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LOST DECADES

The Making of America's Debt Crisis and the Long Recovery

by Menzie D. Chinn and Jeffrey A. Frieden

“An integrated and compelling account of where our debts came from—and why they won’t go away any time soon. Read this book for a somewhat disheartening but completely enlightening education—and then send ten copies to the White House and Capitol Hill.”

—Simon Johnson,
MIT Sloan School of Management, coauthor of *13 Bankers*

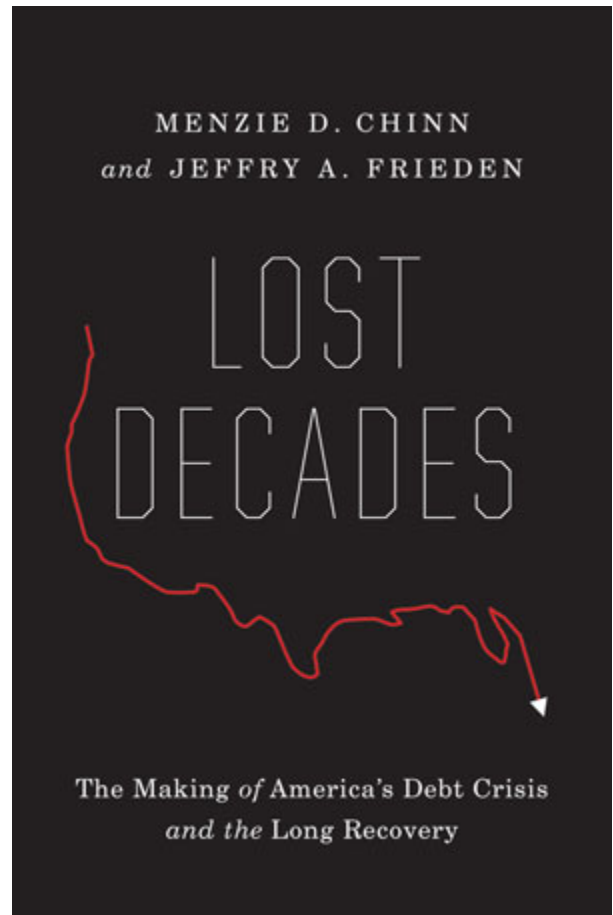
“An intelligent, vivid, and accessible account of the first great crisis of the twenty-first century. Drawing on comparisons that will bother recalcitrant believers in American economic exceptionalism, the authors depict a gloomy panorama for the years to come unless policy makers get serious about fiscal reform. This is a must-read for the expert and the layman alike.”

—Ernesto Zedillo,
director of the Yale Center for the Study of Globalization,
former president of Mexico

In December 2007, a decades-long global economic boom stumbled, ground to a halt, and then collapsed. As domestic and foreign markets crumbled in a matter of days, the news was flooded with reports of fraud and recklessness. Regulators were revealed to be, at best, toothless tigers or, at worst, silent partners in the hazardous practices that made the global system so vulnerable. The American public was suddenly introduced to an exotic menagerie of novel and risky financial instruments, from credit default swap derivatives to bottom trench mortgage debt packages.

Today, nearly three years later, Americans are still experiencing a weak, slow recovery to the mass of private and public debt that escalated throughout the housing boom, a deficit that will continue to hamper the economy for years to come. In **LOST DECADES: The Making of America's Debt Crisis and the Long Recovery** [W. W. Norton & Company; September 19, 2011; \$26.95 hardcover], Menzie D. Chinn and Jeffrey A. Frieden provide a clear, concise, and impartial explanation for the global recession, a crisis that was foreseen by informed observers and ultimately avoidable through appropriate policies. **LOST DECADES** proposes no-nonsense, nonpartisan solutions for rebooting the global economy and aiding the country through a difficult path to reach recovery.

Americans continue to face an economic crisis that will certainly be the defining event of the early twenty-first century; but to many, the causes of and solutions to the global recession remain opaque, obscured by financial jargon and political spin. Through a series of quick-moving narratives, Chinn and Frieden trace the historical roots of the crisis without falling into politically motivated stereotypes. The authors show how deregulation initiatives and clever accounting practices led to the development of a massive shadow banking system: a network of barely regulated and highly vulnerable debt-holding companies that banks used to skirt laws intended to shield them from dangerous levels of financial risk. This fragile system was powered by a housing bubble. Fueled by noble but often misguided efforts to make housing affordable to



all Americans, the government pushed banks to make loans to high-risk home buyers. Pundits and supposed industry watchdogs added further fuel to the fire by predicting, inexplicably, that housing values in America would never drop. Politicians, eager to take credit for a roaring economy, ignored numerous warnings from now-powerless regulators and from open-eyed financial sector insiders that the good times could not last forever. When housing values finally began to plummet, the bubble became a bomb planted in the heart of a system ready to implode.

Along with their diagnosis of the problem, Chinn and Frieden prescribe a practical, nonpartisan solution for getting the American economy back on its feet. The authors base their recommendations—a combination of well-conceived regulatory reforms and genuine economic discipline—on their extensive studies of previous debt crises in Europe, Latin America, and Asia. Eschewing simplistic political answers meant to score points with angry voters, Chinn and Frieden take a hard look at how other countries in debt crisis have saved (or failed to save) themselves to extract lessons America can use to begin the long process of recovery.

For a fair and lucid overview to the crisis that defines our time, and honest solutions based on real-world examples, **LOST DECADES** is the non-expert's essential guide to the past, present, and future of America's new economic landscape.

ABOUT THE AUTHORS:

Menzie D. Chinn teaches at the University of Wisconsin, Madison, and is the co-coordinator of the influential blog Econbrowser. Jeffrey A. Frieden teaches at Harvard University and is the author of *Global Capitalism: Its Fall and Rise in the Twentieth Century*.

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