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.

University of Lund HÅKAN LOBELL

doi:10.1017/S0968565012000212

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.

The BCBS then abandoned its mandate and replaced it by a self-generated programme of harmonising cross-border supervision of international banking. According to Goodhart, the governors put up no fight against this rejection of their initial project and allowed the BCBS a wide measure of freedom to set its own agenda, 'With hindsight, what is remarkable is how little top-down direction of BCBS activities there was in these early years (1975–83). There was virtually no interference from politicians, and relatively little from the G10 governors, after the rejection of the EWS idea. The main feature of the work of these early years, the Concordat,[1] was devised, formulated, named and refashioned (by events) at the initiative of the BCBS itself. It was an archetypal self-standing committee' (p. 561).

This changed in the early 1980s, mainly due to the Latin American debt crisis, which strongly affected the major US banks. The US Congress was horrified by the revelation of the fragility of the core US banking system and by the degree of support that the Fed had had to provide, 'It was ironic that, at the very same meeting of the governors (March 1984) at which Peter Cooke revealed the inability of the BCBS to reach a consensus, Volcker passed on to his confrères among the G10 governors the political pressures emanating from Congress to reach some agreement on "functional equivalence" of international Capital Adequacy Requirements. The immovable object (the need for BCBS consensus) met the irresistible political force' (p. 563). So, political pressure, highly sensitive to the 'level playing field', was crucial to introduce common capital adequacy requirements on international banks.

Prior to the 1990s, the BCBS functioned largely independently of the commercial banks. Having already worked on details of the Market Risk Amendment for several years, it came as a shock to BCBS members to discover, when they issued their consultative paper in 1993, that the commercial banks rejected their approach as technically inferior to that which the main international banks were already using (based primarily on Value at Risk measurement). The BCBS approach was felt by the banks to be both 'complex and inaccurate'.

In Goodhart's view, the BCBS thereafter made the mistake of generalising from this particular case. There was a subsequent tendency to believe that the right approach for the BCBS was to base regulatory norms on the 'best' models constructed by the banks for their own management purposes. But, as Goodhart claims, 'such an alignment is *not* necessarily desirable. Regulators should have different objectives from bankers; the purpose of regulation – to deal with externalities and market failures – is quite different from the purpose of banks – the maximisation of the current value of future discounted income flows; and therefore the models used by regulators should, as a generality, be quite different from those used by banks' (p. 564).

In the early 1990s, the pressure for political oversight of the international regulatory process grew. This, initially, came about as a result of a breakdown in negotiations

[1] The 1975 Concordat called on host and home countries' authorities to share supervisory responsibility for banks' foreign activities.

https://doi.org/10.1017/S0968565012000212 Published online by Cambridge University Press

between the IOSCO (International Organisation of Securities Commissions) and the BCBS. By political request, the BCBS also set out the 'Core Principles of Banking Supervision' in 1997. This contributed significantly to a change in the BCBS's self-perception, from its narrow role (as recommending proposals to G10 governors) towards a wider role as standard-setter for banks worldwide. From the late 1990s onwards, it became clear that the BCBS had become part of a wider architecture, under the overall coordination of the Financial Stability Board.

Goodhart's book ends in 1997, the year which marks the beginning of work on Basel II, a still very recent, difficult and contentious topic (e.g. did the attempt by Basel II to make capital ratios more sensitive to risk also make those ratios more procyclical?).

Personally, I was quite struck by the extent to which the BCBS was able to set its own agenda in the early years, with a clear micro-prudential focus. I also have the impression that Goodhart might be too positive on the relation between the BCBS and Euro-currency Standing Committee (ECSC), the G10 committee looking at macro-developments in the financial markets. As observed by Alexandre Lamfalussy when discussing the growth of international lending, especially to Latin America: 'the members of the Euro-currency Standing Committee … were agreed in their concern with regard to the prudential problems involved in international banking. … They therefore suggested, and the governors at their September 1978 meeting in Basle agreed, that a joint group of representatives from the Euro-currency Standing Committee and the Cooke Committee [BCBS] … should consider whether there were ways in which the use of prudential measures might be extended into the macro-economic field for the purpose of controlling the expansion of international bank credit.'[2] The joint meeting of the two committees (not mentioned by Goodhart) took place on 15 November 1978. The meeting discussed in particular the possibilities of controlling the growth of international bank lending by different types of banking supervisory measures, such as limits on the total international element in banks' balance sheets or on lending to individual foreign countries. However, the use of these instruments was rejected by the BCBS. On the whole, it is remarkable how the BCBS was able to shield itself from the macro-prudential approach which was being developed at the same time in Basel.[3]

Like any other international institution, the BCBS had both strengths and weaknesses. According to Goodhart (p. 581), the major failings were: the lack of any theoretical basis (financial stability was mostly the last area of central banking to be penetrated by academic economists); the focus on the individual institution rather than on the system; the failure to reach an agreement on liquidity (chapter 9 is

[2] Possible uses of banking supervisory instruments for controlling the expansion of international bank credit, 31 October 1978, BISA, 1.3a(3)F Vol. 2.

[3] Even though sometimes the same persons were involved. Michael Dealtry, the 'Secretary-General' of the BCBS from 1975 to 1984, for instance, was a close collaborator of Lamfalussy. For the origins of the BIS macro-prudential approach, see Maes (2010).

especially worth reading); the lack of empirical analysis; and the unwillingness to discuss either sanctions or crisis resolution. However, the BCBS also achieved an enormous amount of good work in these years. In Goodhart's view, 'the Concordate, the Basel I Accord and the Core Principles stand out as great achievements and successes. In comparison with the lack of common principles, or any order to the international regulation and supervision of cross-border banks, at the outset of the period in the early 1970s, a proper framework had been established by the close of the period, 1997' (p. 582).

Charles Goodhart's book is a very well-documented history of the Basel Committee on Banking Supervision. Moreover, Goodhart is a sharp economist with trenchant views, constantly linking the past with the present. While it is long and not always easy reading, this book is a must, both for policymakers and academics.

National Bank of Belgium and Robert Triffin Chair,
Catholic University of Louvain IVO MAES

Reference

Maes, I. (2010). On the origins of the BIS macro-prudential approach to financial stability: Alexandre Lamfalussy and financial fragility. *PSL Quarterly Review*, **63** (254), pp. 265–92.

doi:10.1017/S0968565012000224

Caroline Fohlin, **Mobilizing Money: How the World's Richest Nations Financed Industrial Growth** (Cambridge: Cambridge University Press, 2012, 280 pp., £65, $99, ISBN 9780521810210)

In her new book, Caroline Fohlin, research professor at Johns Hopkins University Baltimore, examines the origins of the modern corporate finance systems. The monograph consists of two parts. In the first part, Fohlin compares the evolution of corporate finance and financial systems during the nineteenth and early twentieth centuries in five successful countries – the United States, the United Kingdom, Germany, Italy and Japan. In the second part, Fohlin aims to draw the bigger picture, i.e. to explain the interrelationship between the structure of past and current financial systems and their impact on economic growth in a cross-section of about 20 countries.

To cut a long story short: the monograph is not entirely convincing. In the first part, Fohlin summarises the results of her own research on the evolution of the German and Italian financial systems and their impact on economic growth during the nineteenth century. Beyond her own research, Fohlin augments this part of the book with a review of – more or less – recently published work with respect to the American, British and Japanese financial systems. Thus, this part is a nice literature review with respect to the corporate finance and corporate governance system as well as the origins and structure of the commercial banking sector in the five countries.