



The Chastening: Inside The Crisis That Rocked The Global Financial System And Humbled The Imf

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Lauded by reviewers and scholars alike, Paul Blustein's *The Chastening* examines the role of the International Monetary Fund in the series of economic crises that rocked the globe in the last decade. Based on hundreds of interviews with officials at the IMF, the World Bank, the U.S. Treasury, the Federal Reserve, the White House, and many foreign governments, *The Chastening* offers a behind-the-scenes look at the Fund during an extraordinarily turbulent period in modern economic history and at a time when the IMF has become the object of intense political controversy.

While the IMF and its overseers at the Treasury and the Fed have sought to cultivate an image of economic masterminds coolly dispensing effective economic remedies, the reality is that as markets were sinking and defaults looming, the guardians of global financial stability were often floundering, improvising, and feuding among themselves. *The Chastening* casts serious doubt on the IMF's ability to combat investor panics at a time when massive flows of money traverse borders and oceans.

A readable, compelling account of the deeply flawed workings of the international political system, *The Chastening* is vital reading for students and scholars of international diplomacy, government, and economic and public policy.

The Chastening: Inside The Crisis That Rocked The Global Financial System And Humbled The Imf Details

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Robyn says

Blustein tells the story of the Asian Financial Crisis like a novel, introducing character and making it interesting. It became a bit dense after a while because the story for each country told a similar story of an IMF attempt, failure, then second try. however, the detail he uses and the knowledge he conveys of the financial markets is astounding. I highly recommend this book for anyone interested in financial crises. It paints a particularly vivid picture of how market psychology and the Electronic Herd can rock the global financial system.

Robert Tchaidze says

Very interesting to follow the chronology, but the analysis superficial at best. Makes one think that the whole point of the book is to complain about the High Command and the Electronic Herd, no matter what is happening and no matter whose fault it is. Liked his book on Argentina better.

Alina says

If you ever wanted to understand how financial crisis happened and what the hell it was, READ THIS! Great style, easy read about very complicated matters that almost led to the financial meltdown of a century.

Denali says

Any one of these chapters would have been a five star stand alone article but something gets lost (or excessively repeated) when they're strung together. Either way, this is a well-written accessible discussion of the Asian financial crisis and how many of the people currently running the US economy responded to it. Instructive?

Dave says

Fascinating review of how the Asian Flu whipped through world markets. If anything it was accelerated by the incompetent though earnest efforts of the IMF.

May Ling says

This book is a wonderful review of the late 90's crisis. The book does a fantastic job both of reviewing what
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happened from a what was reported view as well as what happened from a what are the realities of the players involved, their constraints and motivations.

Each country was dealt with in the order that the collapse occurred. If I were to try to find some criticism, I would have liked slightly more detail on Brazil, but that is for selfish reasons as I am studying Brazil currently. A must read for others that are interested in the actual difficulty of the process of making change during a crisis.

Elihu says

Actually a fast-paced behind-the-scenes look, just as advertised. Shows that even at the top people are fallible, egotistical, and often frustrated.

David says

When I lived in Thailand, everybody talked about the "Asian contagion" economic crisis of the 90's, but I actually knew something about it, because I read this book. Of course, none of the ignorant people were actually impressed with my knowledge, but that's not the book's fault. In any case, read this book and be educated about the experts who were supposed to be safeguarding the world economy but turned out to be part of the problem. Excellent journalism.

Frank Stein says

In some ways, the International Monetary Fund had a staid existence before the 1990s. From its post-World War II-birth, its main job had been to help countries defend their currencies and budgets with temporary loans. The problems these needy countries faced were always the same: a too-high budget deficit, rampant inflation, and an overvalued currency. Likewise, the IMF's demands for its loans were always the same: cut your budget deficit, control inflation, maybe lower your currency's exchange rate a bit. Two things happened in the late 1990s, however. First, even safe countries with stable budgets and low inflation came under attack due to the increasing prevalence and flightiness of short-term, international capital. (The amount of securities traded across borders rose from \$250 billion in 1980 to \$17.5 trillion in 1997.) Second, the goals of the IMF expanded to encompass almost any economic reform donor countries wanted, such as ending corruption, privatizing stagnant state-owned industries, and opening up financial systems. Due to these changes, the IMF found itself in the midst of an unprecedented debate about its competence and power, one which continues today.

Speculators attack on the Thailand baht currency in 1997 began the new cycle. Before then, most of the IMF's required "Article IV" reports on Thailand were encouraging. The country had a budget surplus, and about 6% inflation. It did have an overvalued currency, and a trade deficit, but it was growing like gangbusters at 7% a year, and most economists thought it would continue to do so. When a collapse in the Thai banking sector caused foreigners to withdraw their money, the IMF offered a loan and the usual remedies. Yet speculators did not take the slight currency depreciation as sufficient, and the tight monetary and fiscal policy caused the economy to fall off a cliff.

When speculators attacked the Indonesia rupiah and the Korean won in the following months, IMF staffers were even more baffled. These were some of the truly glowing economic success stories of the past 40 years. Yet when the IMF offered assistance, they also, at the request of the US, demanded that the Indonesians sell off a bunch of Suharto-crony enterprises (like the airline and clove monopoly) and that the Koreans open themselves up to American investment in banks and financial brokers. Many IMF traditionalists wondered why the organization had gotten involved in cloves. In any case international speculators did not care about cloves, and they continued to attack and depreciate these currencies. Similar attempts by the IMF to use its leverage against Russia came to naught (or nyet) when the nation defaulted.

