(2015) 45, 195–202

The Review of Regional Studies

The Official Journal of the Southern Regional Science Association

BOOK REVIEWS

Book Review Editors:

Leslie Dunn and Robert Dunn

Department of Economics and Business, Washington & Jefferson College, USA

ldunn@washjeff.edu rdunn@washjeff.edu

Atif Mian and Amir Suffi. 2014. *House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It from Happening Again*. University of Chicago Press, Chicago, IL, USA. ISBN: 9780226271651, 232 pp., $15 (hardcover).

Reviewed by *J. Sebastian Leguizamon,* Western Kentucky University

The Great Recession not only cost millions of Americans their homes, but also their jobs and their ability to consume. Between 2007 and 2009, the American economy experienced the biggest setback since the Great Depression in the 1930s. During those 18 months, the United States experienced a vast decline in gross domestic product (GDP). Most of the blame was attributed to banks and other financial intermediaries with one of the reasons for the severity of the Great Recession being the banks' assumed insolvency. With most of their assets tied in mortgage-backed securities, banks were unable to provide additional loans that could potentially help to stimulate the economy. This led policy makers to focus on providing banks with the necessary funds to restore the flow of credit, which would ultimately increase economic activity. Though this is not the only instrument to increase spending and aggregate demand, it appeared to be the one that could yield the greatest benefits to the economy. But this was not true for all. Among authors trying to make sense of what caused and what can be done to avoid similar recessions, *Atif Mian* and *Amir Suffi* stand out. They believe that while it is true that the Great Recession was especially severe due to the lack of access to cash, promoting debt in a highly leveraged economy was—and can be—rather counterproductive.

As the title of their book suggests, the authors' purpose is twofold. In the first half of the book, they conduct one of the most comprehensive studies on the true cause of such great economic contraction. Mercifully disdainful of complex academic jargon, the authors guide the reader through a series of empirical exercises as they argue that it was excess debt that caused much of the damage. Using detailed regional economic data (i.e., at the zip code level), Mian and Suffi show that, despite what most of the public believed at the time, debt was to blame for the 2007-2009 recession. That is opposite of the argument made by many others that it was the banks' insolvency at the root of the problem. Having this in mind, the authors devote the second half of the book to what they believe would be a much better approach to policy making.

ISSN 1553-0892, 0048-749X (online)
www.srsa.org/rrs

According to them, policy measures that aim at reducing debt rather than promoting it would have made the recession less severe.

While most of the public focused on the banking crisis, which in turn led to a lack of lending and thus a lack of economic activity during the recession, leading to the bailouts in the short run and the Dodd-Frank regulations in the long run, Mian and Suffi provide sufficient evidence that banks' inability to lend had nothing to do with the severity of the recession. They show persuasively that most of the financial system was repaired by 2009, when the economy was still contracting. Mian and Suffi delve into the other possible causes and show that too much debt continued to dampen the economy. While the incredible credit has helped most Americans economically, their indebtedness was particularly hurtful to society at large. Why was debt so detrimental to the U.S. economy? In a simple and yet clever exercise, Mian and Suffi show the average reader how the decline in housing prices mostly affected those in debt. This is true even in the case of the most responsible borrowers.

Most Americans buy their homes with the help of bank loans. In the best scenarios, they pay 20 percent of the home value outright using their savings and borrow to pay the remaining 80 percent. Since the loan is a legal obligation, when prices fall, it effectively reduces home equity, but not the amount they owe. When prices fall by more than 20 percent, all homeowner equity in the house vanishes. In other words, if the household has no other assets, the totality of their wealth disappears. When their properties were worth less than the amount owed, many homeowners to strategically chose to foreclose. As households' wealth decreased, so did their spending. That is, households generally opted to save what earnings they could. This in turn decreased the demand for goods, which decreased both revenues and profits for firms. Not surprisingly then,, forcing employers cut costs and laid off workers in the process. Fewer jobs lead to even lower spending, creating a vicious cycle. This problem was exacerbated during the Great Recession due to the large number of homes that were purchased with very little equity. Mian and Suffi use data to show that this simple theory indeed underlay the dynamics of the United States economy from 2007 to 2009.

