

## Review Essay

Hall of Mirrors: The Great Depression, the Great Recession, and the Uses—and Misuses—of History. *By Barry Eichengreen.* New York: Oxford University Press, 2015. vi + 512 pp. References, notes, index. Cloth, \$29.95. ISBN: 978-0-19-939200-1.

Reviewed by Per H. Hansen

Barry Eichengreen's new book *Hall of Mirrors* is a detailed, excellent, and somewhat pessimistic comparison of the two most serious financial crises ever—their causes, development, and consequences. Readers well versed in the comprehensive literature on the Great Depression and the Great Recession in the United States and Europe will not find much information in *Hall of Mirrors* that is completely new, but most others will. What is new is the comparative approach: the detailed and analytically successful search for similarities and differences between the Great Depression and the Great Recession.

Also, Eichengreen's partial focus on the uses of history or historical analogies is a promising step within the field of economic history. Many economic and financial historians have argued that the fading of memories of the Great Depression contributed to the trend, since the 1980s, of financialization of the economy and society and to the financial crisis and Great Recession.<sup>1</sup> It follows that understanding the role of memory in economic history is important. However, the question of memory and forgetting has never been at the top of the research agenda in economic history. Eichengreen should be commended for addressing this important issue.

<sup>1</sup> See, for instance, Tobias Straumann, "The UBS Crisis in Historical Perspective" (working paper, Institute for Empirical Research in Economics, University of Zurich, 2010); Barry Eichengreen, "The Great Detour: European Money and Banking in the Second Half of the Twentieth Century," in *Bank Austria Creditanstalt: 150 Jahre Österreichische Bankengeschichte in Zentrum Europas*, ed. Oliver Rathkolb, Theodor Venus, and Ulrike Zimmer (Vienna, 2005); Youssef Cassis, "Banking and Finance in Europe since 1945," in *Perspectives on European Economic and Social History*, ed. Jan-Otmar Hesse, Christian Kleinschmidt, Alfred Reckendrees, and Ray Stokes (Baden-Baden, 2014); David A. Moss, "Reversing the Null: Regulation, Deregulation, and the Power of Ideas," in *Challenges to Business in the Twenty-First Century*, ed. Gerald Rosenfeld, Jay W. Lorsch, and Rakesh Khurana (Cambridge, Mass., 2010); and Harold James, *The Creation and Destruction of Value: The Globalization Cycle* (Cambridge, Mass., 2009).

Memories of the Great Depression may have been fading over the years, but they were not erased. As soon as the financial crisis of 2008 broke, all kinds of media were replete with references to the Great Depression and—more generally—to economic history and the lessons that might be learned. Clearly, decision makers and the public had an urgent need to make sense of the highly unexpected and complex situation that was unfolding. And when the financial crisis developed into the Great Recession, the apparent similarities with the Great Depression only intensified as questions and disputes arose about secular stagnation, quantitative easing and tapering, zero-bound interest rates, and fiscal deficits.

It soon became clear that mainstream economics and modern finance were as much part of the problem as the solution, and that despite—or because of—all the field's advanced econometrics, deductive reasoning, and assumptions of rationality and Bayesian updating, it was not particularly well positioned to help us understand what was going on and what to do about it.<sup>2</sup>

Instead, economic history enjoyed a renewed interest as a depository where one could search for meaning and explanation. For instance, Danske Bank, the largest Danish bank, which was hit relatively hard by the breakdown of the international interbank market following the failure of Lehman Brothers, published a thirteen-page report in February 2009 with the title “Lessons from the Great Depression.” In December 2011, the *Economist* published a three-page briefing on the “Lessons of the 1930s.”<sup>3</sup>

These examples are only the tip of the iceberg, so Barry Eichengreen's most recent book arrives at the right time. Other scholars have already compared the Great Depression and the Great Recession, of course, and as early as 2009. For instance, Harold James published *The Creation and Destruction of Value*, which focuses on the relationship between globalization and financial instability, ending on a somewhat more upbeat note than Eichengreen.<sup>4</sup> Also, Richard S. Grossman and Hugh Rockoff recently published an interesting working paper comparing responses to financial crises in historical perspective. Their basic point is that economists consistently fought the last war in addressing

<sup>2</sup> See, for instance, Paul Krugman, “How Did Economists Get It So Wrong?” *New York Times Magazine*, 2 Sept. 2009.

