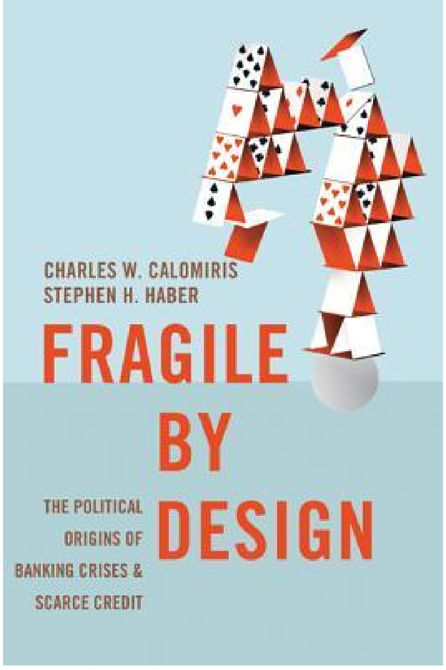

Fragile by Design: The Political Origins of Banking Crises and Scarce Credit

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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.

Fragile by Design: The Political Origins of Banking Crises and Scarce Credit Details

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From Reader Review Fragile by Design: The Political Origins of Banking Crises and Scarce Credit for online ebook

Liam says

"The fact that the property-rights system underpinning banking systems is an outcome of political deal making means that there are no fully 'private' banking systems; rather, modern banking is best thought of as a partnership between the government and a group of bankers, a partnership that is shaped by the institutions that govern the distribution of power in the political system. ... The players are those with a stake in the performance of the banking system: the group in control of the government, bankers, minority shareholders, debtors, and depositors." (13)

"Rulers needed merchants to build the commercial networks that glued their states together and ultimately supplied their tax revenues. Merchants needed increasingly capable rulers at the head of increasingly powerful states to defend their trade routes and enforce their increasingly complex contracts. Both the merchants and the rulers needed financiers: the merchants needed them to create and manage the financial instruments necessary to carry out trade at a distance, and the rulers needed them to provide the funds necessary to fight wars. The financiers, for their part, needed a state to enforce the contracts they wrote with one another, with merchants, and with foreign states." (of medieval banking, 83)

"Ironically, Alt-A is an abbreviation for 'alternative to agency,' meaning (prior to the relaxation of mortgage standards) a mortgage that a bank could not sell to Fannie or Freddie because it did not meat the GSEs' underwriting standards." (243)

"'Never promise a poor person, and never owe a rich one.'" (Brazilian proverb, 390)

Kier O'Neil says

I would classify this as a more academic book than one for the masses. It takes a deep dive into the history of the banking systems of the US, Canada, Mexico, Britain, and Brasil.

I still find it really hard to believe that in the US we relied on unit banking, banks with no branches, until very recently. That means that to interact with your money you had only one location that you could go to. I initially thought that this was because of technology but it was because of an agrarian mindset that did a terrible job of allocating capital and spreading risks.

Brasil was also an interesting case. The government actually funded itself by what the author calls an 'inflation tax'. That means that the rate of inflation is higher than the interest paid on bank accounts. In effect, you lose purchasing power every day that you don't spend the money you have. It also prevents banks from lending money because before long the borrower can easily pay off the loan because of the adjustment in the value of the currency.

This is definitely for those with an interest in banking, finance, and economics but probably not many others.

Eapen Chacko says

The edition I have shows Stephen Haber as a co-author, and his contributions are clear, so it's odd that the authorship shows as above, and my edition is hardcover also.

Charles Calomiris is the Henry Kaufman Professor of Financial Institutions at the Columbia University Graduate School of Business, and he is well published in the peer reviewed literature and he has testified on the Hill about the mortgage crisis. The only reason I don't give a higher rating is that there are two books living between the covers, which makes the book unnecessarily large and a bit clumsy in its development. It doesn't take away from the quality of the research and its value.

The book I love which combines a well written, easy to read introduction to banks and what they do. It then talks about the evolution of bank regulation in the United States from a fragmented, inefficient and consumer unfriendly unit banking system into our current system of a small number of global megabanks and a much thinner layer of community banks, credit unions and other players.

