Book Review of “The Great Crashes: Lessons from Global Meltdowns and How to Prevent Them” by Linda Yueh

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Yueh, Linda. The Great Crashes: Lessons from Global Meltdowns and How to Prevent Them. Viking, 2023.

This book review aims to offer a comprehensive assessment of "The Great Crashes: Lessons from Global Meltdowns and How to Prevent Them," authored by Linda Yeh, providing a complete overview of its content, critically evaluate its arguments and proposals, and asses its strengths and weaknesses.

Linda Yeh, a distinguished economist renowned for her expertise in macroeconomic policy analysis and financial market dynamics, is a graduate of Columbia University in the United States. She has completed her higher studies at Harvard University, earning a Ph.D. in Economics. With a focus on the effects of monetary policy on economic stability and the role of central banks in managing financial crises, Yeh's research examines fiscal policy effectiveness and the impact of globalization on emerging markets.

Her multifaceted career spans academia, government, and international organizations, strengthening her status as a leading authority in the field of economics. Yeh's seminal work, "The Great Crashes: Lessons from Global Meltdowns and How to Prevent Them," offers a comprehensive analysis of major economic crises, from the stock market crash of 1929 to the Covid-19 crisis of 2020. Through careful examination of historical events and policy responses, Yeh provides valuable insights into the complexities behind financial disasters and offers strategies to safeguard against future vulnerabilities.

The book is structured into an introduction, eight chapters, and an epilogue. Each section and chapter examine specific crises, ranging from currency to banking and post-pandemic economic crises. Accordingly, the book offers a comprehensive understanding of economic crises that occurred in history and their implications for contemporary economic governance.

From the beginning to the end of each chapter, the author discusses the complexity of economic crises. The author explains three phases of a crisis: euphoria, credibility, and aftermath. Euphoria refers to the phase when everyone is optimistic about the economy and tends to invest in the market, while credibility is the need for credible policies to resolve a financial crisis and aftermath the time when the economy goes through a downturn.

The introduction section of the book focuses on the Great Crash of 1929, explaining its causes and policy responses. It highlights factors like technological advancements, a booming stock market, and unsustainable investments that created extreme optimism leading to the crash. The analysis of this crisis provides lessons on preventing and mitigating future financial crises. The author stresses the importance of timely and credible economic policies, robust banking regulations, and deposit insurance to manage long-term financial stability.

Chapter one of the book, titled "Three Generations of Currency Crises," provides an insightful examination of various currency crises, focusing on the US savings and loan crisis of the 1980s and

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the Asian financial crisis of the late 1990s. It analyzes the contributing factors to these crises, emphasizing the destabilizing impact of "hot money" on currency markets due to the growth and deregulation of international financial markets. The chapter highlights how currency speculation exploits vulnerabilities in fixed exchange rate regimes and government reserves, citing examples such as the Latin American crisis of 1981–82 and the European Exchange Rate Mechanism crisis of 1992. Additionally, it discusses the rapid reversal of capital inflows in the Asian financial crisis and the subsequent shift towards better international financial regulation post-crisis.

In chapter two, the author separates the U.S. Savings and Loan crisis of the 1980s, explaining its origins, key factors, and consequences. According to the author, initially, savings and loans were aimed at promoting homeownership. However, this has been exemplified by risky investments and financial frauds created by Charles Keating, and five politicians, known as the "Keating Five". High interest rates and a lack of proper regulations, especially after deregulation in the early 1980s, enabled savings and loans to get involved in risky ventures like commercial real estate and junk bonds. This led to them taking too many risks and engaging in practices that couldn't be sustained. When over a thousand savings and loans collapsed, it cost the government $124 billion. The author shows that in addressing this crisis President George H.W. Bush intervened and set up the Resolution Trust Corporation to manage failing savings and loans and introduce financial reforms. The author shows that this crisis highlighted issues like corruption and the dangers of financial deregulation, prompting the need for stricter rules and helping the thrift sector recover.