<sup>3</sup> Allan von Mehren, “Global: Lessons from the Great Depression” (research paper, Danske Bank, 23 Feb. 2009); “There Could Be Trouble Ahead,” *Economist*, 10 Dec. 2011.

<sup>4</sup> James, *Creation and Destruction of Value*. See also Michael Bordo and Harold James, “The Great Depression Analogy,” *Financial History Review* 17, no. 2 (2010): 127–40; and Charles Calomiris, “Banking Crises Yesterday and Today,” *Financial History Review* 17, no. 1 (2010): 3–12.

crises, a point also made by Anna Schwartz in October 2008.<sup>5</sup> In other words, looking back in time for analogies has been widespread since the financial crisis broke out in 2008. Common to most of this research is a focus on what lessons can be learned for future crises.

While this lessons-of-history approach is also part of *Hall of Mirrors*, I found particularly interesting and promising Eichengreen's focus on how the actors in the Great Recession used historical analogies, or "used—and misused—history." In the introduction, Eichengreen argues, "insofar as the history of the Great Depression was the frame through which policymakers viewed events, it caused them to overlook how profoundly the financial system had changed" (p. 5).

Eichengreen's focus on historical analogy necessarily involves the concept of narrative, since analogies must come in narrative form. The quote above illustrates an important point about narratives: they are performative because they make us see the world in a specific way and legitimize certain actions while delegitimizing others. They focus on some aspects of what they describe and leave others out; they create not only memory but also forgetting or oblivion. What is not told is not remembered, and what is not remembered cannot be taken into account in decision making.<sup>6</sup> Such a narrative approach poses a challenge to the basic assumptions of mainstream economic theory. It thus holds the promise of improving our understanding of how actors and decision makers behave under pressure as they deal with an unfolding crisis under extreme uncertainty.

Such a uses-of-history and narrative approach is a well-established field in the discipline of history.<sup>7</sup> In economics and economic history, however, it is—to my knowledge—an extremely rare species.<sup>8</sup> Thus, it would seem that *Hall of Mirrors* is an exciting effort to follow through on Eichengreen's important presidential address to the Economic

<sup>5</sup> Richard S. Grossman and Hugh Rockoff, "Fighting the Last War: Economists on the Lender of Last Resort" (NBER Working Paper No. 20832, National Bureau of Economic Research, Cambridge, Mass., 2015). See also Brian M. Carney, "The Weekend Interview: Anna Schwartz. Bernanke Is Fighting the Last War," *Wall Street Journal*, 18 Oct. 2008.

<sup>6</sup> For this idea of narratives applied to business history, see Per H. Hansen, "Business History: A Cultural and Narrative Approach," *Business History Review* 86, no. 4 (2012): 693–717.

<sup>7</sup> Among the pioneers in the uses-of-history approach, see Eric Hobsbawm and Terence Ranger, *The Invention of Tradition* (Cambridge, U.K., 1983); and Pierre Nora, "General Introduction: Between Memory and History," in *Realms of Memory: Rethinking the French Past*, ed. Pierre Nora (New York, 1996). For uses of history in business history, see Hansen, "Business History"; and Per H. Hansen and R. Daniel Wadhvani, "Can Business History and Anthropology Learn from Each Other?" *Journal of Business Anthropology* 3, no. 1 (2014): 51–59.

<sup>8</sup> One exception that comes to mind is Deirdre McCloskey's work. See Deirdre N. McCloskey, *The Rhetoric of Economics*, 1st ed. (Madison, Wis., 1985); and Deirdre N. McCloskey, *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (Chicago, 2011).

History Association in 2011, which was published in the *Journal of Economic History* in 2012.<sup>9</sup>

In his talk, Eichengreen discussed the widespread invocation of “the lessons of history” in 2008 and 2009. He focused in particular on how the historical analogy of the Great Depression was used to make sense of the financial crisis, and why it was this particular analogy that was used. He drew on cognitive and behavioral disciplines, and on discussions about the use of historical analogies in foreign policy studies, but not on the narrative and cultural approaches that are gaining ground in business history, which in my opinion could have been used in a fruitful way.<sup>10</sup> I will return to that question later, among others, but first a presentation of the book’s main points.

