rassment for neoliberals, because it concerned the malfunctions 'unintentionally' triggered by neoliberal policies in place of the harmonious results they predicted. Policy suggestions focusing on institutional and political change, as well as traditional financial intermediation, are also presented.

The last three chapters are case studies of emerging and developing economies. Chapter eleven includes a study of securities market reform in India and China. It points out that, although reforms commenced in the 1980s, both countries have been unable to establish the appropriate institutions to oversee their markets. This is a rather astonishing finding given the rates of growth experienced by these economies. Africa has presented a challenge for development economics for some time, especially in the area of financial reform. Chapter twelve surveys the relevant literature with regard to the correlation between financial development and economic growth, the link between financial liberalization and financial deepening, bank competition and, finally, bank efficiency. It concludes that most traditional studies are questionable because social factors are not properly researched. This last point is addressed in a different geographical area, that of Bangladesh, in the final chapter, which looks at women's integration into mainstream society through micro-enterprises. The study emphasizes the constraints imposed on women's self- employment by the lack of external finance and stresses gender as a factor as well. The study shows that women who obtained funds used them to support their husbands' self- employment rather than their own, reflecting patriarchal social structures.

Overall, the volume provides a useful, critical discussion of some key issues in contemporary financial reform and economic development issues, while covering a broad range of countries and perspectives. This is enough to recommend it irrespective of whether the reader agrees with the authors' arguments or not.

G Gorton
Misunderstanding Financial Crises: Why Don't We See Them Coming?
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This is a book about the nature of financial crises. Written by Gary Gorton, an economist who has not only taught in the academy, but also worked for several years in the financial sector, the book provides an excellent blend of theory and evidence. Beyond the usual figures and plots that often accompany books dealing with financial crises, Gorton also elucidates his argument with historical sources. The use of extracts from testimonies of journalists and policy-makers that witnessed similar events in the past makes the book quite vivid. At the same time, the use of simple language enables him to communicate his message to a wider audience.

Outlined in brief, the book consists of three main themes. First, the nature of financial crises: rather than considering them as the result of rare and unrelated events, Gorton argues that financial crises are inherent in the functioning of capitalist economies. Second, a critique of mainstream economics and an explanation of why the discipline failed to foresee the crisis of 2007-8, as well as the differences and similarities between past crises and the 2007-8 one. Finally, the role of financial regulation: although it cannot be possible to create a frame of legislation that would permanently eliminate the phenomenon of crises, the author discusses what is the best that can be done.

Emphatically stressing that financial crises are inherent to the functioning of a market economy, Gorton explains how private money or else debt is created by commercial banks. From his viewpoint, debt is created for transaction purposes and takes the form of private bank notes, deposits, repurchase agreements and other sorts of short-term liabilities of banks. Being on the liability side of the balance sheet such debt needs to be backed up by some collateral. This is where items on the asset side step in the picture, usually in the form of loans to firms. However, such collateral always involves a certain amount of uncertainty, given the time it takes for loans made for productive investment to be paid off. This can potentially create doubts about the collateral's true value and cause a bank run if the debt holders collectively start losing their confidence. For Gorton, panics are not irrational events but simply the reaction to bad news. It is such bad news that causes financial crises. Gorton observes that as an integral part of the business cycle, financial crises are often preceded by credit booms. He also notices that higher financial volatility is often associated with higher growth. In their simplest form financial crises are defined as an exit from bank debt or as those occasions where an exit would have occurred had it not been for government intervention to prevent it.

But this raises the question of how can a policy maker identify and prevent a crisis, if it has not fully unfolded yet. Even more, how can the public be convinced that policy action is needed if the crisis has not been observed? And how much can one wait before starting to act? For Gorton, those are the big dilemmas that an optimal policy framework should manage to remove. Ultimately, this is the job of economists, who nonetheless collectively failed to deliver during the years that led to the 2007-8 crisis. The reason for this failure, according to Gorton, was that economists neglected the lessons that could be drawn from economic history. In particular, economists came to focus too much on the recent past, partly due to the need for abundant data for their econometric models. By doing so however, economists only studied a period of time that included no systematic crises (what Gorton calls 'the Quiet Period'), and were therefore led to the conclusion that systematic events, such as the crash of 1929, belonged to the distant past. Had the profession taken economic history more seriously, it would have been easier to notice that the crisis of 2007-8 was similar in structure to any other financial crisis. Although it involved new kinds of money, such as commercial paper, asset backed securities and repos it also involved a run once the holders of those assets came to question their value. The run went partly unobserved simply because instead of having the public running on their banks, this time it was firms running on their investment banks.

While Gorton recognizes that no regulatory framework is capable of completely eliminating financial crises, he points out a number of policies that would help to contain them. First he advocates the so-called 'Livingston doctrine', namely the idea that although stressed banks should be allowed to fail during non-crisis periods, they should be supported and bailed out during periods of financial turbulence. As expressed by the writer '[d]ebt during crises is not the debt of noncrisis times' (p.99). Secondly, central banks should be left to act without political interference and without a blind attachment to a pre-fixed set of rules. In particular, central banks should be allowed to rescue banks and stabilize the banking system when needed, even if this implies saving the bankers as well. Third, the author puts forward a proposal for regulating securitization by creating a new category of regulated banks whose sole purpose would be to purchase securitized assets. He also suggests the restriction of the amount of repos that non-banks can engage in.

Gorton has done a great effort in explaining in an articulate way important and complicated concepts relating to the functioning of banks and the inherent fragility of the financial system. However, his analysis could have been more complete had he combined it with a more thorough consideration of the real economic factors that contribute to financial fragility. For instance, by seeing things in the broader picture one could also discuss the role of income inequality and wage stagnation, as factors that led to the build-up of household debt, in countries such as the US. If the point raised here is right, it means that successfully containing financial crises — to the extent that this is possible — is not only a matter of sophisticated financial and banking regulation, but also an issue of appropriate macroeconomic policies. This notwithstanding, the book takes some important steps away from neoclassical economics and towards enhancing our understanding of the real world. Moreover, its balance between theory, evidence and examples makes it an attractive reading not only for economists, but also for a non-specialized audience.