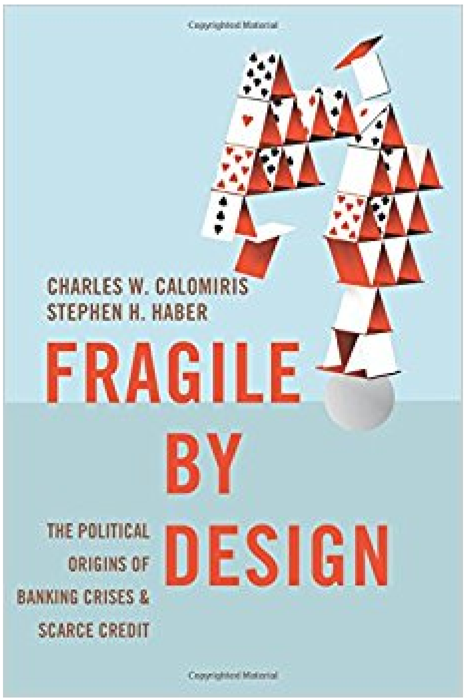
Fragile By Design: The Political Origins Of Banking Crises And Scarce Credit (The Princeton Economic History Of The Western World)



Synopsis

Why are banking systems unstable in so many countriesâ •but not in others? The United States has had twelve systemic banking crises since 1840, while Canada has had none. The banking systems of Mexico and Brazil have not only been crisis prone but have provided miniscule amounts of credit to business enterprises and households.Analyzing the political and banking history of the United Kingdom, the United States, Canada, Mexico, and Brazil through several centuries, Fragile by Design demonstrates that chronic banking crises and scarce credit are not accidents. Calomiris and Haber combine political history and economics to examine how coalitions of politicians, bankers, and other interest groups form, why they endure, and how they generate policies that determine who gets to be a banker, who has access to credit, and who pays for bank bailouts and rescues.Fragile by Design is a revealing exploration of the ways that politics inevitably intrudes into bank regulation.

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This learned inquiry deserves ample attention from scholars, regulators, and bankers themselves."--Publishers Weekly"Calomiris and Haber offer a thoughtful counter-argument to the current received wisdom."--Howard Davies, Times Higher Education"Readable, erudite, myth-busting. . . . The authors' clear and well-documented discussion of what happened should dissuade anyone of the myth that the economic crisis of 2007-09 was caused by the profit-and-loss system of unfettered capitalism."--Gene Epstein, Barron's"Charles Calomiris and Stephen Haber make the compelling argument that a country's propensity for frequent banking crises is linked to the ability of populist elements to hold the banking sector to ransom."--Louise Bennetts, American Banker"This is a great history of political interference in bank regulation."--James Ferguson, Money Week"One reason why economists did not see the financial crisis coming is that the models most macro and financial economists deal in are free of politics. Fragile by Design offers a much-needed supplement."--Martin Sandbu, Financial Times"Will a next crisis be averted? Perhaps, if our regulators read this book."--Vicky Pryce, The Independent"Fragile by Design . . . is a great book. . . . [E]normously illuminating, and contains the most powerful and concise account of the causes of the 2008 crisis that I have seen."--Eric Posner, EricPosner.com"If you have time to read only one book about the causes of the 2008 financial collapse, read this one. . . . Charles W. Calomiris and Stephen H. Haber . . . have written an exhaustively researched and readable volume. . . . With great literary sensibility uncommon to economists, Calomiris and Haber have performed a public service by painstakingly identifying these root causes."--Diana Furchtgott-Roth, National Review"Capital markets, regulatory institutions and the behaviour of people employed in the financial sector are neither predetermined nor universal, but rather the product of culture, history, and the political system. That is a perspective developed effectively by Profs Calomiris and Haber."--John Kay, Financial Times"[T]he methodology is universally applicable and obviously raises questions about the nature of these arrangements in a country like France. . . . [T]his work allows us to understand better why . . . the alleged remedies and reforms, from 'unconventional measures' major central banks to new regulatory structures, no way affect the old paradigms and therefore merely prepare the next crises."--Phillipe Ries, Mediapart"Exploring the ways in which politics inevitably intrude into banking regulation, Calomiris and Haber clearly describe events leading to the recent financial crisis of 2007-2009. . . . This is an excellent work for understanding the role of credit and how the financial sector evolved in different settings."--Choice"This is a beautifully-written book. Calomiris and Haber are always thoughtful, always clear, and they have an eye for the telling metaphor and the thought provoking fact. More importantly, the book reflects the authors' mastery of a vast amount of material on the history of banking. . . . Fragile by Design is a must-read for economic historians, a book to be put on the shelf with . . . similar classics."--Hugh Rockoff, EH.Net"[I]f you want a methodology for drawing conclusions about the genesis of crises and an explanation for the differing experiences among countries, Fragile by the Design is the winner hands-down."--Vern McKinley, Cato Journal"Charles Calomiris and Stephen Haber's Fragile by Design is a magnificent study of the economics and politics of banking."--Mervyn King, Bloomberg Businessweek"Hands down the best single book for understanding the historical journey that laid the groundwork for the financial crisis."--Jeffrey Lacker, Bloomberg Businessweek"Fragile by Design is a call to action for people to seize the moment to resist crony capitalism."--Jay Weiser, Weekly Standard"One cannot help but admire Calomiris and Haber's ambition to write one of the most accessible and sophisticated books on the linkage between political institutions and national financial systems."--Caner Bakir, Public Administration"By any yardstick, Fragile by Design is a remarkable achievement and an important contribution to our understanding of the roots of the banking crises."--Grant Bishop & Anita Anand, Banking & Finance Law Review