Both of these situations came to be not through market forces but through political bargains struck between major groups, and these bargains were enshrined by the parties into regulations which led to the desired outcomes, which unfortunately had significant undesired and unanticipated consequences. In some way, I see this framework as part of what might be called "behavioral economics."

Chapters 7 and 8 can be read separately to give a gripping summary of the mortgage crisis and the failure of regulation. They are well written, copiously footnoted and persuasively argued to clearly show that the most recent subprime mortgage meltdown began during the Clinton administration with the "third way" of pulling economic value out of market systems for social causes. Eventually, a grand bargain was struck among executive managements of megabanks and others interested in mergers and huge compensation gains from cash and options, activist groups like ACORN and others looking for fee income and philanthropic donations, Government Sponsored Entities, rating agencies, and investment banks to achieve wider homeownership among the urban poor, using the Community Reinvestment Act as a battering ram.

Once the merry go-round began with weakened underwriting standards, GSE purchases of risky mortgages, favorable ratings of securitizations which were fantasies, and 'originate and securitize' machines of the megabanks, global investment banks, accounting firms everyone made tons of money, until the music stopped and the system threw a rod.

Laeven and Valencia of the IMF estimate, just to give an order of magnitude, that the world economy's foregone economic growth 2007-2011 from the crisis fallout amounted to 31% of the global GDP over the period! Taxpayers and shareholders paid for a crisis whose risks never appeared in their company 10-K's or in their governments' budgets. Regulators knew what was going on, had the tools to put an end to the game, but they sat on their hands because everyone could blame things like "corporate greed" and that was enough to send us back to our reality television shows and forget about it, just blaming our favorite straw men.

The other book which is in the volume is a book about international comparisons of bank regulatory regimes in different countries, which is clearly Haber's interest and contribution. The material about Canada is germane to the U.S. experience. The chapters on Brazil and Venezuela belong in a World Bank study, and I would have chopped all these chapters.

Spare yourself most of the politically slanted pap from journalists about this subject, and let these authors give you a good read on a crisis whose effects are still being felt, especially among those urban poor which the programs were supposed to help.

Cihad says

Full of useful information. Quality one and alot to learn from. Not only about the major banking systems around the world but also telling about the relationships between different groups in this systems like politicians, bankers, farmers, activists, industry managers etc. and different coalitions create different situations in terms of banking and politics. One can learn a lot about history of banking and politics in many ways in many countries, mainly, US, UK, Canada, Mexico and Brazil.
Totally recommended.

Doug says

Calomiris and Haber have written a very important book for anyone who wants to understand banking and, especially, its role in the recent financial crisis. Covering the history of banking in America, Canada, Mexico and Brazil, the authors, in a clear and straightforward style, demonstrate how political conditions drive banking outcomes.

The US, for example, historically shunned multi-branch banking, which the authors believe is essential to a stable banking system. The power of the farm lobby was critical in this arrangement. When a bank has just one branch, its farmer customers have significant leverage - over, for example, the ability to get favorable loans. This magnifies instability, however, since the bank is at the mercy of local conditions (as opposed to a bank branches across different regions, where the 'downs' in one region can be offset by 'ups' in another). Also factoring in was the relative control of the states versus the federal government.

By comparison, Canadian banking was controlled by the federal government and has had branch banking for most of its history. Not coincidentally, Canada has had far fewer banking crises than the US.

A critical part of the recent crisis in the US was the expansion of high-risk mortgage loans, as has been amply demonstrated elsewhere. Calomiris and Haber add the shocking tale of how activist groups such as ACORN not only applied pressure in support of such lending, as would be expected, but also championed the bank consolidation they would normally criticize. Proposed bank consolidations require the approval of the Federal Reserve. Obtaining approval is easier if the bank is perceived as being supportive of local communities. Put another way, approval is more difficult if the hearing is being conducted while ACORN activists are outside protesting loudly against the greedy banks. So the banks and the activist groups collaborated. The banks got support for the merger while the activist groups got the promises of billions of dollars of new loans (to mostly high-risk borrowers).