### Main Points of *Hall of Mirrors*

*Hall of Mirrors* raises two basic questions or topics. The first topic is a detailed comparison of the causes, development, and consequences of the two crises. An integral part of Eichengreen’s analysis deals with the lessons of the Great Depression and how they were or were not learned and used by decision makers during the Great Recession. The second topic is the uses-of-history part, which concerns how the analogy of the Great Depression shaped authorities’ response to the financial crisis. This discussion includes questions such as how central bankers and governments used historical narratives—consciously or not—during the financial crisis of 2008–2009 and the Great Recession, and what the consequences were.

The former topic, it could be argued, is a first-order question and, though it deals with lessons from history, the lessons are mostly derived by Eichengreen, not by the decision makers. The latter topic, however, is a second-order question. It focuses not on the true causes of the Great Recession but on how “the lessons of . . . [the 1930s,] as distilled by economists and historians, powerfully shaped perceptions and reactions” (p. 377).

<sup>9</sup> Barry Eichengreen, “Economic History and Economic Policy,” *Journal of Economic History* 72, no. 2 (2012): 289–307.

<sup>10</sup> See, for instance, Hansen, “Business History”; Per H. Hansen, “From Finance Capitalism to Financialization: A Cultural and Narrative Perspective on 150 Years of Financial History,” *Enterprise & Society* 15, no. 4 (2014): 605–42; and Per H. Hansen, “Making Sense of Financial Crisis and Scandal: A Danish Bank Failure in the Era of Finance Capitalism,” *Enterprise & Society* 13, no. 3 (2012): 672–706. See also Mads Mordhorst, “Arla and Danish National Identity: Business History as Cultural History,” *Business History* 56, no. 1 (2014): 116–33; and Mads Mordhorst, “From Counterfactual History to Counter-Narrative History,” *Management & Organizational History* 3, no. 1 (2008): 5–26.

The book is organized in four chronological sections. Part 1, “The Best of Times,” compares the bubbles or eras of unsustainable optimism that preceded the financial breakdowns in the 1920s and the 2000s, respectively. Part 2, “The Worst of Times,” proceeds to tell the stories of the two crises, while part 3, “Toward Better Times,” discusses the recovery efforts in detail. Finally, part 4, “Avoiding the Next Time,” argues that there will be a next time.

The book is well written, with numerous precise portraits of some of the main actors and a generous dose of understated humor and sarcasm, by now a hallmark of Eichengreen’s writing style. The author shifts effortlessly between the micro and the macro levels, and while the argument is complex, there are only a few technical sections that might deter the average business historian such as myself. It is hard to imagine any scholar besides Eichengreen who could have compared the two crises with such command of empirical detail, general development, and theoretical issues.

The main point in *Hall of Mirrors* is that decision makers had learned (some of) the lessons from the 1930s and therefore managed to avoid “the worst,” that is, a total breakdown of the financial system and the economy. As is well known, some of the important decision makers and advisers were scholars with extensive knowledge of the Great Depression. The chair of the Federal Reserve Board, Ben Bernanke, was one, and Christina Romer, the chair of President Barack Obama’s Council of Economic Advisors, another. More surprisingly, perhaps, British Prime Minister Gordon Brown is praised for being one of the actors who best understood what was at stake during the crisis. The reason for this assessment of Brown is at least partly that as a former history student he had studied the 1933 World Economic Conference in London.

