

BOOK REVIEWS

Fragile Finance - Debt, Speculation and Crisis in the Age of Global Credit

Anastasia Nesvetailova

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Every now and then we hear cries of financial crises that either do not arrive or just come and go. Anastasia Nesvetailova's new book *Fragile Finance* is one such cry which appears to be a false alarm, at least for the episodes she has covered in the book. Her apparent mentor, Hyman Minsky, gave a plausible hypothesis of financial instability in terms of continuous credit generation by financial institutions, complex credit instruments and *ponzi* financing. Nesvetailova links financial crises to the globalization of finance and the fragility of the structures of debt which is massive. According to her, deregulated credit produces financial innovation and deficit financing, and the need for progressive liquidity of financial structures makes them fragile. Whereas this analysis does not claim novelty, the examination of financial crises from time to time is worthwhile and Nesvetailova's book could not be timelier. It is to her credit that she places leverage at the center of analysis of crisis.

Any examination of financial crisis should clarify what constitutes a crisis, how a crisis manifests itself, and how financial crises spill over to the real economy. The author dedicates Chapters 2-5 to the analysis of the first and Chapters 6-8 to the second and the third is overlooked. In the first part the Keynesian, the Minskian, the Kindlebergerian and the Krugmanian hypotheses of financial crises are described without much synthesization. The author's own interpretations of fragile finance are rather limited and derive from globalization of finance and the complexity of debt structures. Such is the depth of scholarship in this book that the author cites the same source three times in the span of three pages (p34 - p36) and this source is a text book on international finance! Fragile finance is explained in terms of financial implosion which is not defined and has therefore remained as mysterious as fragile finance. On the contrary, Minsky's classic description of financial crisis was succinct and verifiable: a financial crisis involves "large-scale defaults by both financial and non-financial units, as well as sharply falling incomes and prices". Nesvetailova seems to read crisis from sharp declines in stock markets and currency exchange values without exploring how financial crises spill over to non-financial sector of the economy.

The empirical examination of financial crises in the second part of the book suffers from exaggeration. The Asian crisis of 1997, the Russian crisis of 1998 - are called crises as per the popular press of the time, but these episodes hardly meet Minsky's criteria of financial crises, namely, large-scale default and sharp declines in income and prices. The author mentions several other crises which are similar passing turmoil rather than crises in Minskian sense. Although there was significant economic contraction following stock market decline and exchange rate depreciation in these countries, the economies bounced back in a very short period of time. Besides, some economies tumbled as a contagion rather than due to their own fundamentals. This suggests the presence of systemic risks in global finance. Moreover, private sector companies in some economies left their positions un-hedged, effectively passing the cost of failure to their society. This suggests

that the risk of economic crises may be political economic. The analysis by Nesvetailova did not address such systemic risk or the political economy of finance.

Financial crises are facts of life, yet most analytical paradigms in finance cannot accommodate an analysis of financial crises. The present volume is another instance of unfulfilled expectation. There is a need for a theory of financial crisis but this volume has not advanced our understanding of what it is. Toward that end Kindleberger's panic and mania [2] and Minsky's ponzi financing [3] still remain better sources. A stunning omission in the book is a reference to the volume [1] by the National Bureau of Economic Research: *The Risk of Economic Crisis* that preceded Nesvetailova's work by 15 years! Nesvetailova's work is however timely and does well to place the level and structure of leverage as the main source of financial crisis.

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