The book is rich with detail and insight. (I love the story of how Lincoln’s Treasury Secretary, Salmon Chase, approved the issuance by the federal government of “Greenbacks,” or paper money. Until then all currency had been issued by private banks. When Chase was later the Chief Justice of the Supreme Court, he ruled is own act had been unconstitutional. Politics.)

Pavlo Illashenko says

The main idea: institutions matters. Authors provide many stories to support that statement, but you need to be quite interested in details to follow. To my taste, the book is too boring.

Bank says

Fragile by Design is an excellent history of the evolution of banking systems and its complex interplay with the national government . Case studies are Brazil , Canada , Japan , Mexico , United Kingdom , and USA . Also some discussion of certain countries in certain periods (China , Germany , Chile) .
The most stunning fact in this book to me personally was that the USA banking system was grouped with 17 third world countries , Spain , and Sweden as being one of the most failure prone with a government bailout (ie taxpayer) required every 15 years or so and an inability to provide a stable banking environment to its citizenry (defined as a percent of GDP) .For the curious , Canada , Australia and the UK are at the top of the list for their combination of strong banking systems and prudent government . Argentina , the Congo and Mexico are the bottom as expected .

An overarching theme of the book is the Game of Bank Bargains , a complex dance between the banks , the government , and all the shifting coalitions that angle for a specific economic advantage or support certain political cause (for example affordable housing , farmers , or the home building industry) .
Banks must play because they can not survive or operate without the national government . First , the banks need assurance their assets will not be nationalized . Second , their must be rule of law so banks can enforce debtor contracts and repossess collateral . Thirdly , all investors and depositors must be protected from ownership self dealing . Finally , in many countries (eg USA) the government acts as the clearing house for checks , wires , etc.
In turn , every national government and it's underlying alliances and coalitions will insist the banks provide funding to the government , will insist the banks support various political agenda , and may want to arbitrarily change the creditor laws to support or payback certain groups. In every every crisis , the government decides how losses will be allocated (taxpayers , other banks , etc) .Or perhaps insist on deposit insurance to subsidize weaker banks .
This book has no political agenda except to emphasize that the USA banking system is fragile by design so that that different alliances can use the banking system for their economic advantage (whether it be agrarian interests , individual states , home builders allied with low income housing advocates (ie sub prime) , labor unions (GM / Chrysler bailout) . And that our elected officials gladly pander to these interests to insure their own electoral success , or perhaps economic gain .
And the most disturbing fact for me is the taxpayer always foots the bill , while the malefactors go free and the band plays on .

Void lon iXaarii says

Fascinating book with a long term historical perspective complementing cold sound reasoning! Particularly in an age where it has become so popular to search for/blame moral failings in the banking sector for economic/banking crises it is refreshing to see a book which looks at the strings pulling the puppet and the puppet master's incentives. Human failings, error and greed are of course always present in any society, but the book's great insight is that in fact banks are not born and neither do they live in a vacuum but rather they are under the strong thumbs of the countries/governments that create them as a need for funding and thus their behaviors strongly reflect political demands put on them. I find it ironic that those well intentioned individuals fighting against them will one day realized they won't be allowed to win for exactly this reason.

In this modern age in particular it is clear that every monopolist of power/violence eventually also eventually secures a monopoly over the money/financial system and then proceeds to use the monetary & banking system as a source of revenue/rent/power and as a personal breakable piggy bank to reach into whenever 'special' needs arise... 'special' being a rather deceiving world since they are both regularly recurring and constant in nature, as every government spends more than it manages to confiscate through normal taxation and (particularly in democracies, but really any system where public opinion matters even just a little, which is to say, all) thus requires additional sources of revenue, preferably well hidden/subtle ones that most people don't see.