"A seminal political economy analysis of why banking varies so much across countries, with such profound consequences for economic development and social welfare. Not just fascinating and original, but also right."--James Robinson, author of Why Nations Fail"A monumental intellectual and scholarly achievement that will shape thinking on finance and politics for decades to come. A book for the ages, whose insights are delivered in a lively, punchy, and nontechnical narrative."--Ross Levine, University of California, Berkeley"A major contribution to our understanding of banking, showing why nations need banks, why banks need the state, and how the quality of banking depends on how the 'Game of Bank Bargains' is played between politicians, bankers, and a penumbra of key protagonists."--Charles Goodhart, London School of Economics and Political Science"What explains the dramatic variation across countries in the extent, structure, regulation, and fragility of banking? Calomiris and Haber provide a tour de force resolution of the question. Their answer: politics. Fragile by Design's synthesis is shockingly original and convincing."--Darrell Duffie, Stanford University"A remarkably detailed account of the sources of banking and financial failure under different institutional rules. A masterful achievement and a must-read for banking scholars, analysts, and regulators."--Allan Meltzer, author of A History of the

Federal Reserve"Fragile by Design bristles with insights about how conflicting private interests, intermediated through political institutions, have sometimes produced banking and social insurance arrangements that make financial crises much more likely than they should be."--Thomas Sargent, Nobel Laureate in Economics"Why do America’s banks go bust so often? Fragile by Design draws back the veil that hides the murky world where politics and big money meet, and exposes the surprising truth--that the banks were built to fail. Read, learn, and keep your cash close at hand!"--Ian Morris, author of Why the West Rules--for Now"Fragile by Design explains why the U.S. banking crisis of 2007â “2009 is no aberration, but only the latest episode of a populist bargain gone awry. This is a powerful entry in the debate on how to fix the postcrisis world."--Raghuram Rajan, author of Fault Lines

Most materials covering this topic for the broader public explain the 2007-2009 financial crisis as the culmination of greed gone amok. Calomiris and Haber would not disagree that individuals are motivated by self interest. Well, of course they are! However, rather than stopping there they proceed to describe how the representatives of political systems too often fail their constituents. The authors do this via a thorough review of the banking histories of the United States and other countries. Their organizing principle for this review is the Game of Bank Bargains. Participants in this game are depositors, debtors, bankers--especially their minority shareholders, and government. The authors show how the arrangements made by these participants determine the degree of banking fragility.If a simplistic explanation of banking fragility is what you want, don’t bother, you surely will be disappointed by this book. If instead you are looking for a deeper understanding of the causes of bank crises then I very much recommend the book. Such readers will not need a PhD in economics to grasp the details as the book manages to convey its points very effectively through illustration rather than equations or excessive banking jargon.To B-school academics, I recommend considering the book as an adjunct to your standard text for a financial institutions course. The authors comparative approach to banking goes far toward explaining how liquidity and solvency problems arise and how those can be prevented.

