these thinkers is not where they erred, but where they continue to offer insight, even to a world that they would hardly recognize.

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Fragile by Design: The Political Origins of Banking Crises and Scarce Credit
Charles W. Calomiris and Stephen H. Haber
Princeton, N.J.: Princeton University Press, 2014, 570 pp.

Charles Calomiris and Stephen Haber have taken on a big task in their book, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit*. Their goal is to explain the double hit that economies and financial systems suffer when they experience a banking crisis and then the tightening of credit that often follows. In order to keep the final product manageable, and thus avoid having a 2,000 page book, the authors limit their case studies to the United Kingdom, United States, Canada, Mexico, and Brazil. Their time frame extends back to the 17th century. At its core, their argument is that financial crises are not random; they flow from the "Game of Bank Bargains"—that is, political deals that dictate everything in a banking system from the issuance of licenses to the means for distribution of credit.

Charles Calomiris is well-known to those who have studied financial panics and crises. He is the co-author of *The Origins of Banking Panics* and *Contagion and Bank Failures during the Great Depression*, to name just a few of his widely cited works. Stephen Haber has undertaken research predominantly on Latin American political and economic policy, with particular emphasis on Mexico.

Fragile by Design attempts to draw conclusions about a wide range of financial crises in different countries over a period of centuries and brings to mind Carmen Reinhart and Kenneth Rogoff 's *This Time Is Different: Eight Centuries of Financial Folly* (2009). In contrast to the Calomiris and Haber argument that the existence of banking crises is nonrandom, Reinhart and Rogoff imply the opposite: "Banking crises remain a recurring problem everywhere. . . . The incidence of banking crises proves to be remarkably similar in both high-income and middle- to low-income countries. Indeed, the tally of crises is particularly high for the world's financial centers. . . .

Perhaps more surprising still are the qualitative and quantitative parallels across disparate income groups."

Additionally, there are some starkly contrasting definitional differences between the two works. Calomiris and Haber argue that Canada has experienced precisely zero systemic banking crises since 1840. Their underlying definition of "banking crisis" is restrictive in nature as it includes those events where the insolvency of banks or the costs of intervention exceed a stated percentage of GDP (a common definition among widely cited works by the International Monetary Fund and World Bank) or that involve widespread bank runs without significant insolvencies or interventions. In contrast, Reinhart and Rogoff impose less restrictive standards. Under their definition, Canada has experienced seven such crises since 1840.

Fragile by Design begins its case studies with the example of the UK. Calomiris and Haber demarcate two distinct periods of the history of the Bank of England, starting with a history of monopoly banking from the late 17th century to the early 19th century. The "bank bargain" at that time involved a bifurcated system whereby the Bank of England, organized by prominent Whig politicians of the period, benefited from a monopoly grant of a joint stock form, limited liability ownership, and exemptions from limitations imposed on the broader swath of private banks, such as usury laws and the tax status of stock holdings. The strength of the granted monopoly allowed the Bank of England to finance a war machine in the ever-present squabbles with France. But the structure was not good for providing credit to the private market: "The industrial revolution was financed out of the pockets of tinkerers and manufacturers, not through bank lending . . . the Industrial Revolution happened in spite of the revolution in public finance, not because of it." The authors briefly note the contrasting system of Scotland, which they characterize as one of "free chartering of banks" that was "the very model of competition, innovation, accessibility to credit for the private sector, and stability—all the things the English banking system could have been, but was not."

This system in Britain transformed in the early 19th century into a more competitive system (although not to the extent of the Scottish system), spurred on by changes in suffrage rules and the reduced need to provide war funding in the wake of the defeat of Napoleon, according to Calomiris and Haber. In chapter 5, the authors detail the transition of the Bank of England to a banker's bank and lender of last resort, notwithstanding the determined efforts of those in the bank to preserve its previous, more privileged status. This chapter includes a well-told narrative of the historical development of the bank as lender of last resort, which has been a model for central bank functions through current times. The case study of Overend & Gurney, which was allowed to fail on the Bank of England's watch during the crisis of 1866 because it was in fact insolvent rather than just illiquid, and the ensuing financial stability after its failure, should be required reading for modern-day bankers. The stability in the banking system from the 1860s through the current time is attributed to "the Bank of England's new tough-love lending policy."

One disappointing aspect of chapter 5 is the cursory review of the turbulence in the financial system from 2007 to 2009. A reader would expect a discussion of how this period fits into the historical context, but the authors cover this period in a mere page and a half. This is in sharp contrast to the nearly two chapters subsequently dedicated to the political "bank bargain" aspects of the U.S. banking system and the resulting crisis during the same period.

The chapters on the U.S. banking system break the time frame into three eras: The "elite" era from the Revolutionary War to the early 19th century, a tight regime of chartering that neglected to direct credit to small business and farmers; the "unit banker" and "agrarian populist" era from the early 19th century to the 1980s, a period harshly described by the authors as "unstable, noncompetitive and inefficient in its allocation of credit"; and the current era of "megabanks" and "urban activists," which gave us the subprime crisis of 2007 to 2009. They outline the evidence of the pattern of instability through the Panic of 1907:

> From 1800 to 1861, there were five major banking crises: 1814–16, 1825, 1837–39, 1857 and 1861. From 1873 to 1907 there were six. Three of those crises (1873, 1893 and 1907) saw widespread suspensions of the convertibility of bank deposits. . . . In the other three crises (1884, 1890 and 1896) suspension was avoided through collective actions by clearinghouses.