For this purpose the banking and monetary systems prove to be particularly useful tools for governments as they are much more subtle and badly understood by people not just than normal taxation/confiscation but also hidden taxes and regulation taxes. Not only do few people understand the nature and scope of the inflation tax (due to the intentional obfuscation often even inside government), but the hostage banking system provides even more subtle and deep reaching ways for governments to reach into the pockets of their subjects. For example in it's long treaty over multiple centuries and many countries (primarely US, UK, Canada, Mexico & Brazil) the book exposes a number more ways in which these goals are achieved such as:

1) forced un-economical lending to the government or political friends (a particularly subtle way that few people understand and can easily be hidden from the masses behind good intentioned sounding explanations)

2) artificial interest rates towards preferential parties or ones that exclude undesired competition. Many people understand 1milion $ given as a political bribe to "friend" or stolen by the leaders but few understand that the same 1mil could be hidden inside a changed interest rate loan with a just say 1% change in the interest rate

3) politically motivated hiding of risks which seem prices to disappear/lower with no side costs, a statement which may remain true for 10-20 years of calm, followed by a cryris where all the costs are payed PLUS benefits, however politically this provides long periods for easily forgetting peoples where they can point to fake numbers

4) financial repression combined with inflation and periodic confiscation of accounts as well as forced investments into politically motivated goals

(and a number more that I probably don't remember right now)

All in all a very interesting book with a lot of great research and a lot of historical data testing reasonings and used to press against them. There were moments where the book did raise some alarm bells to me as it seemed to be quite pro-centralization of power in both government and banking, which made me suspicious at times, but at other times it did quite clearly explain that it saw the difference between a needed/useful centralization which brings efficiencies and has good reasons as opposed to one which is artificially engineered through political/violent power with the interest of excluding competition and and promoting inefficiency for localized gain.

All in all I had a lot to learn from this book, and I really liked it's critical analysis of the political and economical system. I had wished it had also covered a bit of the German & French banking system. In fact it did a bit of the German one but only in Bismark's time. Great book with a wide perspective, refreshing view in the post 2007 continual crisis wave of books explaining too much either through the prism of individual/institutional failures or need for more regulation perspectives. This book offers I believe a bigger perspective which takes into strong consideration the political bargains that shape and constrain/define things.

I see both a bad and a good news in this for us, as individuals/citizens: the bad news is that the citizens have and will pay a lot for the financial needs and political deals made which have been baked into the banking systems of many countries, the good news is that since they have been baked into the cake this affords those individuals who for their and their loved ones' sake are willing to take the time to research the subject matter an unique view into the future as the cake often takes years or even decades or more to fully bake, and we have hundreds if not thousands of years of history which combined with sound reasoning can help us anticipate the results as they are repeated again and again, because, to paraphrase Fallout: political bargains/human nature... well, they don't really change all that much with the next repetition.

Marks54 says

This book presents an historical analysis of the relationship between banking, government, and politics -- the political economy of banking. The general issues are first raised and an organizing framework is presented. This is a complex topic but the framework argues that banking systems develop on the basis of a "political bargain" between some important set of political actors that can bring about regulation and the banking system, which is both separate from but highly related to the government. These bargains, once enacted, tend to be long lived, because political arrangements on fundamental institutions are hard to change, except when their enabling condition change or when some other events (for example, war) take place that motivate all the actors to change. It is only when conditions change that significant change comes about.

After the basic ideas are presented, the authors present five case histories (Britain, USA, Canada, Mexico, Brazil) that illustrate their framework in its variations. The cases are rich in detail, highly relevant, and persuasively presented. The authors then present potential counter examples and show that overall their framework holds up well. The conclusion to the book is helpful and not overdone. They know when to quit.

There is much to like about the book.

First, it is not about simple answers or heroes and villains. The reason is that banking systems affect so many parties and are so complex that it would be very difficult for individual actors to exert controlling influence. In discussing the USA experience, such as the financial crisis after 2007, the book is neither left nor right, Republican or Democrat. It is certainly possible to argue over particular points but the overall case is well done and plausible.