In each case IMF loans seemed to do nothing to calm international markets even as they exacerbated domestic problems. The only successful strategies seemed to be getting banks to "bail in" and promise to stop withdrawing money from the country, as they did at the Federal Reserve's request in Korea. When the IMF finally "held the line" with the Brazilian loan, which stabilized the economy (even after the Brazilian peso devalued after an early IMF loan), they took it as a vindication, but few else did. Blustein's book shows how internal debates in this once obscure organization affected the lives of millions. It also shows how that organization was unprepared to face a new world where banking panics and currency runs could reshape nations in moments. It's a good story well-told, one with profound lessons for the international monetary system today.

Matthew says

I'd argue this is pretty much essential reading for anyone involved in the financial markets in Asia, especially at the macro level or banking sector. I'm reminded once again of the great failing of undergraduate economics syllabi -- it goes on and on about economic theory that 21 year olds lack the appreciation of financial history to set in context, and doesn't present the problems that these theories were developed to address, nor the problems that the markets have thrown up in response to the theories. Economics, being a social science, is dialectic. It's better to have a sense of history, and then dig into the theory.

Enough ranting, anyhow. Blustein's is an excellent and well-organised, digestible narrative of how the emerging markets financial crisis developed, and a good starting point for further research. He does a very good job of sketching the structural problems in each of the economies that led to their vulnerability -- Korea's and Indonesia's weak banking systems, Brazil's overvalued currency (itself a response to the hyperinflation of 1994), Russia's corruption and lack of productivity. Each of these countries effectively faced a liquidity crisis when financial investors realised that the country's reserves were insufficient to cover their short-term debts, triggering financial outflows as they all tried to get their money out. The details are different in each country, of course. I've seen other books with more academic, comprehensive analyses -- but I think Blustein serves his purpose very well, which is to convey a sense of the immediacy and of the confusion/uncertainty that investors and policymakers faced.

Telling it from the perspective of an IMF critique, rather than from that of retelling national economic history, is interesting. Perhaps that is a minor failing -- and why I give it 4 stars -- that it doesn't complete the story in most cases; he sets the scene, walks you through the collapse, hand-wringing and problem solving, then moves on to the next country, leaving you wondering how it all calmed down. But perhaps other books have covered that in depth.

Separately, it helps set the scene for understanding several criticisms of policy makers in the current crisis; whether you agree or not:

-why the Asian economies, or at least Korea, saw such weakening of the Won, and why they kept emphasizing how the size of their reserves exceeded their short term external debt, and why the markets

didn't seem to give a bloody damn;

-how closely Robert Rubin, Larry Summers, Tim Geithner and Alan Greenspan worked together on addressing financial crises in the past;

-how the IMF and the US Treasury dictated policies like raising interest rates super high, curbing fiscal deficits and letting domestic economies take the hit rather than create moral hazard by bailing investors out... all of which they have not done... reflecting how the US is the only country in the world with power of seigniorage...

-how securitisation allows free-riding: arguably the two times the IMF policies did work was when they involved creditor bail-in -- in Korea and Brazil, where it was possible because the external debt was mainly funnelled through banks, which are a fairly small if powerful group; whereas in other countries, the sheer number of debtholders meant that monitoring of bail-in was not possible. Interestingly, economist Anne Krueger later proposed an international bankruptcy scheme that would require debtholders to temporarily forego their claims if a country declared bankruptcy, which she argued would prevent the mad rush of capital outflow. Blustein reports it was shouted down by the world's hedge fund managers, who argued that it would encourage countries to default.

What bollocks. If there is one true statement in the book, it is this: "As for the concern about a drying up of money flowing to emerging markets, consider what happened to Malaysia after it shocked the global establishment by imposing capital controls in Sept 1998. Despite the dire predictions of officials who thought Malaysia would pay grievously for its transgression, the country subsequently performed well economically; less than a year after instituting controls, the Malaysian government was able to tap international markets for a major bond issue. Global financiers, in other words, often would be able to overlook infringements on the sanctity of property and provide funds when they spotted profitable opportunities." In other words, what greedy asses we are.

Ashleigh says

Good book. Suggested to me by a colleague. Reads very quickly and appreciate that someone told the story. Well researched.

Hussain says

A must read book for anyone interested in international monetary.

Stephanie Sun says

A fascinating account/primer on the 1997-1998 Asian Economic Crisis originally published in 2001. No matter how ironic statements like *"a crisis-stricken country that shows little sign of changing its economic policies, or of living up to its promises, isn't going to instill confidence in investors or lenders"* read today, or how measly Indonesia's \$33 billion bail-out now seems compared to the U.S.'s \$700 billion TARP... Paul Blustein's book reads like a perfectly-calibrated indictment of everything that's still wrong with the global financial system: simply by reporting what happened in fine prose.

All the familiar players of today's crisis (and some ghosts) - Larry Summers, Bob Rubin, Timothy Geithner, Goldman Sachs, short selling hedge funds with sketchy names, Bear Stearns, Lehman, Merrill Lynch, Alan

Greenspan - appear, posture, flirt (seemingly) knowingly with their public reputation, like one of those star-studded romantic comedies that are so popular now.

Kelly says

Now, I do like International Politics, but even I would never think that a book about the International Monetary Fund could be as exciting as this was. If you're ever curious about the IMF, I think it's a great read.

Ian says

With the world currently lurching into another emerging markets panic, this account of the 1997-98 crisis is more timely than ever. The author draws a sweeping narrative, connecting the various collapses in Indonesia, S. Korea, Russia, and finally the (largely) averted shock in Brazil that could have sent the world spiraling into depression.

On a side note, with the debate open for the next Fed chair, it is interesting to take a look at Larry Summers' actions throughout this crisis. Unlike untested Bernanke acolyte Janet Yellen, we repeatedly see Summers acting coolly and with a level head in the midst of a worldwide convulsion.
