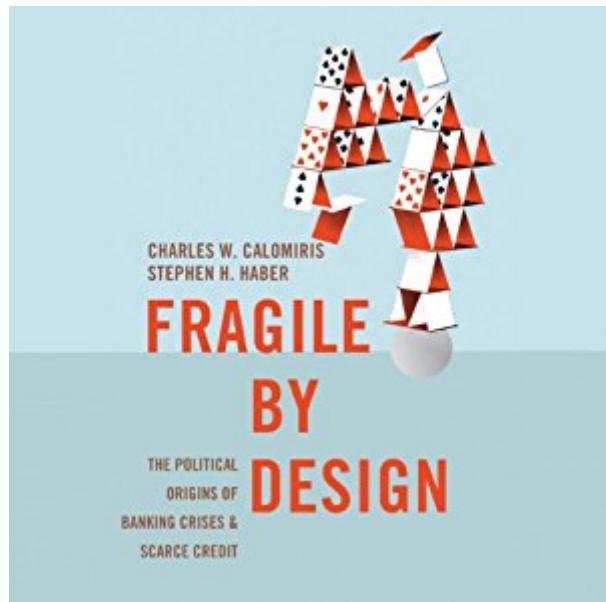


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# Fragile By Design: The Political Origins Of Banking Crises And Scarce Credit



## **Synopsis**

Why are banking systems unstable in so many countries--but not in others? The United States has had 12 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 minuscule 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 due to unforeseen circumstances. Rather, these fluctuations result from the complex bargains made between politicians, bankers, bank shareholders, depositors, debtors, and taxpayers. The well-being of banking systems depends on the abilities of political institutions to balance and limit how coalitions of these various groups influence government regulations. *Fragile by Design* is a revealing exploration of the ways that politics inevitably intrudes into bank regulation. Charles Calomiris and Stephen Haber combine political history and economics to examine how coalitions of politicians, bankers, and other interest groups form, why some endure while others are undermined, 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.

## **Book Information**

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## **Customer Reviews**

Calomiris and Haber tackle a very ambitious project here. They seek to do three things. First they offer a concise survey of the history of banking. Second, they advance a theory to explain why some countries have had much more stable banking systems than others. Third they attempt to use

this theory to explain the recent financial crisis in the U.S. In my opinion, they succeed brilliantly in most of the historical summary. They do a respectable job of advancing a theory of banking stability. Unfortunately they do a terrible job when they try to shoehorn the recent financial crisis into this theoretical framework. This is less surprising than it appears at first glance. Good historical analysis is always hardest to do with relatively current events. Everyone's views about banking regulation are grounded in their personal opinions about economics and politics. I will not attempt to hide my opinions here but I hope to write a review that will be useful to potential readers of the book whether or not they share my opinions. Good summaries of banking history are hard to find and this one is superb for the most part. The authors are excellent writers. They present their ideas in an articulate and engaging way. They avoid unnecessary jargon and build their theory in a clear and systematic way. They make effective use of analogies and often turn a memorable phrase. That said, there is enough detail and repetition here to limit the book's appeal to a mass audience. The book's central thesis is that stable banking systems require democracy but not too much democracy. Those political systems that contain institutional checks on the populist tendency to expropriate the assets of the banking industry are the ones that have been the most stable. The U.S.

The first good thing I could say about this 506 page book, was that I bought it with the intention of skipping past the sections which I was less interested in, ... but never found any such sections. We have recently learnt the hard way that banks (or the financial sector in general) are a special and important part of our economies. This book highlights how and why. Banks are central to the needs of all governments and their populations, while at the same time the nature of the countries politics and government are key to how that countries banking system develops and behaves. This does not apply to the same degree to any other non state sector of industry or commerce. A concept of "bargains" made between banks and governments alongside other sectors of society, can at first come across as a bit of an esoteric pet academic theory. But the more you read, the more you realise it is in fact a very effective way of describing the shabby and messy reality of how this codependency and co-evolution between banks and their host countries happen. For the main body of the book they create a collection of insightful and instructive case studies, or I would say banking fables, based on the situations and histories of a variety of countries. In common with the best kind of economic history writing, so many times I was left thinking things like: Yes of course that is why Brazil had high inflation; Yes, of course that is how banks and autocratic governments would rub along together; Yes, of course that is how that group would have bargained given that situation. You get the picture. The authors fall neither into the outraged banker bashing camp, or the stubborn

'there is no alternative' free market camp.

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