Second, the argument does a good job of linking general and situational factors. In this, it differs from many economic analyses that stress general principles often without an interest in how they apply in a given situation. The general principles hold, but institutional arrangements that are crafted at particular times in particular settings tend to outlive their particular origins and appear less reasonable as time goes on. Their designers were not irrational or incompetent but were bound to particular times and places.

Third, while the book is not averse to discussing various policy options, the authors are more interested in explaining how things work and how banking systems come into being and develop. Any policy initiatives need to start from a clear understanding of a given situation and its fundamental dynamics and settings. Advocates for change that fail to take these into account have not done their homework and will not be effective.

Fourth, this is one of the better integrations of history and economics that I know of and it is refreshing to read something like this. There is frequently a neglect of good historical thinking on business and economic topics and this book is a refreshing change to what one finds in most business trade books, lot of academic books, and in the business media.

I did not give the book five stars because I am still trying to process some of their arguments - and because banking history is highly complex. I may well raise my rating after more processing.

Justinian says

2018-02 - Fragile by Design: The Political Origins of Banking Crises and Scarce Credit. (Audiobook) Charles W. Calomiris (Author) Stephen H. Haber (Author) Basil Sands (Reader) 2014. 584 Pages.

I picked this up at the library on a lark … a nod to my curiosity forcing me out of my comfort zone. It is a thick academic tome. It is a book really about the interplay of banking structures and politics. It follows a historical methodology looking at a county and its history through the lens of banking and politics and then another country until it had covered five countries (The United Kingdom, Canada, USA, Brazil, and Mexico) in depth and one or two more as comparisons or as examples to answer questions posed by the larger case studies. The focus is in the bargains stuck … the political goals that shape banking and credit. There is no moralizing or valuation outside of the effect on banking and credit. So it is not about what is best for a society or a nation but what is best for banking. There is an assumption that what is good for banking is good for society. It is not a tome in praise of Laissez-faire economics … there is an acknowledgement of the positive and destructive role that greed plays. All of that is important but what I found the most fascinating was the idea of local currency, credit, and bank notes in the US before 1860. How hard I was to move, purchase, and develop. An eye opener that must be read with your own eyes already open. I disagree with some of it but a lot of it is solid data and information … just understand its purpose.

Drtaxsacto says

This is a book few people browsing through a bookstore would choose. That is a pity. It is a very interesting read. Its basic premise is that governments need banks and banks need government - but that there is an uneasy link between the two.

It is divided into several parts - there is first a discussion of what functions banks perform for societies and governments and some theory building on how different types of governments function with banks. There are several chapters on the development of the US banking system and then subsequent chapters on England, Mexico, Canada and Brazil's systems and how they function. There is a lot of detail and some very good history.

For example, did you know that before Glass Steagall that FDR opposed deposit insurance - based in part on the failures of the eight states that tried to create a deposit insurance system? Even Carter Glass - who was the Virginia senator whose name is half of the statute opposed the idea but the other member (a congressman from Alabama) held out for it - so we were stuck with it.

The authors construct a much more complicated picture of the 2007 banking problems which include many of the common explanations (noticeably not the repeal of Glass Steagall) to explain how the problems developed.

Do you understand that during the period when the US system has faced numerous bank failures that the Canadian system has virtually never failed (since 1837)? The authors present a credible case to explain why that is true.

I learned a lot about the Mexican banking system and its history and why credit in Mexico seems so constrained.

Have you ever tried to understand why some leaders pursue an "inflation tax" to lessen their country's economic woes? The book gives several examples and the consequences of these kinds of policies.

One of the commentators on Amazon who claims some expertise in banking and finance claims that the authors are a toady to one particular point of view on the most recent banking meltdown. That review is silly on two counts. First, in the discussions of the 2008 meltdown - both the lead up and follow through the authors lay out a broad range of hypotheses and while they do lay a lot of blame on the GSEs they are much more nuanced than the reviewer suggests. Second, in the last couple of chapters they do an absolutely first rate scholarly job of asking the right questions about their methodology in this book (why did they choose England, US, Mexico, Canada and Brazil) and how future scholars should look at the issues they raise. Their opinions are nuanced and qualified; as scholarly works should be. After I read the book and then read the reviews on Amazon, I went back to the key chapters and found they had taken a great deal of care in thinking about a complex set of issues.