The book was much broader, deeper and denser than I had expected. "Broader" in the scope of nations it studies -- substantial space is given to the development of the banking sector in the UK, USA, Canada, Mexico and Brazil, with further brief discussions on several more nations. I had been expecting a more-US-centric book. "Deeper" in that every one of the major chapters goes back at least two centuries, and of course more in the case of England, it goes back 4. Here again, I was expecting a purely contemporary account. And "denser" to acknowledge the staggering number of references cited in support of the authors' argument. It's a very serious book, that expands in a very scholarly manner on the insight sketched out by, among others, Rajan in Fault Lines, that the configuration of banking sectors and the terms and conditions of credit extension and enforcement are not just the natural result of free market interactions but have been structured very closely by political programs. In short, every government has the banking system that its political class wants it to have. If you have an oligarchy, the banking system will be chock-full of insider loans. If you have an autocracy, the banking system will be negligible because no one will trust the government to refrain from expropriating it. If you have a reasonably representative government, the banking system will be directed toward extending credit to the median voter's economic level. When parties have to compete for votes, they inevitably use the banking sector as a means of courting marginal voters or rewarding loyal constituencies -- pushing Fannie Mae and Freddie Mac into subprime mortgages in the Clinton era, or partnering regulators and banks in the GWB era.In many cases, going back to the creation of the Bank of England in 1694, the banking system has been devised to facilitate the war-fighting aims of the sovereign. The same is shown to be true of the Union in the Civil War. And of course, once the political elite tasks the banking system to serve as its aide or partner, they inevitably winds up having to support the partner in times of trouble, a symbiotic dynamic that is often demonstrated throughout the book. Meanwhile, in another recurring theme, populist agendas often determine the conditions on which lending is done outside of wartime. The book contains brilliant, concise narratives of how a populist-agrarian coalition shaped the US banking sector throughout the 19th and early 20th century -- briefly summarized, farmers wanted local banks that had no alternative but to be responsive to them in lean years, but, as the nation grew more urban, that political coalition waned, and branch banking and banking consolidation followed. But, as the authors show, a different coalition, originating with affordable housing activists and urban Democratic Party operatives empowered by the Community Reinvestment Act, arose in its place to extract their own tolls or rents from banks seeking to merge, and eventually from Fannie Mae and Freddie Mac as well (because only government-backed entities could absorb the credit risk flooding the system as a result). And thus the policies that led to the financial crisis of 2008 were put in place by the political process.The authors' phrase for this symbiotic dynamic between the banking sector and the government of a nation is "the Game of Bank Bargains": politicians want banks to make credit available freely to the fisc and to targeted constituencies, who vary from era to era and nation to nation, and banking executives can indeed be persuaded to play along, as long as they get what they want for themselves, which has generally entailed some measure of shifting the resulting credit risk back to the state. They explore its various permutations thoroughly, in more eras and more cultures than I had anticipated. The contrast they draw between the recurrent instability of America's "unit banking" system with Canada's relatively safer and sounder banking system was particularly eye-opening. And the chapter on Mexico, written I suspect by Haber, who has published a lot on Mexican banking, was absolutely dazzling.Overall, this was a stunningly good book and I hope it will be widely read as I think it really puts not just the financial crisis but the entire history of banking in an enlightening perspective.