How can we prevent such a cycle in the future? Mian and Suffi criticize the path taken by policy makers at the time. They acknowledge that even though the policies adopted intended to stimulate spending, the provision of additional credit was not the right approach. By providing liquidity through credit, policy makers thought that companies and other consumers would start borrowing and spending. Small and medium enterprises, which rely heavily on bank financing, would then be able to access credit, hire more people, increase employment, and set the economy in the opposite direction. But it was not access to credit that was thwarting economic activity. A survey of small businesses suggested, as shown by the authors, that the biggest constraint was demand for their goods and not access to credit. But the problem was those most likely buy their products were those who were struggling to keep up with their mortgage payments.

By dividing the economy into borrowers and creditors, Mian and Suffi illustrate that borrowers have a higher marginal propensity to consume. Wealthy individuals (i.e., those who are able to provide credit through their savings) were not only less likely to be affected by the fall in home prices, but also less likely to change their consumption patterns due to increases in their disposable income. As such, the policies adopted at the time were deemed to be ineffective since they benefited creditors rather than borrowers. Mian and Suffi, therefore, suggest that policy makers should have used other tools to stimulate spending.

In their view, debt reduction would have helped those with the highest marginal propensity to consume. Instead of bailing out the banks, the government could have used the funds to help homeowners with underwater mortgages. This leads the authors to suggest that a home financing in which both lender and borrower share the risk of falling prices will help avoid severe recessions. In such structure, the borrower alone does not bear the entire burden of a sudden decline in prices. This, according to the authors, helps to keep spending up during a recession, while also preventing excessive borrowing in the future since creditors will be more careful when lending money.

Overall, *House of Debt* is perhaps one of the most important, best documented books about the important economic factors that contributed to making the 2007-2009 recession such a "Great" episode for the American economy. However, despite its potential importance, the book does not perfect recollect all of the pertinent facts. Mian and Suffi do a masterful job of compiling a great deal of academic research into an easy-to-follow volume that can be read by a lay person, even those with little economic training. But the book fails to provide the reader with the context in which policy is made, especially at a time of urgency. Other economists, such as Lawrence Summers who was part of the economic team making decisions at the time, have correctly pointed out that policy making and its implementation unfortunately are not always as easy as some academics seem to suggest. According to those involved in crafting the policies employed, some of the suggestions in the book were seriously considered at the time. Restructuring debt for millions of households across the United States, thereby increasing consumption among those with the highest marginal propensity to consume was something that the Administration deemed nonviable. Among other obstacles, it was deemed unlikely that lawmakers in Congress would pass such measures at that critical juncture.

Although the authors rightly suggest that excess debt was the most important determinant of the Great Recession, they seem to omit mentioning some of the policies that led to it. Mian and Suffi do account for the lack of regulations in the securitization of financial assets, but they fail to mention some of the other policies that created the bubble in the first place. This is, of course, not their main concern. Many critics of their work highlight the many government programs that created overconsumption of housing. While this may be true—, and the failure to elaborate on this issue does partially weakens the book—one must be careful with such a criticism. It is worth noting that those critics may be misinterpreting the purpose of the book: to illustrate through a careful empirical analysis the causes of such a "Great" recession, rather than a milder one.

In the realm of all the recent work on the 2007-2009 economic crises, Mian and Suffi's stands out. They carefully take the reader through a short, yet informative journey of how the United States ended up in such an extended period of economic contraction, with millions of people losing their jobs, and many more still claiming unemployment benefits. Most importantly, Mian and Suffi make sure to not only point out where we went wrong. They go beyond what many have done and dare to propose a system that could prevent a similar case, even though it may be one that is not politically feasible.

Scott Barrett, Karl-Göran Mäler, and Eric S. Maskin, eds. 2014. *Environmental & Development Economics: Essays in Honour of Sir Partha Dasgupta.* Oxford University Press: Oxford, UK. ISBN: 9780199677856, 432 pp., £60.00 (hardcover).

