

# CONTENTS

---

LIST OF TABLES      xiii

LIST OF FIGURES      xvii

LIST OF BOXES      xxiii

PREFACE      xxv

ACKNOWLEDGMENTS      xxxvii

PREAMBLE: SOME INITIAL INTUITIONS  
ON FINANCIAL FRAGILITY AND THE FICKLE  
NATURE OF CONFIDENCE      xxxix

## PART I

Financial Crises: An Operational Primer      1

### 1

Varieties of Crises and Their Dates      3

Crises Defined by Quantitative Thresholds:

Inflation, Currency Crashes, and Debasement      4

Crises Defined by Events: Banking Crises  
and External and Domestic Default      8

Other Key Concepts      14

### 2

Debt Intolerance: The Genesis of Serial Default      21

Debt Thresholds      21



## CONTENTS

Measuring Vulnerability	25
Clubs and Regions	27
Reflections on Debt Intolerance	29

### 3

A Global Database on Financial Crises with a Long-Term View	34
--	----

Prices, Exchange Rates, Currency Debasement, and Real GDP	35
--	----

Government Finances and National Accounts	39
Public Debt and Its Composition	40
Global Variables	43
Country Coverage	43

## PART II

Sovereign External Debt Crises	49
--------------------------------	----

### 4

A Digression on the Theoretical Underpinnings of Debt Crises	51
---	----

Sovereign Lending	54
Illiquidity versus Insolvency	59
Partial Default and Rescheduling	61
Odious Debt	63
Domestic Public Debt	64
Conclusions	67

### 5

Cycles of Sovereign Default on External Debt	68
Recurring Patterns	68
Default and Banking Crises	73
Default and Inflation	75
Global Factors and Cycles of Global External Default	77
The Duration of Default Episodes	81



6

External Default through History	86
The Early History of Serial Default:	
Emerging Europe, 1300–1799	86
Capital Inflows and Default: An “Old World” Story	89
External Sovereign Default after 1800: A Global Picture	89

PART III

The Forgotten History of Domestic Debt and Default	101
--	-----

7

The Stylized Facts of Domestic Debt and Default	103
Domestic and External Debt	103
Maturity, Rates of Return, and Currency Composition	105
Episodes of Domestic Default	110
Some Caveats Regarding Domestic Debt	111

8

Domestic Debt: The Missing Link Explaining External Default and High Inflation	119
Understanding the Debt Intolerance Puzzle	119
Domestic Debt on the Eve and in the Aftermath of External Default	123
The Literature on Inflation and the “Inflation Tax”	124
Defining the Tax Base: Domestic Debt or the Monetary Base?	125
The “Temptation to Inflate” Revisited	127

9

Domestic and External Default:	
Which Is Worse? Who Is Senior?	128
Real GDP in the Run-up to and the Aftermath of Debt Defaults	129
Inflation in the Run-up to and the Aftermath of Debt Defaults	129
The Incidence of Default on Debts Owed to External and Domestic Creditors	133
Summary and Discussion of Selected Issues	136



## CONTENTS

### PART IV

Banking Crises, Inflation, and Currency Crashes	139
---	-----

#### 10

Banking Crises	141
----------------	-----

A Preamble on the Theory of Banking Crises	143
Banking Crises: An Equal-Opportunity Menace	147
Banking Crises, Capital Mobility, and Financial Liberalization	155
Capital Flow Bonanzas, Credit Cycles, and Asset Prices	157
Overcapacity Bubbles in the Financial Industry?	162
The Fiscal Legacy of Financial Crises Revisited	162
Living with the Wreckage: Some Observations	171

#### 11

Default through Debasement: An "Old World Favorite"	174
--	-----

#### 12

Inflation and Modern Currency Crashes	180
An Early History of Inflation Crises	181
Modern Inflation Crises: Regional Comparisons	182
Currency Crashes	189
The Aftermath of High Inflation and Currency Collapses	191
Undoing Domestic Dollarization	193

### PART V

The U.S. Subprime Meltdown and the Second Great Contraction	199
--	-----

#### 13

The U.S. Subprime Crisis: An International and Historical Comparison	203
A Global Historical View of the Subprime Crisis and Its Aftermath	204



The This-Time-Is-Different Syndrome and the Run-up to the Subprime Crisis	208
Risks Posed by Sustained U.S. Borrowing from the Rest of the World: The Debate before the Crisis	208
The Episodes of Postwar Bank-Centered Financial Crisis	215
A Comparison of the Subprime Crisis with Past Crises in Advanced Economies	216
Summary	221
14	
The Aftermath of Financial Crises	223
Historical Episodes Revisited	225
The Downturn after a Crisis: Depth and Duration	226
The Fiscal Legacy of Crises	231
Sovereign Risk	232
Comparisons with Experiences from the First Great Contraction in the 1930s	233
Concluding Remarks	238
15	
The International Dimensions of the Subprime Crisis: The Results of Contagion or Common Fundamentals?	240
Concepts of Contagion	241
Selected Earlier Episodes	241
Common Fundamentals and the Second Great Contraction	242
Are More Spillovers Under Way?	246
16	
Composite Measures of Financial Turmoil	248
Developing a Composite Index of Crises: The BCDI Index	249
Defining a Global Financial Crisis	260
The Sequencing of Crises: A Prototype	270
Summary	273



## CONTENTS

### PART VI

What Have We Learned?	275
17	
Reflections on Early Warnings, Graduation, Policy Responses, and the Foibles of Human Nature	277
On Early Warnings of Crises	278
The Role of International Institutions	281
Graduation	283
Some Observations on Policy Responses	287
The Latest Version of the This-Time-Is-Different Syndrome	290
DATA APPENDIXES	293
A.1. Macroeconomic Time Series	295
A.2. Public Debt	327
A.3. Dates of Banking Crises	344
A.4. Historical Summaries of Banking Crises	348
NOTES	393
REFERENCES	409
NAME INDEX	435
SUBJECT INDEX	443