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Hall of Mirrors: The Great Depression, the Great Recession, and the Uses—and Misuses—of History by Barry Eichengreen.

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Economist Barry Eichengreen (Univ. of California–Berkeley) is well known for his work on financial economics and its history. He has no discernable interest in military history and in *Hall of Mirrors* he has nothing directly to say on the subject. He does, however, provide the clearest, best developed history of the economics of the paroxysmal asset-value crashes of 1929–30 and the Great Depression, long thought to be among the sequelae of the First World War and the toxic seeds of the Second. His new book strengthens this argument and clarifies the mechanisms of generation and connection. This is its principal relevance to military history.

Hall of Mirrors is a follow-on to Eichengreen's earlier book, *Golden Fetters*,[1] which transformed thinking about the Great Depression. Its central finding was that

> In the late 1920s, the gold standard was seen as the guarantor of economic and financial stability.… It turned out, however, that the gold standard as reconstructed after World War I was neither durable nor stable. Rather than preventing the 1931 financial crisis, it contributed to its development, first by creating a misapprehension of stability that encouraged large amounts of credit to flow toward countries ill equipped to handle it, and then by hamstringing the ability of governments to respond. The results were bank runs and balance-of-payments crises, as investors came to doubt the capacity of the authorities to defend their banks and currencies. Freeing themselves from the gold standard then enabled countries to regain control of their economic destinies. (12–13)

In *Golden Fetters*, Eichengreen compared nations to isolate the effects of their differences in policy and circumstance. These comparisons were typically quantitative and rich in data, but avoided formal statistical analysis. The author developed sophisticated models of underlying processes using conceptual and verbal forms of argumentation rather than purely mathematical or symbolic analyses. Technical details of finance were lucidly explained in terms suitable for policy-oriented audiences unfamiliar with the methodological apparatus of modern economics.

Hall of Mirrors is cast in the same mold, but the 2007 crash and subsequent "Great Recession" allow the author to contrast not only individual nations but also specific time periods, thereby illuminating much that was previously obscure or misconstrued. Virtually all the issues of the Great Recession had parallels in the earlier period. Applying lessons learned from the Great Depression, governments averted a similar catastrophe in 2007–8. But neglect of other lessons has caused lost economic output, human misery, and social and political unrest.

Unanticipated financial shocks have precipitated financial crises set up by "credit booms, asset bubbles, and the wrongheaded belief that financial-market participants have learned to safely manage risk" (3). In the background of the Great Depression was the physical and financial destruction wrought by World War I and the subsequent struggles of nations, political parties, and

1. Subtitle: *The Gold Standard and the Great Depression, 1919–1939* (NY: Oxford U Pr, 1995).

socioeconomic classes over enormous accumulated debts and the burdens of massive reconstruction. The consequent policy paralysis spawned severe inflation, most famously in Weimar Germany. The ensuing universal longing to return to prewar economic "normality" was not accompanied by a willingness to accept the social costs that had been part of it.

By contrast, the United States suffered less and emerged from the war far stronger than European countries. It was the only one of the belligerent nations that maintained the gold standard for international payments during the war and in modified form throughout the 1920s. Elsewhere, political, financial, and commercial elites saw a return to gold as the path to normality. But, because gold production had fallen far behind the pace of war inflation, returning to the gold standard entailed heavy economic costs.

To ease the pains of recovery, Europeans, especially Germans, turned to US bankers for loans. To the extent that the crushing burden of reparations was actually borne, it was almost entirely by Americans, who lent virtually every dollar paid. But later in the 1920s, bankers found even more attractive loan customers at home. In an era of surging economic growth and concomitant optimism, bubbles in property and securities became a source of profits (if also risks) for bankers and drew their funds away from a Europe still starved for credit. On a less dramatic scale, asset prices also rose in Europe, financed by European bank loans.

The inevitable downturn came at the end of the 1920s, when many banks were badly overextended. Under the gold system (even as modified in the 1920s), the fates of banks and national currencies were inextricably linked, making large-scale bank bailouts impossible. So, as banking panics spread through Europe and the United States, tottering financial systems endangered firms and individuals who depended on credit to conduct their economic lives. Production ground nearly to a halt during the worst depression in history.