Reviewed by *Elham Erfanian,* West Virginia University, School of Natural Resources

In honor of Sir Partha Dasgupta, Professor Emeritus of Economics at the University of Cambridge, his former students *Scott Barrett, Karl-Göran Mäler*, and *Eric Maskin* provide a collection of essays related to development economics and environmental issues. The editors argue that in modern economics, there is no economist like Partha Dasgupta. In addition to his interest in development economics, he made contributions to game theory, industrial organization, voting and social choice theory, science and R&D policy, social capital, and project appraisal. They argue that unlike most economists, Dasgupta believes that the lives of people can be improved even if currently dysfunctional.

The book is divided into four sections. In Part One, the editors briefly explain Dasgupta's contribution to the field of environmental and development economics. Part Two includes three theoretical foundational essays authored or co-authored by Nobel Prize recipients *Joseph E. Stiglitz, Kenneth J. Arrow*, and *Elinor Ostrom*. Part Three is a series of applied essays focused on environmental issues like climate change, forest degradation, and health impacts in developing counties such as Nepal, authored or co-authored by an economist from a developing country. Each essay is followed by a two- to three-page commentary. The book ends with the fourth section that contains an article related to the poverty-environmental-population nexus in India.

The second section begins with "Learning, Growth, and Development" by *Stiglitz*. He argues that differences in knowledge are more important to developed and developing countries than are differences in resources. If knowledge is a special kind of information, then both knowledge and information are public goods, subject to the same problems associated with many public goods. Stiglitz argues that the reason why industrial policies such as subsidies do not work properly is that information imperfections result in capital market imperfections. He introduces a two-period model focusing on optimum learning when labor is the only input to production and then expands the model. From this, he concludes with the recommendation to developing countries that by developing their own learning capacities they will earn more benefits than borrowing technology from industrial countries.

In Chapter 3, *Arrow*, *Paul R. Ehrlich*, and *Simon A. Levin* try to explain the concept of complex adaptive systems (CAS) and its links to ecosystems and socioeconomic systems. Emphasizing that adaptation does not necessarily result in optimization, they recommend that policy analysts and the public sector pay more attention to the "precautionary principle." In Chapter 4, *Ostrom*, *Clark Gibson, Sujai Shivakumar*, and *Krister Andersson* argue that the reason why international aid is not helping to solve developing countries' challenges is due to the asymmetric nature of the information involved. Due to missing information, donors cannot know enough about the socio-political and economic situation in the country receiving aid. They conclude with some recommendations for donor organizations in Sweden as well as other industrial countries.

Part Three includes seven articles focused on issues in developing countries by less well-known scholars, while Stiglitz, Maskin, and other more well-known scholars provide commentary. For example, the first paper in this section is on "Climate Change, Cookstoves, and Coughs and Colds" by *Krishna P. Pant, Subhrendu K. Pattanayak* and *Min B. Malla Thakuri*.

Stiglitz subsequently presents evidence that shows better stoves could reduce respiratory illness, as well as additional salutary benefits. He does so by noting that the benefit of improving cooking stoves is not limited to a reduction in respiratory diseases. Moreover, Stiglitz discusses the difficulty in quantifying all of the related benefits and costs.

In Chapter 11, *Albert N. Honlonkou* and *Rashid Hassan* introduce some game theory to identify the optimal contract for monitoring illegal exploitation of co-managed forests in Benin. Their empirical results show that the contract devised by public officials was not well-designed since it allowed for considerable opportunistic behavior. They suggest that recognizing relations between agents and considering incentives properly could help in achieving both public and private goals. In his comment, Maskin suggests that the authors' model could interject an incentive to encourage agents to act properly.

Chapter 13 is a case study of a fishery in Argentina by *Sebastian Villasante, U. Rashid Sumaila,* and *Manel Antelo*. They also start with a game theory framework but do so to explain why cooperation is better than non-cooperation among fishermen. Their model shows that reduced fishing effort increases the stock of fish, which is the reason why cooperation works. In his comment, *Peter Hammond* introduces a very similar model but imposes different assumptions; using this vehicle, he recommends that the authors expand their theoretical model to include more realistic assumptions such as incomplete information and a nondeterministic cost function for firms.