If you are interested in banking (do you have an account) or public policy or why political systems function as they do - this is well worth the time.

Faith says

Go through financial collapse of a lot of countries. very comprehensive and persuasive.
But the two indicator the author proposed are not precise enough, too macro. There will always be structural imbalances between the allocation of financial support, this will be different in every country that have different political structure.

Paul says

This book is an extended elaboration of the not-so-shocking truth that governments like to plunder banking systems for the benefit of the powerful few. The authors argue that banking is unique among industries in its usefulness to government – historically, mainly for the purpose of financing war. In the process they demonstrate that the proneness of the U.S. banking system to repeated crises is a built-in feature of the particular series of political “bank bargains” that have shaped the structure of the industry over time. In the early- to mid-20th century it was limitations on branching that drove systemic fragility; more recently it has been the political fixation on subsidizing homeownership, the moral hazard built into policies employed to effect the subsidization, and the emerging too-big-to-fail regulatory regime that came along. Their telling of the story of how the Community Reinvestment Act (including the dirty politics that it spawned) and the growth of the monsters Fannie and Freddie led to the inflation and then bursting of the subprime bubble had my blood boiling like it was 2008 all over again.

The history of the U.S. banking system certainly demonstrates how politics caused the industry to develop in the particular, mostly dysfunctional, way that it has. I was less convinced of their framework for how political institutions drive banking structure more generally. They emphasize, for instance, the contrast between autocratic and democratic political systems, with the latter generally being associated with more stable and developed financial industries. A better way to think of this might be governments that wield arbitrary and unconstrained power versus those that are more constrained in their discretion via, say, constitutional limitations. They also argue that having banking regulation more centralized within a polity can insulate the regulators from the kind of populism that limited branch banking in the U.S. for so much of its history. They contrast the U.S. and its state by state regulation of banking with Canada, whose banking system has been well developed and notably more stable and where regulation has always been on a national rather than a provincial basis. I wonder how fair this comparison really is however. Canada is a comparatively tiny country whose population has never been more than 10% of the U.S. New York, Illinois and California have had populations and banking industries larger than all of Canada throughout history. California in particular had state-wide branching for all of its history. One wonders what insights a comparison of California (state-wide branching), New York and Illinois (more limited branching) and Canada (nation-wide branching) would yield. Perhaps the driver is branching itself (and the risk reducing and efficiency benefits that go with it), regardless of how the contingencies of politics get you there.

The authors demonstrate convincingly why governments need banks, but they also argue that the relationship goes both ways: banking as an industry also needs government (read: regulation) to thrive. I’m less convinced of the latter point. It is not apparent to me why banking (including fractional reserve banking, and currency issuing banks) would not emerge as an ordinary industry in the presence of a minimalist state focusing only on protecting property rights and enforcing contracts (the basic functions all industries need). Clearinghouses and other “private” solutions to things like payments systems, cross border transactions and credit assessment have developed at various times in history – at least before some government took them over or shut them down. But anyway, as long as governments see the banking industry as a golden goose, a hands-off regulatory regime is only a pipe dream, so we’ll never really know.

The book is rather a tome and the general reader might find the history of banking in Mexico and Brazil to be tough sledding, but it is a mostly clear-eyed, well-written and argued analysis of how politics drives the repeated banking crises that all of us suffer from. And don’t worry, nothing has changed (and some things, including Dodd-Frank, have probably made the situation worse). So with our last crisis now almost seven years behind us, buckle up, the next can’t be too far ahead.

Jim Robles says

This one was recommended by my brother Jack, an economist at Victoria University of Wellington. He said it is getting "good reviews."

For example: http://www.nytimes.com/2014/04/13/boo...

