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BOOK REVIEWS

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Steffen E. Andersen, **The Evolution of Nordic Finance** (Basingstoke: Palgrave Macmillan, 2011, 289 pp., £68)

Steffen E. Andersen takes on the vast and largely neglected task of systematically examining and comparing the development of organised capital and credit markets in the Nordic countries (excluding Iceland!): Denmark, Sweden, Norway and Finland. The book covers almost the entire financial history starting in the seventeenth century up to and including the financial crisis in 2007–9. The study, it is stated in the introduction, is organised around the development of regulations and institutions embedding finance as well as the contrasting perspectives of both providers and users of capital and credit in shaping the historical developments. Moreover, the development of Nordic finance is placed in a European context.

The first two analytical chapters deal with the early attempts to establish organised, institutionalised credit and capital markets in the dual monarchy of Denmark/Norway and Sweden (in which Finland was a province) during the internationally turbulent period from the mid seventeenth century until the Napoleonic Wars in the early nineteenth century. The establishment and failure of the first Nordic bank company Stockholm Banco in 1656 and subsequent founding of national banks, the Riksbank in Sweden in 1668 and Copenhagen Bank in 1736, which was nationalised in 1773 and renamed Kurantbanken, is described, along with accounts of other attempts to establish private banks and the way trade was conducted at the exchanges. The foreign influences were considerable. The banks and markets of Amsterdam and Hamburg were looked upon as prototypes by the elites in the two kingdoms when plans for domestic banking systems were sketched. However, periodic wars and associated monetary turmoil obstructed the experiments so that by the early nineteenth century, it is concluded, the Nordic countries were not much closer to having organised capital and credit markets. Less attention is directed at the private banks or merchant banks, which might have been important from an evolutionary perspective.

The establishment of organised credit and capital markets in the Nordic countries – as defined by the author – instead came about during the nineteenth century. Savings banks, commercial banks, mortgage institutions, insurance companies, capital imports and central banking emerged during this period, and since the mid 1870s the financial systems were framed by the gold standard, and in the case of Sweden, Denmark and

Norway, the Scandinavian Currency Union. The developments differed a great deal between the Nordic countries. For example, banking regulations and commercial banks first appeared in Sweden, in the mid-century in Denmark, somewhat later in semi-independent Norway and finally in Finland, then a fairly autonomous Russian province. Around 1900 the exchanges (or bourses) were transformed into reasonably liquid bond and stock exchanges in Denmark and Sweden, while in Norway and Finland this took place barely before World War I.

In chapters 7 to 10 the developments of finance in all four countries are covered during the entire period between about 1920 and the financial crisis in 2007–9. The period began with the Scandinavian post-war banking crises and ensuing consolidation of the banking industries in association with the return to the gold standard in the 1920s. Finland differed in that it suffered a fully fledged triple crisis following the civil war and struggle for independence. Tight regulatory regimes and international disintegration followed the Great Depression and World War II. However, Denmark deviated in the sense that the Nationalbank never became as politicised and the credit and capital markets did not become as tightly regulated as in the other Nordic countries. Therefore, Denmark appears not to have been as financially vulnerable as the rest of the countries once the wave of deregulation swept through the western economies in the 1980s, and thus did not suffer nearly as serious a banking crisis as the other countries did in the late 1980s and early 1990s. On the other hand, Denmark has been hit harder by the most recent financial crisis in 2007–9. One of the most interesting conclusions of this part of the book is that it is rarely possible to predict financial crises by examining equity/asset ratios, except perhaps in the case of Sweden in the late 1980s where the banking system was characterised by extremely low solvency and a vulnerable 'grey' sector. One might add to the narrative, however, that the macroeconomic shock was equally severe since the combination of a tax reform, disinflation, rising interest rates in Germany and the defence of the fixed exchange rate resulted in rapidly rising real interest rates.

The final chapter provides a reflection on the inherent difficulties of establishing appropriate definitions and measurements associated with imposing financial regulations, as well as a brief examination of the recent financial crisis in that context. The attempts to establish regulations to prevent financial crises through the Basel agreements are considered to be 'intellectual hubris'.

The book is structured in a way that facilitates comparisons between the four countries. A quantitative assessment and so-called profile of the organised credit and capital markets are provided at the end of each chapter, which allow structural and institutional comparisons. The assembling of data for this purpose is impressive. However, there appear to be larger possibilities of more explicit comparative analyses, and the broader historical and political context sometimes gets overshadowed by the economic. There is also, in my view, a slight deficit regarding the role of monetary and exchange rate policy considerations and international trends. It is easy to realise, though, that there have to be trade-offs in an endeavour of this nature. Still, the main evolutionary traits in the different countries are carefully accounted for,

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especially in the analysis of the post-war period. To conclude, the book offers an impressive, comprehensive description of the development of finance in the Nordic countries. I am certain that the book will inspire future comparisons between these countries.

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Charles Goodhart, **The Basel Committee on Banking Supervision: The History of the Early Years,** 1974–1997 (Cambridge: Cambridge University Press, 2011, 624 pp., £95, ISBN 9781107007239)

The Basel Committee on Banking Supervision (BCBS) sets the guidelines for the worldwide regulation of banks. Charles Goodhart's book tells the story of the early years of the Committee, from its foundation in 1974 to 1997, the year that marks the watershed between the Basel I Accord on Capital Adequacy and the start of work on Basel II.

On the whole, it is a very impressive book, in which Goodhart's many qualities come clearly to the fore. Being a former central banker and an eminent financial economist, he has a unique knowledge and a vast network of contacts in the world of financial regulation. Moreover, his retirement left him with ample time for the archival work (at least until the financial crisis struck in 2007).

The Basel Committee on Banking Supervision was created as a standing committee of the central bank governors of the G10 countries. This also had important implications for Goodhart's research, as copyright and access to the archives rests with the BCBS and the G10 central banks. These central banks gave permission to view the relevant archives, subject to having the opportunity to review the archives beforehand and to remove such documents as they regarded as still being inappropriate for historical reporting. However, as observed by Goodhart (p. xii), 'Even so, going through the BCBS' (winnowed) archives was quite an effort and I was privileged to have been accorded that opportunity. So, I thought it behoven to the BIS, to the BCBS and to future historians to make it less necessary for others to follow my path in this respect by reproducing what I have felt to be the key documents from the archives, mostly in long Appendices to each chapter.' This book, therefore, is in many ways a reference work, of over 600 pages, with quite a lot of 'cutting and pasting' of documents. It is a pity, however, that the references in the appended documents are not more precise and that there is no general chronology.

The G10 governors had originally established the BCBS, in the aftermath of the Herstatt failure and at a time of increasing concern about the effects of the Euromarkets, to construct an early warning system (EWS) for future international crises. But the BCBS quite rapidly came to the conclusion that the Committee could add little or nothing to the analyses and predictions of international crises.