THIS

TIME

IS

DIFFERENT

*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

Measuring Vulnerability25Clubs and Regions27Reflections on Debt Intolerance29

## 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 Uliquidity versus Insolvency 59 Partial Default and Rescheduling 61 Odious Debt 63 Domestic Public Debt 64 Conclusions 67

### 5

Cycles of Sovereign Default on External Debt68Recurring Patterns68Default and Banking Crises73Default and Inflation75Global Factors and Cycles of Global External Default77The Duration of Default Episodes81

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 RealODP 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 Crises143Banking Crises: An Equal-Opportunity Menace147Banking Crises, Capital Mobility, and Financial Liberalization155Capital Flow Bonanzas, Credit Cycles, and Asset Prices157Overcapacity Bubbles in the Financial Industry?162The Fiscal Legacy of Financial Crises Revisited162Living with the Wreckage: Some Observations171

## 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?240Concepts of Contagion241Selected Earlier Episodes241Common Fundamentals and the Second Great Contraction242Are 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 348 393 NOTES REFERENCES 409 NAME INDEX 435

> > SUBJECT INDEX 443