For a moment it seems that Eichengreen comes close to arguing that people with historical knowledge are better decision makers than people without such knowledge. However, in the introduction he admits that economic historians did not fare better than economists when it came to foreseeing the crisis. Moreover, Bernanke is hardly one of the heroes of the story. He is criticized for, among other things, not recognizing the housing bubble, letting Lehman Brothers fail, and believing that the Great Moderation was not only real but also Fed-made. Indeed, in line with Irving Fisher, Hyman Minsky, and Charles Kindleberger, Eichengreen points to the importance of narratives for inflating the bubble in both the 1920s (New Era) and the 1990s (the New Economy) and 2000s (the Great Moderation).<sup>11</sup> He argues that the similarities

<sup>11</sup> See Charles P. Kindleberger and Robert Z. Aliber, *Manias, Panics, and Crashes: A History of Financial Crises*, 6th ed. (New York, 2011); Hyman Minsky, “A Theory of Systemic

between the 1920s and the 2000s were a warning sign, which Bernanke of all people should have noticed.

Among the many narratives carrying “lessons” from the Great Depression, Milton Friedman and Anna Schwartz’s *A Monetary History of the United States* (1963) is perhaps the best known. Essentially, Friedman and Schwartz blamed the Depression in the United States on the Federal Reserve’s failure to act as a lender of last resort and to provide liquidity to financial markets during the banking crises of the early 1930s.<sup>12</sup> While *Hall of Mirrors* has numerous references to the “lessons of the 1930s,” the “lessons of the Great Depression,” and more generally “lessons of history,” this case is the only explicit example where Eichengreen substantiates empirically how decision makers understood the crisis through the lens or frame of the 1930s. The empirical substantiation, of course, is the well-known speech given by Bernanke in honor of Friedman’s ninetieth birthday, in 2002, where Bernanke acknowledged the Federal Reserve’s responsibility for the Great Depression and continued, “We’re very sorry. But thanks to you, we won’t do it again” (p. 170).

Despite the promise, they almost did it again by allowing Lehman Brothers to fail, an event that Eichengreen characterizes as the “single most important policy failure of 2008” (p. 199). That failure led to a run on the shadow banking system, which had not been foreseen because the analogy of the 1930s focused on the commercial—not the shadow—banks. Friedman and Schwartz’s narrative framed the way decision makers perceived the world and where they, in turn, looked for signs of risk. Decision makers focused on the lesson from the 1930s concerning the risk of a run on the commercial banking system. The immense risks built up in the investment banks and other parts of the shadow banking system were blind spots and therefore neglected.

Lehman’s failure on September 15, 2008, had dramatic consequences both in the United States and in Europe. Governments and central banks mobilized all available resources in order to halt the crisis from developing into a breakdown as in the 1930s. Friedman and Schwartz’s lesson had been learned after all, and the worst was avoided in 2008 and 2009. Liquidity, currency swaps, fiscal stimulation, and international cooperation inspired by the lessons of the 1930s all contributed to this result.

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Fragility,” in *Financial Crises: Institutions and Markets in a Fragile Environment*, ed. Edward I. Altman and Arnold W. Sametz (New York, 1977); and Irving Fisher, “The Debt-Deflation Theory of Great Depressions,” *Econometrica* no. 1 (1933): 337–57. See also Hansen, “Making Sense” and “From Finance Capitalism to Financialization.”

<sup>12</sup> See Milton Friedman and Anna J. Schwartz, “The Great Contraction, 1929–1933,” part 7 in *A Monetary History of the United States, 1867–1960* (Princeton, 1963).

### Shift to a New Analogy

Having saved the world from another Great Depression, however, things took a turn for the worse. According to Eichengreen, another historical analogy with quite different lessons now came to dominate decision makers' worldview: the narrative of German hyperinflation and fear of a repetition of 1970s inflation. Historically based fears of inflation became the new dominant frame in 2010, when decision makers in both Europe and the United States prematurely shifted their focus to state budgets and therefore austerity, which soon caused economies to contract and unemployment to rise. This result is the ironic twist in *Hall of Mirrors*. Precisely because governments and central bankers avoided "the worst" by applying the lessons of the 1930s, they reefed the sails too early and caused a double-dip recession, also known as the Great Recession.

In other words, the Great Recession—like the Great Depression—was self-made. As Eichengreen has shown in his book *Golden Fetters*, the failure to leave gold and to devalue currencies in the 1930s forced countries to deflate their economies. This was what made the Great Depression great.<sup>13</sup> Eighty years later it was as if Andrew Mellon's liquidationism had returned, and this time around, to make matters worse, Europe had the modern equivalent of the gold standard, the euro—another political failure, in Eichengreen's view.<sup>14</sup> The result was that "Europe was doing even worse than in the Great Depression" (p. 353). So much for the lessons of history.