What really leaps out at me is how much responsibility liberal activists (ACORN, etc.) bear for causing The Great Recession by pressuring for the lowering of underwriting standards (p. 208 - 256) to provide loan access to poor and inner-city borrowers. So much (p. 497) for "greedy bankers." The authors are careful to point out that we all went along, but the activists were the drivers. In response, p. 235 - Congress therefore mandated that Fannie and Freddie consider repurchasing mortgages with down payments of 5 percent of less and approving borrowers with histories of delinquent credit. Importantly, it also directed Fannie and Freddie to "affirmatively assist banks in meeting their CRA obligations. Of course p. 237 - Fannie and Freddie spent more than $200 million lobbying Congress to avoid tighter oversight.

p. 253. These high-risk loan categories were virtually nonexistent until the late 1990s.

That is on President Clinton's watch.

p. 252. Given the growing strength of the coalition in favor of subsidizing risky mortgage lending, it should not come as a surprise than when Republican president George W. Bush came into office in 2000, he did not change course on housing-finance subsidies. Indeed he embraced the Clinton policies, and . . . . .

The crisis was exacerbated by weak regulation that failed to impose capital requirements commensurate with the risk from lower lending standards.

Regarding lower standards and weak regulation: p. 257. Both factors reflected the same underlying political deal that required a tolerance for risk.

p. 263. In essence, the GSEs accepted new mandates to subsidize mortgages for the urban poor in exchange for larger government safety - net subsidies that resulted from low capital requirements and weak regulatory oversight.

p. 265. The problem was not lack of regulation, just piles and piles of ineffectual regulation.

Longer term the comparison with Canada explicates just how much progressive opposition to large national banks has contributed to banking instability/crises. p. 297. . . . . incumbent unit bankers and "populist" supporters of unit banking . . . . . p. 307. Stewart Patterson wrote in 1917: "Practically every country in the world except the United States has recognized the utility, if not the absolute necessity, of the branch system of banking in handling commodes as liquid as money or credit. . . . ." p. 309. Opponents of these reforms saw them for what they were: the outcome of a coalition of special interests. See also p. 456 - 457, and 483.

p. 461. One of the other major lessons that emerges from our structural narratives is that government safety nets for banks, such as deposit insurance, actually tend to be destabilizing.

p. 478. Democracy generally achieves outcomes superior to those of autocracy, because a democratic government's ability to expropriate is limited by political and legal institutions.

The early drafts of our Constitution had "life, liberty and property." "Property" was replaced by "pursuit of happiness" as part of the compromise on slavery.

Chapter 2 is a paean to liberal democracies and banks.

This history captures (p. 79, 86-88, 93, 96-99, 102) significant elements of the gradual end of the Middle Ages between 1750 and 1850.

This history is an example of what Alan Blinder identifies in "Hard Heads - Soft Hearts - Tough-Minded Economics for a Just Society," i.e. p. p. 233. Congressmen are not in the business of supporting the public good: they're in the business of getting reelected. See also p. 483, 494 - 495.

Although Brazil's banking history is presented without judgment, it is a searing portrait of an flagitiously irresponsible elite. So much for the maggot, held by some, that the US bears significant responsibility for conditions in Central or South America. See "Underdevelopment is a State of Mind."

The argument for the long term health of former British/Protestant colonies, vs. the lamentable state of former Spanish/Catholic colonies in "Underdevelopment is a State of Mind" is validated. p. 455. (Indeed, all six of these countries were at one time British colonies.) Culture! p. 469.

p. 19. . . . Fannie Mae and Freddie Mac, ... , were pressured by the Clinton administration to lower their underwriting standards dramatically so that these loans could become part of Fannie and Freddie's portfolios.

p. 44. . . . . what economists call rents - a stream of income from a scarce privilege.

p. 55. Jackson even ignored a ruling of the Supreme court because it was inconsistent with the popular will to expropriate the lands of Native Americans.

p. 83. . . . the evolution of the nation-state depended on a partnership among rulers, merchants, and financiers.

p. 93. When the dust settled at the end of the Napoleonic Wars in 1815, there was only one world power: Britain. France have been vanquished and wold never threaten Britain again.

