

Review

THE GREAT CRASHES BY LINDA YUEH REVIEW – PREPARING FOR THE NEXT CRISIS

A survey of the last 100 years of financial disasters shows that they're a fact of life – but there are lessons to be learned



Are we heading for another crash? ... CreditSuisse was recently bought in a fire sale.
Photograph: Fabrice Coffrini/AFP/Getty Images

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For those who pay close attention to the business pages, recent weeks have made for nervous reading. One after another, regional US banks with billions of dollars on their books have collapsed. European banking stalwart CreditSuisse was bought in a fire sale. Rumours spread about who might be next. Are we ... could it be ... it's not going to be another financial crash, is it? All of which makes Linda Yueh's new book almost alarmingly timely, as if she were tanking the global economy as the mother of all guerrilla marketing stunts.

She opens with the bad news: economic crashes are a fact of life, and there will always be another one coming. Not only that, but however much they have in common – she surveys 10, from 1929 to 2020 – the next one will be the result of a novel combination of factors. There's no formula that allows us to reliably forecast and avoid.

But there is hope, all the same. Yueh shows that the course a crash takes, at least, follows a predictable path, unfolding in three phases. The first, she says, is euphoria: something happens to convince a large number of economic players that growth can keep going for ever, and that the old rules don't apply. This time, it really will be different.

Spoiler: it's never different. The crash inevitably arrives, only to be resolved in phase two, which she calls "credibility". It is only when some body, be it a central bank, government or international organisation, can show it has a credible response that the turmoil abates. This may take the form of guaranteeing bank deposits, introducing rules for bailing out financial institutions, devaluing a currency, or a number of other interventions.

The time it takes to gather a credible response – and the nature of that response – is what Yueh says shapes phase three, the aftermath. Will the recovery be slow? Will there be economic stagnation? Will millions of people lose their jobs or homes? However bad the crash, none of these outcomes are inevitable – the authorities' response really does matter.

Economics is somewhat cursed as a fascinating topic that often gets bogged down by stodgy explanation and maths. Yueh's book is refreshingly free of this, and she writes lucidly about a century of crashes around the world. The book is brief and pacy, too, coming in at about 250 pages, but this brevity perhaps comes at a cost. Although it's clearly aimed at a general audience, and despite the lack of stodge, if you're unfamiliar with the jargon of financial and economic journalism you may struggle. Additional space might have allowed a little more hand-holding.

Those who are able to grapple with the terminology, though, will be rewarded. Yueh opens her book with a quote from renowned economist JK Galbraith, lamenting that there are "few fields in human endeavour for which history counts for so little as in the world of finance". What her account actually brings to mind is a different quote – Leo Tolstoy's adage that "all happy families are alike, but every unhappy family is unhappy in its own way".

Yueh deftly demonstrates that while each unhappy economy is unhappy in its own way, we can and must learn from previous crises. We may not be able to stop the irrational exuberance of markets – whether the US banking sector or China's ominously creaking property market – but policymakers can learn what does and doesn't work in response. It is to be hoped at least a few of them read this book before they are faced with mopping up the next mess.