

## Book Review: Wrong: Nine Economic Policy Disasters and What We Can Learn from Them by Richard S. Grossman

In recent years, the world has been rocked by major economic crises, most notably the collapse of Lehman Brothers, the largest bankruptcy in American history, which triggered the breathtakingly destructive sub-prime disaster. What sparks these vast economic calamities? Why do our economic policy makers fail to protect us from such upheavals? **Anna Grodecka** reviews **Richard S. Grossman's** contribution to the literature, and finds this an insightful and accessible read, especially recommended for economics students.

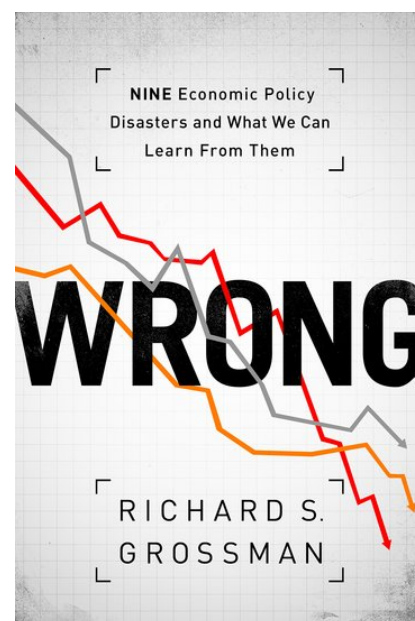
**Wrong: Nine Economic Policy Disasters and What We Can Learn from Them.** Richard S. Grossman. Oxford University Press. 2013.

### Find this book:

"We should be (...) wary of accepting common opinions; we should judge them by the ways of reason not by popular vote." These words of the French Renaissance writer and philosopher Michel de Montaigne could be a good summary of [Richard Grossman's](#) newest book *Wrong: Nine Economic Policy Disasters and What We Can Learn from Them*. Grossman, a professor of economics at Wesleyan University, describes nine economic policy failures from the past (both distant and more recent) and concludes that the main sin of the policymakers is the commitment to outdated economic ideologies and so-called conventional wisdoms.

Although it tackles a serious issue, the book is an enjoyable read. Starting with a quote from famous economists, politicians, and even Shakespeare, each chapter focuses on one economic policy mistake. The historical outlook prevails, although the last two chapters are devoted to the description of the sub-prime and the euro/sovereign default crisis. Grossman is aware of the fact that his book suffers from the lack of counter-factual analysis. The problem is that observing that a given policy had certain consequences does not mean that in the absence of the policy the consequences would not have occurred. We cannot apply laws of logics and sentence negation to reality, especially complex political and economic reality depending not only on rational analysis but also on the animal instincts of human beings, because causal relationships are very difficult to establish. Conducting counter-factual analysis is even harder. This of course does not mean that we should give up analysing past policies widely known as mistaken.

Grossman first describes the British Navigation Acts fuelled by the ideology of mercantilism that speeded up the process of revolution in the North American colonies. Then he discusses the history of the first two 'central' banks in the United States, whose charters were not renewed due to partisan divisions in the country which could have an impact on the evolution of several banking crises. There is also a chapter on the Great Famine in Ireland at the end of the 19<sup>th</sup> century, and the impact of policies and British Corn Laws on it. Grossman covers the well-documented mistake on the amount of war reparations imposed by the Allies on Germany after the First World War, as well as the return to the Gold Standard at the pre-war (too high) parity by Britain in the inter-war period. Another example of wrong economic policy that is described in the book is the Smooth-Hawley Tariff, which was a protectionist measure applied by the US in 1930. Lastly, before turning to the most recent policy mistakes, the author devotes one chapter to the infamous Japanese Lost Decade. What sounds like an enumeration of well-known policy mistakes already described in other books turns out in fact to be a fascinating collection of accounts providing interesting details and new insights into the subject. This is a well-written book that puts the events into historical and economic context. It certainly has a chance at becoming a best-seller and not solely a publication read by experts.



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As an example, we can take a closer look at the chapter on the Irish Famine, which took place from 1845-1852. Grossman not only describes what happened, but puts it into the perspective of other famines, starting from the BCE period. In terms of absolute numbers, the Great Hunger in Ireland was not the worst famine recorded but it did tragically lead to the death of twelve per cent of Irish population, forcing many others to emigrate. The author details how the potato – which originated in the Americas – arrived to a fertile Ireland, and that the poorest third of the Irish population consumed up to twelve pounds of potatoes per day (per capita). Only after this introduction the economic policy is mentioned. Grossman compares the responses of two Prime Ministers of the United Kingdom to the famine: Sir Robert Peel and Lord John Russell. Russell was so committed to the limited government intervention that he refused to buy food for the starving masses in order not to disturb the free formation of prices in the market. Similarly, he refused to increase the scale of public works that would give job to Irish workers so as not to disturb the free labour market. The paradox is that when the Great Famine occurred, Ireland was not a poor country. The Famine would not have been so ‘great’ if it were not for the free market ideology followed by the policymakers at that time. As it turns out, leaving things to the invisible hand of market is not always an optimal solution.

Another interesting chapter is devoted to the Lost Decade in Japan. Entitled *Why Didn't Anyone Pull the Andon Cord?* the chapter begins with an explanation of the method of solving problems applied in the Toyota production system: when some potential problem is discovered, a worker may pull the andon cord that activates a signboard and starts the process of solving the problem. If the problem is not resolved within a specific time, the whole production is stopped until the issue is cleared. So, unlike the Toyota employees, Japanese authorities in the 1990s did not pull the andon cord and continued “production” despite obvious economic problems in the country. Grossman focuses on the relationships between the Japanese Ministry of Finance and the banks’ personnel. Each bank had a clerk – *mofutan* – who stayed in daily contact with one employee of the ministry. Very often ex-ministry employees found work in the banks they were supervising before, once their ministerial duties were over. This sort of opaque relationship between the supervisory authority and banks in the end led to an inaccurate response to the crisis. Japanese officials did everything to maintain the status quo, refusing to introduce necessary changes or restructure the banking system for almost a decade. This chapter will be a treasure for economics students.

Of course, not all stories presented in *Wrong* are equally captivating. The two last chapters on the recent economic crisis seem to be the weakest, as they do not provide any new information from the perspective of a person that followed the news and other publications on the subject. But all in all, Grossman does an excellent job in picking up the most severe economic policy mistakes, providing a thorough description and analysis of them, and giving us anecdotes linked to the described events. *Wrong* is a very eloquently written book that leaves the reader with many new insights.

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