College of Business book reviewed by Dr. Beth H. Jones

Title: “Crisis Economics: A Crash Course in the Future of Finance”

Publisher: The Penguin Press

Length: 301 pages

Price: $27.95 list, $18.45 Amazon.com

Reading time: 7 hours

Reading rating: 7 (1= very difficult; 10 = very easy)

Overall rating: 4 (1 = average; 4 = outstanding)

IS THE OTHER SHOE ABOUT TO FALL?

Nouriel Roubini, the primary author of Crisis Economics: A Crash Course in the Future of Finance, has numerous claims to fame. He is an economics professor at New York University; has senior policy experience at the White House and U.S Treasury Department; founded an economic and financial consulting firm; regularly attends and present his views at international forums, including the World Economic Forum at Davos, Switzerland; and the list goes on. Another claim to fame is the fact he predicted the current economic crisis well in advance of its occurrence. Boom-and-bust cycles are his specialty. In this book he explains how the crisis occurred, what the government response has been (up to the date of publication of course), and, most relevant, what the future may hold. This is a future we can determine – will there be more boom-and-bust, finally culminating in an even more devastating world-wide depression than we had in the 30’s? Or will we do what he, and others, say is necessary to prevent it?

In the first few chapters Roubini and his co-author Stephen Mihm give readers a foundation on economic theory and history. The authors survey the many booms and busts of the past and explain the basic tenets of economic theorists Adam Smith, Karl Marx, John Maynard Keynes, and others. The next few chapters discuss how we got into our current mess. Sad reading, but the authors do an excellent job of summarizing a vast amount of information. In chapter 6 they describe the measures taken in response to the crisis. It was at this point the book became, for this reviewer, a real page-turner.

Some say government should not have intervened; let the chips fall where they may. These authors say that would have been disastrous; the original bailouts were an absolute necessity to prevent a worldwide meltdown. What the federal government has done since then, however, is massive and unprecedented and has created moral hazard on a grand scale (moral hazard exists when there is no consequence to bad behavior, for example, when banks that make very bad investments don’t have to pay for it; taxpayers do). In addition, they question how the government will be able to shut down some of the processes put into place during the emergency, that is, how the financial sector can be weaned off of easy money. Have we merely delayed, and potentially made worse, the day of reckoning? Are we just in the eye of the hurricane with the proverbial other shoe about to fall? That depends on whether or not we address some critical issues.

The authors believe reforms in the following areas are imperative: executive compensation (more on its structure than on its amount); the securitization process (so not ALL of the risk assumed by a company can be transferred to others); rating agency processes; derivatives (which Warren Buffett famously referred to as “financial weapons of mass destruction”); and Basel II banking guidelines, established by an international committee that meets in Basil Switzerland. We must fix the “too big to fail” issue as well as problems with the fragmented, decentralized state of regulation in the United States. And we need to do it now. To quote, “A financial crisis is a terrible thing to waste: it opens, however fleetingly, the possibility of real, enduring reforms of the global financial system” (p. 181).

The pros of this book include its writing style, which makes complex concepts accessible and understandable (clearly the authors are excellent teachers), and its references. Of course the book is replete with opinions; it’s an economics book that discusses fiscal policies, monetary policies, financial reform, and other incendiary topics. But the authors support their opinions with case histories and an extensive bibliography. Another pro is the extent of coverage. This book gives the reader an excellent understanding of how the financial crisis occurred, what the response has been in the US and many other countries, and what options lie ahead of us now. Whether this would be your first book on the topic or an addition to an extensive library, I highly recommend it.

Dr. Beth H. Jones is an Associate Professor of accountancy in the College of Business at Western Carolina University. Her interests include accounting education and mobile device security. For previously reviewed books, visit us at our website at www.wcu.edu/cob/.