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The Return of Depression Economics and the Crisis of 2008; Financial Fiasco: How America's Infatuation With Homeownership and Easy Money Created the Economic Crisis

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The economic crisis of 2008-9 will no doubt spawn dozens of books. Here are two good early ones. The Nobel Prize-winning economist Krugman has extensively revised his 1999 book, *The Return of Depression Economics*, which focused on the emerging-market financial crises of the 1990s, to include the recent global crisis and explain it in layman's terms. There are remarkable parallels between the two periods, although the details, of course, differ. Inadequately regulated financial institutions, an extensive moral-hazard problem, and euphoric market expectations played important roles in both.

Norberg, a knowledgeable Swede, provides a much more detailed account of the broader events of 2007-9, from the useful perspective of a non-American. He finds plenty of blame with all the major players in the U.S. financial system: politicians, who thoughtlessly pushed homeownership on thousands who could not afford it; mortgage loan originators, who relaxed credit standards; securitizers, who packaged poor-quality mortgage loans as though these were conventional loans; the Securities and Exchange Commission, which endowed the leading rating agencies with oligopoly powers; the rating agencies, which knowingly overrated securitized mortgages and their derivatives; and investors, who let the ratings substitute for due diligence. Senior management in large parts of the financial community lacked an attribute essential to any well-functioning financial market: integrity. But solutions, Norberg warns, do not lie in greater regulation or public ownership. Politicians and bureaucrats are not immune from the "short-termism" that plagues private firms.

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