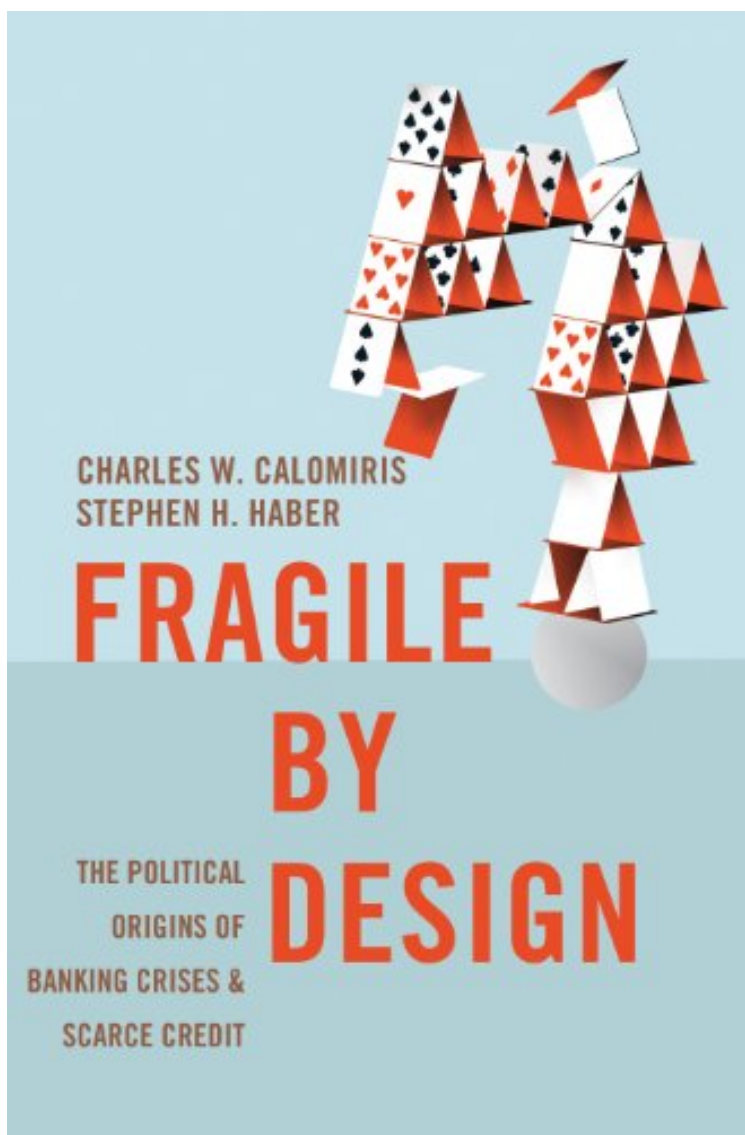


(Online library) Fragile by Design: The Political Origins of Banking Crises and Scarce Credit (The Princeton Economic History of the Western World)

Fragile by Design: The Political Origins of Banking Crises and Scarce Credit (The Princeton Economic History of the Western World)

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Charles W. Calomiris, Stephen H. Haber : Fragile by Design: The Political Origins of Banking Crises and Scarce Credit (The Princeton Economic History of the Western World) before purchasing it in order to gage whether or not it would be worth my time, and all praised Fragile by Design: The Political Origins of Banking Crises and Scarce Credit (The Princeton Economic History of the Western World):

3 of 3 people found the following review helpful. Must read on the game theory behind the relationship between the banks and the state.

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 authors 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 discuss 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 led to 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 propagated through the banking channel and their framework is a valuable one to consider when analyzing the relationship between banking and the state.1 of 1 people found the following review helpful. Important analysis of bankingBy Louis610The authors are thorough in their detail of the Game of Bank Bargains, or the bargains that banks and governments make to support each others' goals. Political coalitions, sometimes among groups that would not ordinarily agree, shape the activities of banks.The authors compare the banking histories of several different countries to illustrate that the peculiarities of local politics determines the availability of credit, which influences economic growth.Instead of superficial treatments with the theme of 'bankers are baddies' popular (portrayed in movies and novels) in the wake of the 2008 crisis, read this to get an in-depth analysis.4 of 4 people found the following review helpful. Articulate and balanced study of political economy's role in development of banking systems.By J. BrownI have read many books about the 2008 banking crisis. This book does not limit itself to that subject. However, it helped me understand that both parties and the fed have blood on their hands. The bank bailout, excessive money printing, etc stem from short term political bargains that have contributed to dangerous misallocation of capital. The gas can has been kicked down the road and will likely result in a bigger mess to clean up.

Why are banking systems unstable in so many countries—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.

Winner of the 2015 PROSE Award in Business, Finance Management, Association of American PublishersOne of The Times Higher Education Supplement's Books of the Year 2014, selected by Sir Howard DaviesOne of Bloomberg Businessweek's Best Books of 2014, chosen by Mervyn King and Jeffrey M. LackerOne of Financial Times (FT.com) Best Economics Books of 2014, chosen by Martin WolfLonglisted for the Financial Times and McKinsey Business Book of the Year 2014"Brilliant. . . [I]f you are looking for a rich history of banking over the last couple of centuries and the role played by politics in that evolution, there is no better study. It deserves to become a classic."--Liaquat Ahamed, New York Times Book "Business economists Calomiris and Haber explain how imperfectly politics and commercial banks intersect, and the consequences for the rest of us. . . 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 "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 From the Back Cover"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 2007ndash;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

About the Author Charles W. Calomiris is a professor at Columbia Business School and Columbia's School of International and Public Affairs. Stephen H. Haber is a professor of political science and senior fellow of the Hoover Institution at Stanford University.