public administration
doi: 10.1111/padm.12173

REVIEWS

FRAGILE BY DESIGN: THE POLITICAL ORIGINS OF BANKING CRISES AND SCARCE CREDIT

Charles Calomiris and Stephen Haber
Princeton University Press, 2014, 584 pp., £24.95 (hb), ISBN: 9780691155241

After the onset of the Global Financial Crisis (GFC), Britain's Queen Elizabeth II asked economists at the London School of Economics in November 2008, 'Why did no one see it coming?' Orthodox economists and political economists, and international political economy (IPE) scholars, especially those belonging to the American IPE, have had a dismal record in anticipating financial crises (Palan 2009). This is in part due to their method, based on individualistic assumptions, of predicting linear relationships between dependent and independent variables. In reality, time and context dependent human beings are not 'inanimate objects' and economies are too complex to be reduced to simplified assumptions about an imaginary world tested via manipulated econometric models (Schlefer 2012). Unsurprisingly, eminent political scientists recently called for more institutional and historical methods; much more comparative work outside of the Anglo-American context; and a wide-ranging discussion about the lessons to be learned (Helleiner 2011).

Recently, a new book by Charles Calomiris and Stephen Haber, professors of political economy at Colombia and Stanford Universities, has moved to remedy these deficits in political science and political economy by bringing together politics, the logic of bargaining, and time and context into a comparative analysis of why banking systems are unstable in so many countries – while not in others. *Fragile by Design* argues forcefully that the coalitions of economic actors and their political choices have an important influence on the stability of national banking systems.

The authors convincingly show that societies suffer from banking crises because banking systems are designed to be fragile on account of political choices. In a similar vein, 'stable banking systems that allocate credit broadly are an outcome of political systems characterized both by broad suffrage and constraining institutions that limit the incentives for bankers to form coalitions with populists' (p. 26).

The above thesis results from a meticulous and detailed historical exploration and interdisciplinary analysis of variations in political institutions across and within several countries over time including England, the United States, Canada, Mexico, and Brazil. The authors note that 'the fundamental political institutions of a society structure the incentives of politicians, bankers, bank shareholders, depositors debtors, and taxpayers to form coalitions to shape laws, policies and regulations in their favour, often at the expense of everyone else' (p. 4) in 'the Game of Bank Bargains'. Governments face inherent conflicts of interest with the operation of banking systems. The authors argue that political institutions in democracies limit the influence of populist coalitions and are better able to mitigate those conflicts of interest than others.

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To defend this thesis the authors position the book in various literatures that deal with banking crises. The book continues with the discussion of 'the Game of Bank Bargains', analysing the government–banker partnership (chapter 2). Chapter 3 explains why governments need banks, while chapters 4 and 5 look at the English banking system from a historical perspective. Chapters 6, 7, and 8 examine the US banking system, and chapter 9 looks at the Canadian banking system. The following chapters (10–13) explore banking systems in authoritarian political systems, namely Mexico and Brazil. Chapter 14 summarizes the main findings emerging from the five cases and their relevance to other countries. Chapter 15 discusses the implications of the book's main findings for libertarian policy advocacy, the limits of regulatory reform, the validity of various theoretical models of banking crises, and the durability of political institutions. Every chapter is interesting and original; the sources and documentation used are impressive in both quantity and quality.

The unique strength of the book is that it 'combines the knowledge of history with an understanding of the logic of bargaining' (p. 480). It takes temporality seriously in substantive and analytical terms to explain how diverse and dynamic 'the Game of Bank Bargains' may change significantly over time in the face of the constellation of interests and constraints. Thus, this timely book is a must read for those interested in the comparative and historical analysis of interactions between political institutions and banking systems within and across developed and developing economies. An important take-home message for the post-GFC period is that we should focus on how nation states could change political institutions to reduce the incentives to form socially unproductive coalitions.

Obviously, there is only so much one can do in any single work, but it should also be noted that the absence (existence) of banking crises could also reflect complex interactions among interdependent structural and institutional *complementarities* and agency-level enabling conditions that reinforce and/or compensate for conservative (opportunistic) bank behaviour (Bakir 2013). Thus, political institutions that shape banking-system outcomes can also be considered as one of those various institutional complementarities that inform agency behaviour (Aoki 2001; Crouch 2010; Campbell 2011). Nevertheless, 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.

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