Even in countries with floating exchange rates, austerity became the order of the day. In the United States the rise of the Tea Party and the sequester took care of that, while in Great Britain, Prime Minister David Cameron made it clear that budget cuts had come to stay. Eichengreen is not a big fan of the idea of expansionary fiscal consolidation, where budget costs are supposed to instill confidence and create growth. He suggests that liquidationism and austerity may be "universal human instincts . . . not easily suppressed" (p. 384).

Austerity may be human instinct, or nature, but is it not as likely that "liquidationism" is a narrative deeply embedded in Western culture and related to private interests and power? As a matter of fact, Eichengreen's analysis mostly leaves out the question of whose interests were served by the policies pursued before, during, and after the crises. Questions of

<sup>13</sup> Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (Oxford, 1992).

<sup>14</sup> See also Barry Eichengreen and Peter Temin, "Fetters of Gold and Paper," *Oxford Review of Economic Policy* 26, no. 3 (2010): 370–84.

power also do not figure prominently in the analysis, which in my opinion is problematic.

In any case, Eichengreen's sympathies lie squarely with Keynesian theory. He approvingly quotes Franklin D. Roosevelt: "We accepted the final responsibility of Government, after all else had failed, to spend money when no one else had money left to spend" (p. 327). At the same time, he argues that FDR was a fiscal conservative who believed in balanced budgets. Eichengreen rejects the argument that the New Deal was a Keynesian exercise in fiscal stimulation. Only Japan conducted a truly Keynesian policy, while FDR's most important contributions to dragging the United States out of the Depression were leaving gold, devaluing the dollar, and easing monetary policy.

Eichengreen returns several times to the obligation "to spend money when no one else had money left to spend," but the authorities in Europe and the United States had not learned the Keynesian lesson. Instead, they only avoided "the worst" in 2008–2009 before the role of the state came under pressure more generally. Fiscal deficits exploded because nations felt compelled to bail out their banking systems, and the European debt crisis began.<sup>15</sup> With the arrival of the debt crisis, focus moved from the financial sector to the states as the villains. This shift had consequences for the European debt crisis. With states and governments as the new scapegoats of the story, and with the dominant narrative of the euro crisis, "which set abstemious Germans against profligate Greeks and, more generally, thrifty Northern Europeans against spendthrift Southerners," any agreement was (and still is) hard to reach (p. 373).

But the ironic tale of avoiding "the worst" continued, according to Eichengreen. Not only are the people of the United States and Europe paying a high price because of the ill-timed turn to austerity, but avoiding "the worst" also gave the financial sector time to regroup and lobby governments to ease or avoid new regulation. In combination with the size and complexity of the financial system, the result was that, unlike in the 1930s, postcrisis financial regulation did not amount to much. The Dodd-Frank Act sought to "strengthen the system rather than overturn it," as the Glass-Steagall Act had done (p. 320).

*Hall of Mirrors* ends on a somber note. Based on his in-depth comparison of the Great Depression and the Great Recession, Eichengreen concludes that "radical reform is possible only in the wake of an exceptional crisis," and he stresses that precisely because "the worst" was avoided, "success became the mother of failure" (pp. 324, 11). The result is that we are likely to see another serious crisis again.

<sup>15</sup> See also Mark Blyth, *Austerity: The History of a Dangerous Idea* (New York, 2013).

## Discussion

Eichengreen's history of the Great Depression and the Great Recession is a successful example of diachronic comparative history. Moreover, the ambition of addressing how policymakers used history and viewed the unfolding crisis through the frame of the Great Depression is highly laudable. However, this part of the book does not fully deliver on its promise, in my opinion. In this section I will discuss a few of the issues where I think Eichengreen could have gone further and identify areas where more work is needed in order to better understand how historical narratives or analogies of earlier financial crises are used to make sense of unfolding emergencies and how they constrain the choice set of policymakers.

