Review of *Hall of Mirrors: The Great Depression, The Great Recession, and the uses – and misuses – of History*, by Barry Eichengreen. Oxford University Press, 2015, 512pp.

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Economists have essentially abandoned the idea of learning from history a long time ago. The *Methodenstreit*, opposing Gustav von Schmoller to Carl Menger, is often pointed out as a crucial moment signaling the tendency for economists to focus on exact laws, as Menger advocated, rather than historical analysis in the likes of Schmoller and the German Historical School, even if the contemporary mathematization of economics is hardly compatible with the key tenets of the Austrian approach established by Menger. The tendency to neglect history stands in contrast to Adam Smith's *Wealth of Nations*, regarded as the treatise that defined modern economic science. In the *Wealth of Nations*, we find much historical analysis following the eighteenth century narrative style, as Cliffe Leslie notes when criticizing the 'Ricardian' deductive reasoning that took over English political economy. But the various debates on the role of history in economics have now been forgotten within modern mainstream economics, which is characterized by the use of mathematico-deductivist models that are regarded as essential for economics to become a proper science. So much it is so that historical analysis, if it is to be undertaken at all, must also be undertaken using quantitative analysis, if it is to be regarded as proper science within mainstream economics.

Barry Eichengreen's *Hall of Mirrors: The Great Depression, The Great Recession, and the Uses – and Misuses – of History*, stands in contrast to contemporary mainstream economics, by pointing out how much we can learn from history when attempting to understand the contemporary economic world. But as the subtitle of the book reveals, a central tenet of Eichengreen's argument is that uncritical import of historical analogies can be as problematic as the lack of historical insight. In fact, it is not just the historical method, but any method that must be used under appropriate conditions. Mathematics proved to be extremely useful in laboratory settings where closed systems are artificially created so that exact measurement can be undertaken, and had already proved much useful when analyzing celestial mechanics which, during the human lifespan at least, constitute an approximately closed system, or at any rate one that can be measured with some exactness. But social reality constitutes an open system which is often best captured by narratives than by mathematico-deductivist methods that can lead to misleading conclusions once they take a life of their own, as Eichengreen notes. Thus, Eichengreen (2015, p. 9) regrets that while John Maynard Keynes relied mainly on narrative methods, his teachings have been much forgotten today, and his contemporary followers use essentially mathematical models in the belief that if government does not intervene, the economy will function according to the model.

Eichengreen's remark that Keynes' contribution is sadly forgotten today suggests that those he calls his followers are actually neglecting important Keynesian insights at a methodological and theoretical level. This neglect also explains many of the failings of economic theory and methodology when addressing the Great Recession. Eichengreen identifies several weaknesses in the theories and methods that guided economic decisions in the Great Recession, such as the belief in expansionary fiscal consolidation advanced by Alberto Alesina and Silvia Ardagna, and empirical evidence constructed to the neglect of basic methodological rules such as the one provided by Kenneth Rogoff and Caroline Reinhart, all of which influenced misguided policies. Eichengreen focuses not only on specific contributions, but also on the shortcomings of the overall approach to economic theory, method and policy stemming from the post-war Chicago economists, and freshwater economists (coming from universities around the Great Lakes region) in general. Eichengreen also criticizes what he sees as the more sophisticated, but equally misguided, German emphasis on combating inflation, contract enforcement and fostering competition, which guides contemporary European policies.

The references to economic theories made throughout the book suggest that Eichengreen would have much more to say about the state of contemporary economic theorizing than what he says in this book. And the reader, or this reader at least, feels that some further development of this topic could have been of help in understanding the economic policies followed in 1929-33, and in 2007-9. Keynes went as far as arguing that the world is ruled by little else than the ideas of economists and political philosophers. And Eichengreen (2015, p. 380) also notes that the history of what causes a crisis was less developed, not least because ideas about the "dangers of light touch regulation", albeit existent, "resided mainly on the fringes of economics", while concluding: "Why it remained outside of the mainstream is worth pondering further." Further analysis of economic theory could also help explaining, as Eichengreen (2015, p. 380) quickly adds, why "historians always did a better job of describing the fateful decisions that transformed the recession of 1929 into the Great Depression of the 1930s than of understanding the origins of the recession itself."

But the lack of further analysis of economic theorizing is compensated by a rewarding, concise, precise and insightful narrative that describes the main events and its key protagonists. And the book does advance a very important methodological insight for anyone aiming at a historically informed economics, by showing how the misuses of historical methods can be as misleading as the misuses of mathematical methods that characterize modern mainstream economics. Eichengreen (2015, p. 377) writes: "The historical past is a rich repository of analogies that shape perceptions and guide policy decisions." He adds that this is especially so during crises, when there is no time for reflection. But, one may add, this is also true in periods of greater stability. Social reality is deeply interconnected, so much so that it becomes impossible for the human mind to grasp all the relevant relations, much less formalize them in a mathematical model. Thus, the historical past helps us navigating through social reality by providing analogies between contemporary situations and previous socio-economic configurations that resemble the former. History provides the empirical evidence for economic reasoning. But it constitutes a type of empirical evidence that cannot be repeated in a laboratory and subject to exact measurement. Thus, it is left to the historian to find out how far analogy can take us. Without some historical analysis, the human mind would be lost in a mesh of complex and ultimately unintelligible relationships when analyzing social reality. But one must pay careful attention to resemblance and differences alike. Differences can be as important as resemblances, as the book shows.

