LIST OF TABLES	xiii
LIST OF FIGURES	xvii
LIST OF BOXES	xxiii
PREFACE	

ACKNOWLEDGMENTS xxxvii

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

# PART I Financial Crises: An Operational Primer 1

Varieties of Crises and Their Dates 3
Crises Defined by Quantitative Thresholds:
Inflation, Currency Crashes, and Debasement
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

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 11 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	(40)
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

3
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
at .
PART III
The Forgotten History of Domestic Debt and Default 101
7
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

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?

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

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