Chapter three of the book explores Japan's real estate crash of the early 1990s, tracing its roots from post-war economic growth to the financial excesses of the 1980s. It explains how cheap credit led to soaring stock markets and inflated real estate prices, ultimately exposing flaws in Japan's economic model. The chapter examines the role of government intervention, particularly through the Ministry of Finance, and regulatory practices like the Mofu-tan and Amakudari systems. The chapter provides valuable insights into the systemic issues that contributed to the crisis and highlights the significance of effective regulatory oversight in maintaining financial stability.

Chapter four analyses the dot-com crash of 2000–2001, highlighting it as the result of euphoria surrounding the internet economy. It describes how investors funneled money into internet stocks, creating inflated valuations and unsustainable business models. The rapid rise and fall of companies like Pets.com, Webvan.com, and eToys.com serve as examples of speculative investments and poor management decisions. While the crash led to a recession, it also set the stage for the eventual success of companies like Amazon and Google. Key lessons shown in the chapter, include the importance of credible institutions, controlling costs, and recognizing the potential for creative destruction following financial crises.

In chapter five, the author offers details of the Global Financial Crisis of 2008, tracing its origins, key events, and repercussions. It compares the crisis to the Great Crash of 1929, highlighting its potential to destabilize the global economy. The key triggers explored by the chapter included the collapse of Lehman Brothers and issues like sub-prime mortgages and mortgage-backed securities. The author further examines government policies, central bank actions, and international contagion that worsened the crisis. The author shows the measures taken in response to the crisis, such as Prime Minister Gordon Brown's UK bank bailout and the US Troubled Asset Relief Program (TARP). The author emphasizes that these interventions, alongside Central Bank liquidity support, helped stabilize the financial system, although the crisis had lasting global economic effects. Chapter six of the book provides a thorough analysis of the Euro Crisis of 2010 within the European Union's single-currency bloc. It explores the origins of the crisis back to the adoption of the Euro in 1999 and covers the issues that followed. The chapter examines the goals of European economic integration and the challenges of maintaining stability, especially in countries like Greece that faced mounting debt burdens. It offers a detailed overview of the crisis, describing responses from various European institutions, including the creation of rescue funds and IMF

interventions. The struggles of severely affected nations such as Greece, Ireland, and Portugal are highlighted by the author, along with the broader impacts on the stability of the Eurozone. The chapter also discusses the responses of European leaders from 2011 to 2013, including proposals for fiscal mechanisms and debt restructuring, which led to agreements addressing the crisis. It emphasizes the role of politics in shaping these responses and the importance of strong institutions and credibility in overcoming such challenges.

Chapter Seven examines the global impact of the COVID-19 pandemic in 2020, highlighting its significant effects on public health and economies around the world. The rapid spread of the novel coronavirus led to widespread lockdowns and restrictive measures, causing stock market crashes, GDP declines, and high unemployment. The chapter explores the unprecedented economic responses by governments and central banks, such as interest rate cuts, fiscal stimulus packages, and job retention schemes, aimed at stabilizing financial markets and supporting recovery.

Chapter 8, titled "The Next Great Crash?", aims to analyze China's financial system and its potential vulnerabilities that could lead to a significant financial crisis. The chapter discusses China's remarkable economic growth over the past four decades, contrasting it with the lack of a major financial crash. The author discusses the opacity and state control within China's financial system, the heavily indebted property sector, and the prevalence of shadow banking. The chapter also explores historical financial reforms, challenges with bad debts from state-owned enterprises, and the underdevelopment of financial markets. It emphasizes the interconnected risks within the property market, local government debt, and shadow banking, highlighting the potential for a financial crisis with global implications.

The epilogue of the book analyses important lessons learned from financial crises, emphasizing the need to recognize the dangers of increasing debt and the importance of reliable policymaking during these challenging times. The author focuses on different effects of financial crises, which depend on factors such as the type of crash and the methods used to address it. The epilogue also explores various types of financial crises, including banking collapses, housing market downturns, and currency fluctuations.

"The Great Crashes: Lessons from Global Meltdowns and How to Prevent Them" is notable for its unique and organized analyses of past financial crises. The book breaks down these crises into phases as, euphoria, credibility, and aftermath, showing the importance of timely and reliable policy responses to lessen their impact. The chapters of the book not only describe the events leading up to and following the crashes but also emphasize the need for swift and decisive economic policies. By looking at history, the book advocates for strong economic governance and regulation to prevent future economic crises.