Eichengreen identifies several analogies between the Great Depression and the Great Recession. Both saw a real estate bubble as a triggering cause, be it the real estate boom in Florida in the 1920's and the real estate boom in the United States, Ireland and Spain before the emergence of the sub-prime crisis. Both were connected to a fixed exchange regime, the gold standard in the 1920's, and the Eurozone more recently, which Eichengreen (2015, p. 382) sees as the "single greatest failure to learn appropriate lessons from this earlier history", for, as he writes: "The 1920s and 1930s illustrated nothing better than the dangers of tying a diverse set of countries to a single monetary policy." But Eichengreen also identifies important differences in the contemporary context, such as a greater importance of the non-bank financial sector of edge funds in the twenty-first century, especially in the United States, a greater commitment to preserve the Eurozone during the Great Recession than to maintain the gold standard during the Great Depression, and social safety nets that were not available in the 1930's when unemployment soared, which means, according to Eichengreen, that democracy is not at risk today as it was in Europe during the 1930's. Eichengreen's characterization of the contemporary state of democracy in Europe seems overly positive. But if the point is to compare the situation lived after the Great Depression with the outcome of the Great Recession, one can certainly agree with the idea that democracies proved more resilient in the latter case, than in the former case, and the welfare state and social safety nets built after the Depression surely played a central role here, as Eichengreen notes, even if European austerity made much damage to the European welfare state.

The persistence of austerity policies in Europe, and the failure in bringing about a stronger recovery, is explained by the key thesis advanced by Eichengreen in this book. This key thesis is that, during the Great Recession, the success in avoiding a Great Depression weakened the incentive and the argument for more radical action that was required in order to change the economic and financial system. That is, the success in preventing another Great Depression led to the belief that the situation was under control, and under no need of further reform. The situation was under control because the lessons learned from the Great Depression greatly shaped the policies followed during the Great Recession, avoiding the repetition of the Great Depression. Eichengreen highlights that monetary, fiscal and social policies were all required for preventing another Great Depression in the twenty-first century, and were all used just to the sufficient degree for doing so. But the belief that another Great Depression had been avoided also led to a tendency to provide an answer to the crisis that, albeit sufficient for avoiding another Great Depression, was insufficient for bringing about a recovery, thus allowing the emergence of a Great Recession.

Particularly worrying is the failure to reform the financial system. The belief that another Great Depression can be avoided by policy makers seems as comforting for those who see no need of reform as the belief that the economy functions as a mathematical system that prevailed before the Great Recession, and seems to remain a quite resilient view. The belief that the worst has been avoided seems to have led to the conclusion that all that is required is intervention at the right moment, which need not be supplemented by radical change of the existing regulatory framework, or of existing theories, methods and policies. In contrast to this conventional view, Eichengreen argues that deeper thinking about the causes of the Great Recession, informed by historical analysis, is necessary in order to formulate a national and international strategy for investing in infrastructure, education and research, so that resources can be used more productively, while also taking into account what kind of financial sector constitutes a better support for the nonfinancial economy. The failure to bring about these important changes leads Eichengreen to conclude that the success in limiting the damage of the worst financial crisis in eighty years also means that we are likely to see another such crisis in less than eighty years.

This books constitutes an extremely valuable contribution to our understanding of the analogies and differences between the Great Depression and the Great Recession. The reader is humbled by the detailed and informative narrative that captures the essential facts and events with great accuracy and precision, in a careful style of writing. The central thesis of the book, that success in preventing another Depression led to the Great Recession, is also very persuasive. But the idea that success can prevent further success also applies to the book itself. For the success in presenting a clear and insightful narrative that captures the main events, decisions and protagonists, also suggests that the key problems were connected to wrong decisions, rather than to the economic theories and methods behind those decisions. This is certainly not due to the author's unawareness of the role of economic theories and methods, for the brief references to this topic scattered throughout the book reveal that Eichengreen finds the topic an important one, and contain accurate and very insightful remarks on it. But it is also true that problems at the level of economic theory have been addressed by many in the course of the Great Recession, and a narrative aimed at capturing the events of the Great Depression and the Great Recession, while showing what history can teach us, has been lacking, not least because doing so is a risky endeavor. But it is a necessary one given the need of a historically informed perspective of the main events, decisions and protagonists behind the Great Depression and the Great Recession. And if we see such an historical narrative as the main aim of this book, it is hard to imagine how it could have been done in a better way.