In this environment, parties of the authoritarian right scored major electoral gains across Europe. In Germany, with its weak institutions, the National Socialists came to power.[2] Keynesian economic theory held that putting the unemployed to work in whatever capacity would bring prosperity and overall welfare, and Adolf Hitler's aggressive rearmament program did precisely that in Nazi Germany (263–64).

Japan, too, suffered a severe downturn, but its brilliant finance minister Takahashi Korekiyo's visionary economic program brought a swift recovery. Despite the generous funding the government provided for armaments production, Takahashi was assassinated in his bed in 1936 by army officers enraged that Japan's economic golden goose was not producing eggs fast enough (255–58).

Nowhere was the depression deeper than in the United States. President Herbert Hoover had some idea of what needed to be done, but eschewed government intervention in favor of a commitment to voluntarism that was wholly inadequate in the circumstances of 1930–32. When Franklin D. Roosevelt was inaugurated in March 1933, scarcely a bank remained open in any major US city and unemployment ran to more than 25 percent. FDR's understanding of economics was no better than Hoover's, but he was distinctly more receptive to new ideas in the face of new facts. Eichengreen objectively assesses the pluses and minuses of Roosevelt's economic policies and finds that, in the final balance, he did relatively little to accelerate the recovery, but also little to impede it. Employment and GDP recovered even faster than during the Great Recession eight

2. See further Stephen Broadberry and Mark Harrison, eds., *The Economics of World War I* (NY: Cambridge U Pr, 2005) 32–34; Alan de Bromhead, Barry Eichengreen, and Kevin H. O'Rourke, "Political Extremism in the 1920s and 1930s: Do German Lessons Generalize?" *Journal of Economic History* 73.2 (2013) 371–406; and Mark Harrison, "Myths of the Great War," in Jari Eloranta et al., eds., *Economic History of Warfare and State Formation* (NY: Springer, 2016) 135–58.

decades later. America was ready just in time to be the "arsenal of democracy" in World War II. Eichengreen demonstrates that neither Great Britain nor, especially, France was economically prepared for war in 1939. Regrettably, he does not discuss the situations of China or the Soviet Union.[3]

Throughout, the author highlights the role of human agency in finance with many sharply-drawn and judicious sketches of specific individuals and their actions. Of banker Hjalmar Schacht's stanching in 1923 of Germany's wild hyperinflation, for instance, he observes that "never one reluctant to engage in self-promotion, Schacht went on to claim that he had engineered the stabilization. The fact of the matter was that he was fortunate enough to assume his position as central banker just as the problem was solved" (40).

Eichengreen is, in general, better on the policies underlying economic processes than on the political and social forces that shaped them. And, too, details of the banking and financial systems per se,[4] though centrally important to his story, get short shrift. An invaluable appendix lists and briefly describes over *three hundred* individuals who figured in the two target crises. And the book's bibliography runs to nearly four hundred entries.

The author closes on a somber note. The searing experience of the United States in the Great Depression inspired financial reform measures to prevent another such calamity. They account, in his view, for the fact that it took nearly eighty years for the next major crisis to break. He worries because no comparable effort has followed the much milder Great Recession: "thus, the very success with which policy makers limited the damage from the worst financial crisis in eighty years means we are likely to see another such crisis in less than eighty years" (387).

Studies of the Great Depression and, increasingly, the Great Recession are superabundant, but students of either will find no better overview than *Hall of Mirrors*.

3. On which, see Paul R. Gregory and Joel Sailors, "The Soviet Union during the Great Depression: The Autarky Model," in Theodore Balderston, ed., *The World Economy and National Economies in the Interwar Slump* (NY: Palgrave Macmillan, 2003) 191–210, and Tomoko Shiroyama, *China during the Great Depression* (Cambridge: Harvard Univ Asia Ctr, 2008).

4. See further Gary Gorton, *Misunderstanding Financial Crises: Why We Don't See Them Coming* (NY: Oxford U Pr, 2012).