Occupational and environmental health impacts from mining in Orissa, India, is the topic of Chapter 15 by *Karnjana Sanglimsuwan, Erin O. Sills, Subhrendu K. Pattanayak, Shubhayu Saha, Ashok Singha*, and *Barendra Sahoo*. The authors look at five different diseases. Among the five they find that respiratory disease, fever, and waterborne disease are positively correlated with working in ore mines. In his review, *Solow* recommends more-inclusive investigation on the topic since working in a mine has two effects: an increase in direct exposure to pollutants and higher income. The former increases incidence while the latter decreases incidence.

The last article in Part Three by *Rosalina Palanca-Tan* investigates the value of a mortality risk reduction and statistical life among children in Metro Manila using a two-stage willingness to pay (WTP) method. They reveal a significant income effect for vaccine demand. *Shanta Devarajan,* the Chief Economist of the World Bank's Middle East and North Africa region, comments on the paper by asking a question about rationality. He argues that some parents smoke, which is not perfectly rational behavior since it encourages, albeit unwittingly, unhealthy performance in their children. By extension, he then warns that parents should not be expected to be perfectly rational in other health-related actions regarding their children, such as such as vaccinating them.

The final chapter is on natural resources and chronic poverty in India by *Amita Shah*. Shah argues that poverty in India is concentrated in a few states and that community-level involvement in natural resource management is insufficient to reduce the poverty rate. The chapter concludes by recommending that the poor need an agency to negotiate their claims over resources. By focusing on different regions of India and poverty, this chapter is the one that is most likely to be appreciated by the readers of this journal.

Researchers who are interested in issues related to economic development and natural resources in developing countries should read the book. Since the social attributes, institutions, and structure of the economy in these countries is very different than developed countries, regional scientists focusing on regional growth should gain considerable insight.

More generally, the idea of gathering theoretical and empirical essays in some way related to Dasgupta's diverse fields of interest is laudatory. The editors did a fine job in organizing the volume, and the use of comments by well-known economists was a nice addition. Not only are their comments insightful, it can be helpful for younger scholars reading the book to see how even very good papers can be improved. It would have been useful to have a concluding essay written by Dasgupta in order to give the readers more insights to his thought process and how he sees his contributions. In addition, general readers could have benefitted from an introductory essay from the editors summarizing the more theoretical papers.

Ian Goldin, Geoffrey Cameron, and Meera Balarajan. 2012. *Exceptional People: How Migration Shaped Our World and Will Define Our Future.* Princeton University Press: Princeton, NJ, USA. ISBN: 9780691156316, 384 pp., $24.95 (paperback).

Reviewed by *Thomas A. Knapp*, Penn State University, Wilkes-Barre Campus

> Migration is the orphan of the global institutional architecture. The international institutional and legal framework is silent on systematic migration issues, other than refugees. Responsibility for migration falls chaotically between several international agencies that currently have neither the mandate nor the capacity to address key global concerns regarding migration.

The above quote from is from the book's introduction (p. 7) and reveals its thesis—the underappreciated role played by international migration in the growth of civilizations throughout human history and especially in the modern era. The authors posit that, given the parameters of our increasingly globalized world, there will be a significant increase in immigration in the coming decades for which policymakers are unprepared in a number of respects. The crucial policy claim put forth by *Ian Goldin, Geoffrey Cameron*, and *Meera Balarajan* is that a modest relaxation of immigration constraints will produce significant net positive benefits to the global economy, particularly for the developing world, due to a more efficient allocation of labor. But massive and systematic global reform is needed to redesign the treatment of migrants across national borders in order to accommodate the projected increase in international migration.

