Gorton, Gary B., and Ellis W. Tallman. *Fighting Financial Crises: Learning from the Past*. Chicago: University of Chicago Press, 2018. x + 234 Pp.

The 2008 financial crisis elevated the study of financial crises from economic history to cutting-edge macroeconomics. The crisis had some historical parallels, but it occurred not so much due to historical ignorance but because "this time is different" was actually true—in the sense that the precipitating factors, from repos to subprime mortgage-backed securities to credit default swaps, were new and little-noticed until the crisis broke.

The economist most responsible for this insight is arguably Gary Gorton. Much of the leading discussion of financial crises comes from his insights into the largely unregulated and invisible "shadow banking sector." His 2010 book *Slapped by the Invisible Hand* is among the most authoritative accounts of the 2008 crisis. His 2012 book *Misunderstanding Financial Crises* accessibly puts it into historical perspective.

Gorton's new book with Ellis Tallman continues to ground the 2008 crisis in financial history. This time the historical focus is on the National Banking Era (1863-1913), the half-century between the National Bank Act and the Federal Reserve Act. Tallman, as a leading scholar of that era, is a natural collaborator. The book searches for policy lessons from that era's US bank crises. A big lesson is that financial crises at root are runs on short-term debt. Sometimes, as in 2008 with the repos market, the specific form of short-term debt is new. In 1863-1913 it was always deposits.

Of the book's twelve chapters, the first nine deal with the best-known financial panics of the National Banking Era—1873, 1893, and 1907—as well as the minor panics or near-misses of 1884 and 1890. The coverage overlaps closely with that of Elmus Wicker's *Banking Panics of the Gilded Age* (2000). The organization is thematic, not chronological, with most chapters covering all five of those episodes. They begin by introducing the New York Clearing House Association, the "central player" of the book (p. 12). The clearinghouse began in 1854 as a basic means of settling accounts between New York City banks. Because clearing each other's transactions involved counterparty risk, the clearinghouse members meticulously examined each other's books. Under state law, the clearing house published basic balance sheet information about each bank every week. Their reach extended well beyond New York City. Despite the lack of branch banking in America at the time, some members had correspondent banks in smaller cities and rural areas. In 1873, for example, seven New York banks held 70-80 percent of total deposits in the nation, including those of other banks.

In times of incipient panic—a run on some banks in which depositors wanted to convert larger-than-usual amounts of their banknotes (national banknotes but issued by the bank) into gold—the clearinghouse would act as a lender of last resort. Banks short on reserves could exchange some of their assets for clearinghouse loan certificates, which could be used for clearing transactions, thereby freeing up gold reserves for depositors' withdrawals. The loan certificates allowed struggling banks to tap into the combined reserves of the entire clearinghouse, essentially making the clearinghouse one bank with many branches.

The clearinghouse also relied on some extra-legal measures. In the early days of a panic, before loan certificates had been issued, suspension of convertibility, although illegal, was often encouraged by both the clearinghouse and the state authorities. Temporary bank closures were seen as less panic-inducing than long lines of anxious depositors. The clearinghouse would also skirt the law by suppressing information about individual banks, trimming its weekly report on bank conditions to include only the consolidated figures for the clearinghouse as a whole. Banks facing runs were not necessarily insolvent, and some of those runs were relatively invisible, stemming from rapid withdrawals by out-of-town correspondents, so the suppression of information on individual bank solvency and liquidity protected the most vulnerable banks. The goal was not to prop up weak banks but to avoid a contagion, whereby people see one bank fail and fear that their bank may be next.

The infamous "too big to fail" gets a chapter. The authors find that the clearinghouse often bailed out large member banks during crises, out of the belief that they were so systemically important that the bailouts were necessary to avoid a panic. This does not mean that the clearinghouse always got it right. A case where it did was that of Metropolitan National Bank, a large member bank that suspended convertibility in May 1884.

Metropolitan, unlike a smaller member bank that was allowed to fail, received massive help in the form of clearinghouse loan certificates that allowed it to resume convertibility. Although Metropolitan turned out to be insolvent and was liquidated five months later, the bailout appears to have averted a full-scale banking panic. On the other hand, the authors concur with Wicker and others that Knickerbocker Trust, the institution at the heart of the Panic of 1907, was so heavily interconnected that it should not have been allowed to fail. They note that Knickerbocker's clearing bank, the National Bank of Commerce, was a member of the clearinghouse and pleaded in vain for a loan to Knickerbocker.

Readers seeking a more comprehensive history of financial crises may be disappointed that the historical coverage basically ends in 1913, but the authors do offer a superb chapter on modern crises in Indonesia, Argentina, the US, and Spain. What do these crises, and the episodes from the National Banking Era, have in common? Runs on short-term debt. Not surprisingly, in the book's final chapter, "Guiding Principles for Fighting Crises," the first is "Find the short-term debt." The other principles go hand in hand with the lessons from the clearinghouse: suppress bank-specific information; lend heavily to banks in need; prevent systemically-important institutions from failing during the crisis; suspend laws and regulations that impede crisis management. The authors do not suggest that another private bank clearinghouse should replace the Federal Reserve or other authorities, but they do make a compelling case that the basic strategy of fighting financial crises has not changed.

Ranjit S. Dighe
State University of New York at Oswego
United States

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