It was my great good fortune to inherit *Manias* from Charles Kindleberger after he had brought out the first four editions. The first edition of *Manias* was published in 1978, four years before the first major post-World War II global banking crisis and more than forty years after the Great Depression of the 1930s. Kindleberger had been discussing some of the ideas about the causes of these periodic banking crises in his classes at MIT for three or four years before the first edition was published. The motivation may have been the surge in loans from the major international banks to the governments and government-owned firms in Mexico, Brazil, Argentina, and ten other developing countries; the external indebtedness of these countries was increasing by 20 percent a year, perhaps three times the increases in their GDPs. These rates of growth of indebtedness were too high to be sustainable. Kindleberger was focused on the ‘end game’ and the adjustments that were likely when the lenders concluded that they should slow the increase in their loans to these indebted borrowers. The insight that led to *Manias* was the instability in financial markets during the 1920s and the 1930s and the Great Depression. He was concerned that the move to a floating currency arrangement after the US Treasury closed its gold window after the historic Camp David weekend of August 1971 was likely to be a source of financial instability.

Kindleberger’s approach relied on contemporary and historic accounts of the surges in the prices of securities and real estate and the subsequent crashes; he quoted John Stuart Mill, Walter Bagehot, Alfred Marshall, and many others. He grouped the remarks of these authors by the stages of the financial cycle – first the increases in the prices of real estate and securities, then their observations when prices peaked, and then in the debacle as prices crashed. The third
feature of his approach followed Hyman Minsky’s emphasis that changes in the supplies of credit were pro-cyclical; increases in the supply prolonged the expansion in the boom and decreases intensified the subsequent crash. Minsky viewed banking crises in a domestic context, Kindleberger extended the perspective to an international context; he noted that the failure of a bank in Ohio led to shortages of credit in Hamburg and in Scandinavia.

Each of the three editions of Manias after the first followed a wave of banking crises, which often occurred together with a currency crisis when the prices of the currencies of the indebted countries declined sharply and borrowers in these countries defaulted on their foreign loans. The second edition was published in 1989, a few years after the governments of Mexico and ten other developing countries defaulted on their US dollar loans. The prices of their currencies declined sharply and many of the banks in these countries failed; the credit-worthiness of several of the largest US banks was tested by their losses on their loans to the governments in these countries. Hundreds of US banks and thrift institutions failed at the same time. The second wave of banking crises was in the early 1990s and centered on Japan; the prices of securities and real estate declined sharply. Finland and Sweden experienced financial crises at the same times; asset prices and prices of their currencies declined, and banks failed. The fourth edition appeared in 2000, soon after the Asian Financial Crisis; once again was that the prices of the currencies of the indebted countries declined and the banks failed.

One of the self-imposed constraints as the fifth edition was being prepared was not to change any substantial arguments that were in the fourth edition. Boxes were introduced as contemporary examples of the themes in the several chapters. The boom in prices of stocks in the 1990s brought forth Enron, MCIWorldCom, and numerous other firms when corporate management was seduced by ready availability of cheap credit to adopt practices that were obviously corrupt. When the credit supply increases at a rapid rate, the Bernie Madoffs of the world flourish because they can rely on the investment inflows for the cash to pay the interest on their outstanding indebtedness. But when the credit supply begins to increase less rapidly, some of them tumble into bankruptcy because they can no longer rely on the cash from new loans to pay the interest on their indebtedness. The lenders forget that they should ask, ‘Where will the borrowers get the cash to pay us the interest if we stop providing them with the cash in the form of new loans?’

Kindleberger was one of the few economists of his generation who was skeptical of the case for floating currencies that had been advanced by Milton Friedman, Gottfried Habeler, and other giants of the professions in the 1950s and the 1960s. As the sixth edition was prepared for publication, the intuition was that there was a systematic relationship between increases in cross-border