On p. 134 we see how the number of "vetoes" affects income equality. See also p. 494 - 495.

p. 156. Some colonies, such as Virginia, required every able-bodied male to own a firearm.

p. 205. Various explanations have been advanced - more than we could possibly recount here.

p. 208. . . . . and activist groups that promoted the expansion of risky mortgage lending to poor and inner-city borrowers, ...

p. 211. We cannot emphasize this fact strongly enough: when Fannie and Freddie agreed to purchase loans that required only a 3 percent down payment, no documentation of income or employment, and a far-from-perfect credit score, they changed the risk calculus of millions of American families, not just the urban poor.

p. 214. In addition, the fact that the United States had, by historical circumstance, been given the job of maintaining international order meant that it had to expend a larger share of its tax revenues on the military than the government of any other developed Western nation.

p. 229. The result was that special-purpose banks did not just create subsidies: they encouraged borrowers to become more highly leveraged than they would have been otherwise.

p. 233. . . . the activist organizations were using their growing clout in Congress to put pressure on Fannie and Freddie. Their reasoning was that unless Fannie and Freddie led the way to lower underwriting standards, the amount of credit that could be mobilized from the banks via CRA agreements would be marginal.

p. 246. Federal Reserve Chairman Alan Greenspan also weighed in against Fannie and Freddie.

p. 277. Some banks appear to have purposely not invested in risk management, precisely because strong risk-management units would have prevented the senior management from taking value-destroying risks!

p. 297. In Canada, the political fights over banking were national from the beginning.

p. 303. One of the major themes of this book is that chartered banks represent a partnership between the parties in control of the government and the founders and shareholders of the banks.

p. 315. In 1992, all remaining restrictions were knocked down: banks were allowed to own insurance companies, mortgage loan companies, and trust companies; and their own mortgage lending was no longer limited by statute.

p. 318. Canadian banks actually charged smaller interest-rate spreads than U.S. banks.

p. 322. The principal reason for wider availability of banking in Canada was its branch system.

p. 333. These were the product of a system in which reckless bets could be covered by government-owned banks set up to insure that unionized workers who supported the PRI would have jobs for life.

p. 335. In the United States, a colonial elite of self-made men mobilized and led a literate, property owning citizen army against British rule. In Mexico, a European colonial elite, fearing what would happen to them if the mass of illiterate and impoverished Indians and mestizos gained power, jointed with the Spanish viceroy and his army to put down a popular independence movement that sprang to life in 1810.

p. 348. In short, Diaz's strategy of creating a banking system by the extension of lucrative privileges and the creation of barriers to entry worked:

p. 358. The PRI held a complete monopoly on political power.

p. 360. Moreover, the same patronage machine through which the PRI maintained control over rural voters endured low agricultural productivity and incomes.

p. 366. . . . , the resulting bailout cost Mexican taxpayers 15 percent of GDP, the economy contracted sharply, and voters shifted their allegiance to opposition parties. (see p. 381 - 383)

p. 379. Credit analysis at Mexico's banks was virtually nonexistent.

p. 395. Because the Brazilian population never had to be mobilized en masse to fight in defense of the state, a significant pressure that favored the expansion of the franchise in other countries was absent in Brazil.

See the Greek experience.

p. 397. Slavery left indelible marks on Brazilian society.

See "The Empire of Necessity."

p. 403. The result of this basic conflict - between a metropolitan monarch whose frame of reference appears to have been the Middle Ages. . . .

The Middle Ages did end gradually between 1750 and 1850.

p.423. Brazilian law prohibited the breakup of estates in order to settle a debt.

p. 433. Inflation taxes work only if the government practices financial repression.

p. 436. The military government's main accomplishment, other than institutionalizing corruption and torture, was to push Brazil's rate through the roof.

p. 451. To identify the underlying factors that caused the crisis, one must build a structural model that connects all the events in a way that convincingly disentangles their causal connections.

The second book I have finished this year.

Olli says

Heavily focused on history, thus interesting if you are interested in the history of financial systems. Five countries thoroughly discussed as examples. The book is very long and could have been formatted in a more interesting way by better connecting the historical examples to modern systems.