In *Fortune Tellers*, Walter Friedman briefly recounts how “the 1920–21 crisis served as a baseline of sorts” to forecasters who used that analogy to make sense of the Great Depression.<sup>16</sup> Whether such analogies are explicitly referred to or just implicitly evoked in the shape of experience, they are consistently used to understand the present. Because such analogies guide our decisions and actions, they also shape the future. As Eichengreen argues in his presidential address, the Great Depression “legitimated certain responses to the collapse of economic and financial activity while delegitimizing others.”<sup>17</sup>

However, as I have indicated above, the lessons Eichengreen derives from the Great Depression are mostly his own, not those of the actual decision makers. Most of the time Eichengreen sticks to the first-order perspective, while the second-order perspective would have focused on how the actors explicitly or implicitly used historical analogies as a guide for making sense of the Great Recession. This is not a subtle difference but, on the contrary, an important distinction with significant implications for our understanding of the actions of policymakers. Rather than judging decisions and actions, we might be better able to understand why central bankers and others acted as they did if we knew how they made sense of what was going on.

When the next financial crash arrives, we are likely to once again see decision makers stumble along trying to make sense of scarce information, the meaning of which is rarely clear and unambiguous, especially during a crisis. Eichengreen recognizes this and argues that we can now better “appreciate how policy makers in the 1920s and 1930s were forced to take decisions on the basis of partial information” (p. 380). But the point goes further than that, I would argue. If narratives shape

<sup>16</sup> Walter A. Friedman, *Fortune Tellers: The Story of America's First Economic Forecasters* (Princeton, 2014), 200.

<sup>17</sup> Eichengreen, “Economic History,” 290.

perception, decision making is not just a matter of incomplete and scarce information. The available information also needs to be assigned meaning, before it can be used as a blueprint for decisions and action. This sense-making process is carried out through narratives. It is difficult to make decisions and to act before a reasonably consistent narrative explaining what is going on has been created.<sup>18</sup> That is what decision makers did during the 1931 and 2008 financial crises, and for better or worse they used the historical analogies available to them at the time.

If we want to understand these methods better, we need to focus on sense-making processes as decision makers go forward. In addition to narrative analysis, we might use the German historian Reinhart Koselleck's set of conceptual tools to make such an analysis. Koselleck's point that actors are situated in the present between a "space of experience" and a "horizon of expectation" enables us to think more systematically about the role of historical analogies in decision making.<sup>19</sup> *Hall of Mirrors* is already contributing to such a line of thinking in economic history, but I would argue that we need a more focused second-order analysis of how policymakers perceived the crisis within the constraints of the historical analogy of the Great Depression.

This scrutiny is even more necessary because, as Eichengreen also reminds us, "there does not exist a single historical narrative, but several. History is contested" (p. 382). In his presidential address, Eichengreen further argues that we will, therefore, "see more explicit attention to the question of how such narratives are formed."<sup>20</sup> This is exactly why there aren't any clear, undisputed lessons from history, as the debate about the causes of the 2008 financial crisis has made quite clear.<sup>21</sup>

It is hard to blame decision makers for not unambiguously understanding *the* lessons of history if history is contested and there is no single universally accepted historical narrative—no true lessons. There will always be an ongoing struggle over what an event means; that is why history is contested in the first place—it's about interests and

<sup>18</sup> See Mitchel Y. Abolafia, "Making Sense of Recession: Toward an Interpretive Theory of Economic Action," in *The Economic Sociology of Capitalism*, ed. Victor Nee and Richard Swedberg (Princeton, 2005); Mitchel Y. Abolafia, "Narrative Construction as Sensemaking: How a Central Bank Thinks," *Organization Studies* 31, no. 3 (2010): 349–67; and Hansen, "Making Sense."

<sup>19</sup> Reinhart Koselleck, *Futures Past: On the Semantics of Historical Time* (New York, 2004).

<sup>20</sup> Eichengreen, "Economic History," 304. See also *Hall of Mirrors*, 382.