The authors argue that the true causes of this instability were "the lack of diversification of risk within banks, the pyramiding of the banking system's reserves in New York City, and the difficulty of coordinating responses of banks to liquidity crises," but that reforming these causes would have been "politically infeasible." Instead, we were given a central bank in the wake of the convening of the National Monetary Commission. The undiversified unit banks that remained after the creation of the Federal Reserve were ultimately a significant contributor to the thousands of failures during the Great Depression, especially those in agricultural communities. Removing the barriers to intrastate and interstate branch banking finally came through a combination of demographic, technological, and market forces which culminated in the passage of the Riegle-Neal Act of 1994.

Given that their primary focus is on the underlying political bargains that lead to crises, Calomiris and Haber do not spend much time on the response to the 2007 to 2009 U.S. financial crisis. They commit a significant share of their book (about 15 percent) to the "bank bargain" that followed the passage of Riegle-Neal and the cocktail of leverage combined with regulatory and governmental failure that was the genesis of the crisis. In so doing they set forth two preconditions for a crisis to develop: (1) banks take on a critical mass of risk, and (2) they have inadequate capital on their balance sheet.

The authors make a compelling case that the strange bedfellows of megabanks and activist groups came together to make the risk possible through a "bank bargain" that "promoted the expansion of risky mortgage lending to poor and inner-city borrowers." Between banks desiring to expand in the wake of Riegle-Neal and the Community Reinvestment Act (CRA) allowing the activist groups to extract lending commitments from the banks to benefit "their memberships and constituencies," the timing was perfect. Additionally, Fannie Mae and Freddie Mac supported the scheme through mandates that required them to stand ready to purchase mortgage loans made to these "targeted groups." The authors set out a range of supporting statistics on directed credit commitments: the correlation between CRA examinations and institution lending and default risk; the ever-increasing mandates placed on and high-risk mortgages accepted by Fannie Mae and Freddie Mac; and the parallel shrinkage in the typical down payment for home purchasers.

On the bank capital side, the regulatory agencies could have forced the government-sponsored enterprises and banks to recognize this riskier state of affairs and impose capital ratios to recognize the concomitant risk. But, as the authors point out, that would have "raised the cost of taking on increased mortgage risk" and that was a cost that the participants in the "bank bargain" were not willing to recognize. The authors favorably cite the work of Barth, Caprio, and Levin on matters of regulatory failure. They also run through a range of other failures, from the structure of the rating agencies to the distortions in the Fed's monetary policy during the period preceding the crisis (citing John Taylor's work). Not surprisingly, their assessment of Dodd-Frank is quite pessimistic: "Like the earlier reforms, so far Dodd-Frank does very little to address the root causes of the crisis that inspired it." They close by highlighting the expansion of the Fed's power and note that this occurred "in spite of its failure to supervise and regulate effectively in the years leading up to the 2007 to 2009 crisis."

To contrast the U.S.'s situation, Calomiris and Haber offer the historical experience of Canada, which they argue is a preferred model for structuring a banking system. The ink committed to the Canadian case study is about one-third of that committed to U.S. experience, primarily due to the previously noted fact that, under the definition applied by the authors, Canada has not had a banking crisis since 1840. Thus, there is no need for narratives about the causes of Canadian banking crises. They highlight the fact that, for the first 100 years of this period, Canada did not even have a central bank. Although Canada did create one in 1935, the authors argue that it "had little effect on the commercial banking system: there simply wasn't much broken that needed fixing." They attribute this stark contrast to the fact that the United States has been historically dominated by fragmented state-level decisions regarding bank chartering (no nationwide branching), while in Canada authority over banking was centralized. The initial system of a small number of very large banks with nationwide branches was never frittered away by political bargains. The Canadian system withstood the Great Depression, when no banks failed, while nearly 10,000 U.S. banks (mostly unit banks) failed between 1929 and 1933. Finally, the authors note the "dull" banking practices of Canada in the 2000s, such as their avoidance of the risky practices of the United States (such as subprime loans), and the equally dull graph of mortgage delinquencies in Canada from 1991 to 2011 (flat-lined).

The case studies conclude with a section on authoritarianism and transitions to democracy in Mexico and Brazil (two chapters each). This section closes the loop on a concept raised in one of the early chapters and illustrated in a figure contrasting chaos, autocracy, and democracy with government-banker partnerships, banking systems, and outcomes. Finally, the authors pull it all together in the concluding section of the book by applying their methodology to broader international experiences. They compile a group of the "very successful six" (Hong Kong, Singapore, Malta, Australia, Canada, and New Zealand) and then a broader list of the "successful thirteen." The common characteristics of these countries are that they are "city-states, islands or democracies with institutions that limit populist currents."

Fragile by Design is an elite example of those books that draw lessons from the recent financial crisis. Thankfully it is not written by insiders who are leveraging information asymmetry to engage in a self-serving defense of crisis interventions. Nor is it written by a journalist focusing more on the people and personalities of the crisis than on the substantive policy. At its core it is a methodology presented with clear supporting case studies and extensively documented citations to underlying factual bases with a clear focus on the policy choices that can be made to avoid future crises. As compared with *This Time Is Different*, if you want a database of cross-country experience with some cursory definitions of the differing types of crises, then Reinhart and Rogoff's tome is useful. But, if 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.

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Unstoppable: The Emerging Left-Right Alliance to Dismantle the Corporate State
Ralph Nader
New York: Nation Books, 2014, 224 pp.

Ralph Nader's new book, *Unstoppable: The Emerging Left-Right Alliance to Dismantle the Corporate State*, seeks to craft a left-right alliance capable of challenging corporate welfare. Given the media's focus on cronyism and the ire over continued bipartisan support of special favors to special interests, the book is timely. America, as James DeLong has noted, is becoming a "special interest state," and