate crises, and inflation crises. All of these have different metrics, so making the binary decision of when to categorize an event as a crisis is somewhat subjective. A great deal of the book, enough to be rather boring, is dedicated to the justification of their techniques.

Once they have established the validity and consistency of their techniques across countries and across time, the next step was to gather data. They claim this to be their greatest contribution, and I believe them. They have collected consistent data longitudinally through time and laterally across countries, 66 in all, representing approximately 99 percent of the world economy. This is a tremendous labor. Among the many difficulties they had to overcome:

- Missing data. It was not important at the time to collect the data, and it is hard to reconstruct
- Lack of transparency. There are lots of things that governments don't want you to know, especially about their debt.
- False categorization. When him and certain types of transactions receive favorable tax treatment, say investment versus operating expenses, a lot gets misreported.
- Inconsistent reporting periods, and gaps in the data. They had to do a lot of interpolation to fill in the blanks.

Having collected their huge database, the authors perform a vast number of rankings and correlations. They generally find that there is a substantial correlation among different kinds of crises. A banking crisis may lead to a currency crisis.

The book is useful because it provides a number of leading indicators for upcoming banking and currency crises. For instance, leading indicators for currency crashes are real exchange rates, the presence of a banking crisis, and the current accounts balance is a fraction of gross domestic product.

One truth that comes through is that governments are systematically, serially, always irresponsible. They borrow to spend on wars, grandiose domestic programs, and programs designed to win blocks of voters. They are almost always able at some point to borrow more than they will be able to repay, at which point they have to default.

Default take several forms. Argentina simply froze bank accounts, especially dollar accounts, and forced their holders to take devalued Argentine pesos in place of the dollars. The United States performed a de facto default in 1934 when it went off the gold standard. Russia and Ukraine performed de facto defaults when they froze bank accounts and allowed massive inflation during the time in which the citizenry could not get their hands on their money. The constant in all this is that when the government has no money, they have to take it from people who do. What they can get away with it is a political decision.

The United States appears to be flirting with default as I write this. We have doubled federal debt since the crisis of 2007/8. We continue to borrow in order to service the debt. We did not have any reasonable prospects for growing our way out of the problem. The question then is, what form will the default take?

Who are the creditors? Legions of people who depend on the federal government for their retirement: military veterans, civil servants, and Social Security recipients. Federal bondholders, domestic and foreign. Bank depositors, corporations, mortgage holders and others who are beneficiaries of federal insurance programs. The government will be enforced at some point to decide who they stiff, and how.

The only plausible exit that I see is allowing the massive amounts of money pumped into the system by quantitative easing to lead to inflation, and doing away with the cost-of-living clauses in Social Security and other pension programs. Medicare will have to be increasingly means tested, and the payments to doctors made so small as to force people to return to fee-for-service if they want an acceptable level of service. I see no other way to tame that monster.

I expect bondholders to suffer the worst. They will be exposed to naked inflation, and ordinary taxes on the illusory income that they get in the form of interest. There will be interesting to see how this plays out, but I will keep my eyes on the financial geniuses of our generation to see how they manage to short T-bills as the crisis looms. Safe