<sup>21</sup> To see that there are widely different perceptions of what caused the financial crisis, one need only contrast Eichengreen's account with, say, Lawrence White's "How Did We Get into This Financial Mess?" (Briefing Paper No. 110, Cato Institute, Washington, D.C., 2008) or Peter J. Wallison's "Three Narratives about the Financial Crisis," *Cato Journal* 31, no. 3 (2011): 535–49.

power. In addition, as I read it, *Hall of Mirrors* is more a comparison of the two crises and how central bankers and governments responded to them than it is an analysis of how central bankers and governments used historical analogies and narratives (the lessons of history) to make sense of and halt the worst financial crises ever.

While I agree with most of Eichengreen's lessons, had he tried to trace how decision makers actually used historical analogies to make sense of the crisis, the result would have been more in line with the book's subtitle. Such an inquiry would have required more focus on the reasoning and explanations put forward by central bankers and other decision makers. Perhaps I am being the typical annoying reviewer and asking for a different book, but if so it is only because I agree with Eichengreen that decision makers, consciously or not, used analogies in their attempts to make sense of crises.

I suppose my concern is that the narrative/analogy framework so well discussed in Eichengreen's presidential address and in the book's conclusion is not consistently applied in the body of the book. Here, I believe, Eichengreen could have benefited from some of the recent research in business history and organization studies on narratives.<sup>22</sup> For instance, Eichengreen's focus on the "dominant narrative" in the euro crisis points toward accepting the influence of narratives on behavior. Twenty years ago Eichengreen explained the lack of cooperation during the Great Depression with reference to the "incompatible conceptual frameworks" of the actors.<sup>23</sup> The shift from "incompatible conceptual frameworks" to "dominant narratives" is important because it recognizes the role of narratives in shaping our perceptions and actions. Economic history has added a powerful analytical approach to its toolbox that now needs to be applied with a vengeance.<sup>24</sup>

What might such a second-order narrative analysis look like? When Eichengreen blames decision makers for neither understanding nor

<sup>22</sup> For general approaches in organizational history, see Marcelo Bucheli and R. Daniel Wadhvani, eds., *Organizations in Time: History, Theory, Methods* (New York, 2014); and Stephanie Decker, Matthias Kipping, and R. Daniel Wadhvani, "New Business Histories! Plurality in Business History Research Methods," *Business History* 57, no. 1 (2015): 30–40. Olof Brunninge, "Using History in Organizations: How Managers Make Purposeful Reference to History in Strategy Processes," *Journal of Organizational Change Management* 22, no. 1 (2009): 8–26; Hansen, "Business History"; Hansen, "From Finance Capitalism to Financialization"; Hansen and Wadhvani, "Business History and Anthropology"; Mordhorst, "Arla and Danish National Identity." Roy Suddaby, William M. Foster, and Chris Quinn Trank, "Rhetorical History as a Source of Competitive Advantage," in *The Globalization of Strategy Research*, ed. Joel A. C. Baum and Joseph Lampel (Bingley, U.K., 2010), 147–73.

<sup>23</sup> Barry Eichengreen, "Central Bank Co-operation and Exchange Rate Commitments: The Classical and Interwar Gold Standards Compared," *Financial History Review* 2, no. 2 (1995): 99–118.

<sup>24</sup> See also George Akerlof and Robert J. Shiller, *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism* (Princeton, 2009).

applying the lessons of the Great Depression to the Great Recession, I would argue that this failure might be understood in the context of the New Era and Great Moderation narratives that Eichengreen refers to in *Hall of Mirrors*. Is it not possible, even likely, that such narratives are important drivers of bubbles? And how can we expect decision makers to be able to see beyond these narratives when they see the world through them?<sup>25</sup>

My point is that rationality is embedded within the dominant narrative, such as the so-called Great Moderation, which shapes people's perception and worldview and, therefore, their actions or lack of action. Narratives create groupthink, what Robert Shiller has called a "social epidemic."<sup>26</sup> And narratives also work in smaller groups and in specific epistemic communities, such as the central bank community.