One aspect of the problem is that the variety of national policies toward immigration are generally ill-equipped to handle larger flows of labor that are believed to be necessary in the maturation of the global economy. Demographic trends in the developed world suggest impending labor shortages; as a result they have made the idea of liberalization of immigration policies more palatable. As the authors note, however, most immigration policies around the world are either explicitly or implicitly designed to impede labor flows, except in certain circumstances. Immigration policy is generally formulated under the assumption that the costs of immigration exceed the benefits. Immigration policy seems largely uninformed by the vast body of research from a variety of fields on the economics of immigration, and on the social impacts of immigration. The authors first summarize their argument in an introductory chapter (p. 2), noting that they will "question the received wisdom that an increase in the flow of international migrants is undesirable." Part 1 of the book describes the long human history of migration. This section provides an excellent historical contextualization of the crucial role of migration in human progress. This helps frame the subsequent analysis in the following sections. Part 2 describes the present; i.e., the history of immigration policy in the modern era. Part 3 discusses the future. This final section contains the main policy prescriptions put forth by the authors, where a foundation for these arguments has been set out in the prior sections.

Part 1 is comprised of three chapters. The first contains an excellent narrative of the earliest civilizations and the crucial role migration played in the transfer of knowledge and technology transfers. The second chapter covers the post-Columbus era, where globalization meant vast empires, conquest and imperialism, and massive proliferation of slave trade and indentured labor. The period 1814 -1914 is discussed in the concluding section of the chapter in which the developed major powers witnessed the "age of mass migration" (p. 58) that ultimately led nations to begin to develop some early aspects of modern immigration policies.

Chapter 3 discusses the 1914-1973 period, during which nations generally began to restrict immigration. The book incisively describes the advent of the passport, and several rather grim events of the era: the rise of eugenics, and the disarming role played by race in the parameterization of immigration policy, and forced migrations and displacement of indigenous people imposed by oppressive regimes. The post-World War II rebuilding of Europe experienced a fundamental shift in public policy in that labor shortages were used to justify the creation of guest worker programs. A concurrent rise of refugee flows followed the reconstruction of national borders.

Part 2 has three chapters. Chapter 4 surveys the research on the decision to migrate, while Chapter 5 provides an overview of the current state of immigration and border control. Chapter 6 then assesses the impacts of immigration on receiving and sending nations.

It is in this chapter that the authors make a crucial argument: modest liberalization of immigration policies around the world would lead to output gains of a similar magnitude to the combined effects of trade liberalization (the move toward nearly free global trade in the last decades) and the current rate of development assistance. In this context the authors address the economic, social, and political concerns about international migration. Perceptions of the economic and socio-cultural impacts of immigration tend to focus on short-term costs and, perhaps more importantly, the localization of such costs. The negative perception of immigrants' impacts on local labor markets and the concentration of lower-income immigrants in declining communities are perceived to add undue strain on community resources; They, therefore, generate a political calculus that results in policies that are generally shortsighted. The longstanding issue, quite analogous to arguments about trade liberalization, is that the (larger) economic benefits are widely distributed, while the costs are localized and uncompensated. There is a discussion of research on the societal effects of immigrants on the formation of social capital and on the role of diversity (due in part to immigration) in engendering productivity growth. The authors argue that the impact of emigration on sending countries may no longer be oversimplified as a brain-drain problem. The desire to emigrate can lead to a net positive effect on home-country human capital due to the positive outcomes for the emigrants that subsequently lead to rising demands for education. The remittance market also has evolved into a financial system that benefits home-country economies more than previously realized.

The third and final section of the book focuses on future prospects. Here the authors make their case for an overhaul of immigration policies. The primary driver of the projected major increase in international migration is the logical continuance of globalization. The authors argue that in an increasingly globalized economy, a nation's ability to foster the growth of its labor force becomes crucial for national competitiveness. With the developed world's impeding demographic transition, accomplishing this task means taking full advantage of the prospective increase in global migration. The authors suggest that this will require reforming immigration policy in virtually every respect. The book closes with a discussion of a global migration agenda.

The authors provide an interesting and very reader-friendly analysis of international migration and the importance of rethinking global policies toward it. The book is well suited for graduate programs in public policy linked to international relations and globalization, and should be read by politicians and policymakers alike.