Fragile by Design takes a fresh approach to looking at banking systems and frequency of crisis through a game theoretic lens. It is a fresh viewpoint on thinking about banking systems and their stability and the relationship between banking and the state. The authors focus on the UK, the US and Canada as well as Mexico and Brazil. They discuss the history of the state and banking in each of these countries to give the reader a framework with which to think about the game theory embedded in the risks of setting up banks, distribution of banks and allocation of credit, and the distribution of returns to the various stakeholders.Fragile by Design is split into 4 sections. The first is titled No Banks without States and No States without Banks. It lays the foundation of why modern societies need banks and how banking systems first evolved to support fiscal spending. The describe in straightforward terms how there is a mutual dependence between the state and the financial system and especially in the mercantilist economic era that ability to fund wars was a matter of survival for the sovereign. The need of wealthy elites to be confident that their wealth would not be expropriated through the financial system created a bargain between the state and banking principals about how to allocate a country's savings between the constituents (often unrepresented for that matter). The authors give the history of the Bank of England and how it was created to support the funding of wars with France. The authors also detail how the need for greater inclusiveness for the population within the political sphere led to a slow moving change of the Bank of England's mandate from supporting the state and being the sole allocator of credit to being the discounter of bank bills and thus the effective banker's bank. The authors detail how the changing political economy and bank bargain between the banks, state and Bank of England led to a more fragile banking system than in Scotland in which banks competed on a more equal plane with one another. The authors in the first section familiarize the reader with the language of bank bargaining as well as provide an illuminating history of the coevolution of banking and the state.The authors then move on to the main section of the book The cost of Banker-Populist Alliances. Through their framework the authors give the reader a sense of how the US banking system has been more fragile through its history due to particular bargains (based on early agrarian ideology) that led to a fragmented banking system up until the 90s. The authors discuss US history and the battles of the early US politicians over the relevance of a central bank. The authors discuss how banking in the US was not federally regulated and was decided by State legislatures which as a function of trying to keep consistent credit allocation harvested unit banks (banks of one branch). The authors detail how the banking system poorly allocated credit through the system or effectively forced credit to be local and had no economies of scale. This bargain led to a higher frequency of banking panics through time. The federal reserve system was an attempt to help by instituting regional central banks which coordinated but the authors note that they did not always agree like today and that the system back then still had no cross state banks. The authors discuss how deposit insurance was another bank bargain that created potentially more fragility as it changed the incentives of bank operators. The authors also Canada and how it has had no banking crises in its history. The authors discuss its different history in which British rule coupled with French population dominance led to stronger central government that changed the bank bargaining game and led to a more oligopolistic banking system that was prevented from extracting rents by rolling bank charters which could be led to expiry if banks behaved poorly.The third section is titled Authoritarianism, Democratic Transitions and the Game of Bank Bargains. To a certain extent this section gives the best understanding of how changing institutional arrangement changes the way banks function. The authors begin the book with the idea that banks don’t exist in lawlessness as the risk of appropriation is too great. The authors in the third section go into case examples of fairly lawless states and how their internal changes have led to banking reform. The authors focus on Mexico and Brazil. They start with Mexico and give its history and describe how the first stable banks were formed during "Pax Porfiriana" when there was a stable coalition of politicians and financiers that was able to form. Prior to this the state was run by warlords who would appropriate banks capital at will and as such were effectively non-existent. The increase of credit in the economy was measured during this period to show how banking intensity increased. The reader is given a taste of how banking credit was typically allocated to all the business ventures of the bank principals rather than broadly through society. The authors then discuss how the PRI took over in the 20th century and ruled up until the banking crisis in the early 90s. They discussed the cronyism in the privatization of the banks in which the bidders funded their purchases with loans from the banks being purchased. The authors discuss how the banks ended up becoming reformed through foreign acquisition in which lending became merit based and now most of the Mexican banking system is dominated by foreign banks. The authors also discuss Brazil and its history. They discuss the role of the slave trade on the distribution of wealth and how such a distribution led to the bargain between the elites and the Portuguese Royalty. The authors discuss how the coalition of rulers and elites used inflation to extract gains out of the more poor laboring society and how such a phenomenon led to persistent high inflation that finally let do political change.Fragile By Design provides a new way of looking at the financial crisis as well as a new way of looking at the structure of economies as a consequence of the Game of Bank Bargains. The authors recognize that giving their narrative doesn't give an algorithm for discussing probabilities of bank failures and discuss some econometric results that give substance to their suspicions. They also highlight that their framework allows a new perspective on thinking about bank crisis as a consequence of variable interdependence rather than as a statistical exercise. There is much that is controversial and I'm sure many would immediately dismiss the authors views that the housing crisis was a function of a political bargain with the banks about lax capital requirements to fund risky loans to ameliorate rising inequality, but their arguments are coherent and there is much evidence to support their perspectives. The authors also briefly discuss China, Japan, Germany, Chile as potential counterexamples and handle them well. This is a fresh perspective on financial crisis as propogated through the banking channel and their framework is a valuable one to consider when analyzing the relationship between banking and the state.

Negative Items From Your Credit Report Forever ADVANCED CREDIT REPAIR SECRETS REVEALED: The Definitive Guide to Repair and Build Your Credit Fast (credit score Book 1) RAPID RESULTS Credit Repair Credit Dispute Letter System: Credit Rating and Repair Book Credit Card Protection: Shopping Online, Credit Card Fraud Protection, Credit Card Insurance Credit Scoring Secrets (Credit Repair): How To Raise Your Credit Score 100 Points In 100 Days The Section 609 Credit Repair Solution: How to Remove All Negative Items from Your Credit Report FAST (How to Repair Your Credit) Power and Plenty: Trade, War, and the World Economy in the Second Millennium (The Princeton Economic History of the Western World) The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century (The Princeton Economic History of the Western World) Quarter Notes and Bank Notes: The Economics of Music Composition in the Eighteenth and Nineteenth Centuries (The Princeton Economic History of the Western World) The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War (The Princeton Economic History of the Western World)