So narratives, I would argue, are cultural and social phenomena with economic consequences. Only very few economists (and historians, for that matter) cried financial bubble when stock markets and housing markets inflated during the 2000s. We, too, were under the influence of the narrative. A case in point is the official report on the Danish financial crisis of 2008–2009. The report refers several times to the "optimism" behind the bubble, but nowhere does it explore where this excessive optimism came from.<sup>27</sup> That optimism was likely driven by narratives that inflated the bubble, while investors and regulators alike failed to see through the social or cultural epidemic created by this thinking. Perhaps the best indicator of upcoming troubles in financial markets might come from tracking the narratives that drive the optimism needed for inflating a bubble. Financial institutions have already realized that language is an important variable when trying to make sense of financial markets.<sup>28</sup>

As Eichengreen says, historical narratives powerfully shape perceptions and reactions. But they do more than that. They not only create memory but also oblivion or blind spots by focusing on some things while leaving other things out.<sup>29</sup> This selective focus raises interesting

<sup>25</sup> See, for instance, Ben S. Bernanke, "The Great Moderation" (remarks at the meetings of the Eastern Economic Association, Washington, D.C., 20 Feb. 2004), available at <http://www.federalreserve.gov/BOARDDOCS/speechES/2004/20040220/default.htm>.

<sup>26</sup> Robert J. Shiller, "The Sickness beneath the Slump," *New York Times*, 11 June 2011. See also Akerlof and Shiller, *Animal Spirits*.

<sup>27</sup> Jesper Rangvid, "The Financial Crisis in Denmark: Causes, Consequences and Lessons," Ministry of Business and Growth, Denmark, last modified 18 Sept. 2013, accessed 25 Apr. 2015, <http://www.evm.dk/publikationer/2013/18-09-13-the-financial-crisis-in-denmark>.

<sup>28</sup> See, for instance, "Dow Jones Introduces News Analytics to Institutional Trading Community," Dow Jones press release, 14 Feb. 2012, <http://www.dowjones.com/pressroom/releases/2012/02132012-NA-0013.asp>.

<sup>29</sup> Daniel Geiger and Elena Antonacopoulou, "Narratives and Organizational Dynamics: Exploring Blind Spots and Organizational Inertia," *Journal of Applied Behavioral Science*

questions: Exactly what memories or analogies are remembered and which are forgotten, and why? Why, when, and how did memories of the Great Depression fade, only to be reactivated in the 2008 financial crisis? And why did the Great Depression analogy shift to the fear of inflation story in 2010?

It was most likely the eruption of the euro crisis that drove the shift from using the lessons of the Great Depression to using those of 1920s hyperinflation and 1970s inflation. This shift in historical narrative or analogy in turn made thorough financial and social reform impossible. The weakening of the state, and the Keynesian narrative more generally, also contributed strongly to the lack of financial reform, as did cultural capture, or groupthink, where officials and the public in general came to accept the narrative of finance as the wheels that drove the economy.<sup>30</sup>

Eichengreen argues that only if the Great Recession had been worse—an exceptional crisis—would groundbreaking reform have been possible; a narrative perspective offers an alternative interpretation. The Great Recession *was and is* serious enough to warrant deep reform. Why this has not happened and does not seem likely is because no consistent and coherent narrative has been put forward that can explain what happened and point us in a new direction. For a while in 2009 such an alternative narrative based on a Keynesian framework seemed to be under construction. However, as already mentioned, the European debt crisis effectively killed that alternative narrative and shifted the power balance once again. As a result the status quo prevailed.

In conclusion, *Hall of Mirrors* is not really a study of the uses and misuses of history by the actors and how history shaped their perceptions and decisions in the Great Recession. Together with Eichengreen's 2012 presidential address, however, *Hall of Mirrors* provides a convincing framework for economists and economic historians to build on. While we are waiting for that to happen, *Hall of Mirrors* is a must-read on its own terms: an outstanding analysis of the similarities and differences between the two great crises of the twentieth and twenty-first centuries.

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45, no. 3 (2009): 411–36; Brunninge, “Using History in Organizations”; Hansen, “Business History.”

<sup>30</sup> See Hansen, “Finance Capitalism to Financialization.” On cultural capture, see James Kwak, “Cultural Capture and the Financial Crisis,” in *Preventing Regulatory Capture: Special Interest Influence and How to Limit It*, ed. Daniel Carpenter and David A. Moss (Cambridge, Mass., 2013).