Examining the economic and social consequences of these crises, the author provides valuable insights for economists, policymakers, and other stakeholders. The author critically evaluates post-crisis measures and discusses strategies, crucial for preventing future financial disasters. With its in-depth analysis and exploration of preventive strategies, the book offers a comprehensive guide for safeguarding against economic vulnerabilities.

In examining the development of currency crises and their effects, the book offers original insights into the rise of "hot money," the growth of international financial markets, and the methods of currency speculation. By discussing cases like the Latin American crisis of 1981-82, the author highlights the broader implications for developing and emerging economies and the interconnectedness of global financial systems. The narrative of the euro crisis examined in the book offers a rich historical backdrop, emphasizing the unique challenges posed by the Eurozone's hybrid structure. By examining key events, proposals, and decisions made by European leaders, the author highlights the significance of institutional reforms in addressing the underlying vulnerabilities of the Eurozone. Similarly, the analysis of the COVID-19 pandemic's economic and societal impact draws parallels with historical events like the Spanish flu, the author highlights the unprecedented nature of the crises and their significance in shaping global history and policy responses. Overall, the book's originality lies in its

comprehensive examination of financial crises, offering valuable insights and lessons for policymakers, investors, and individuals alike.

The book "The Great Crashes" has several strengths that make it an insightful examination of financial crises. One key strength is its detailed historical analysis in chapter one, which explores the events of the Great Crash of 1929. The author breaks the crisis into phases of euphoria, credibility, and aftermath, offering a clear framework for understanding financial disasters. The use of historical examples enriches the narrative and highlights the importance of timely and credible policy interventions to mitigate the impact of such crises. By learning from the successes and failures of past policies, the author emphasizes the need for sound economic governance to prevent and manage future financial catastrophes.

Another strength of the book is the in-depth analysis of Japan's real-estate crash in the early 1990s. The author examines regulatory mechanisms and government interventions. The author further explains the complex relationships between economic policies, financial institutions, and the broader economy. In the analysis of this crisis, the author provides insights into the country's economic rise and fall. Additionally, the author discusses the regulatory mechanisms like the Mofu-tan and Amakudari systems offering valuable lessons on the challenges of overseeing the banking sector and maintaining financial stability. Overall, the author provides a comprehensive understanding of financial crises, using historical and contemporary examples to offer practical insights for policymakers, investors, and scholars.

While "The Great Crashes" offers a comprehensive examination of various financial crises, it is not without its limitations. Throughout its chapters, the book occasionally falls short of providing a detailed understanding of the complexities inherent in financial crises. For example, the chapter on the Great Crash of 1929 relies heavily on hindsight, which oversimplifies the decisions made during the crisis and overlooks the limited information available to decision-makers at that time. Similarly, the analysis of the Asian financial crisis in Chapter 3 would benefit from a more thorough exploration of policy responses and lessons learned, thus enhancing its value for policymakers and researchers. Moreover, although the book effectively outlines historical events and their implications, it sometimes lacks depth in certain areas and overlooks critical aspects of crisis dynamics, such as the socio-economic disparities worsened by these crises.

The limited exploration of potential counterarguments or alternative perspectives, which could provide readers with a more comprehensive understanding of the issues is the main limitation or the weakness of the book. Additionally, if the structuring and summarizations of key points were clearer, it would be more beneficial for readers less familiar with financial history or concepts. This could increase the accessibility of the book. Despite these shortcomings.

"The Great Crashes" stands out for its originality in providing a structured analysis of historical financial crises, offering valuable lessons derived from past policy failures and successes. While the book exhibits some weaknesses in providing a comprehensive understanding of crisis complexities and could benefit from clearer structuring, its careful historical analysis and comprehensive exploration of crisis dynamics make it a valuable resource for policymakers, investors, and scholars. Overall, "The Great Crashes" offers actionable insights and lessons for navigating and preventing future financial catastrophes, enriching our understanding of sound economic governance and regulatory frameworks.