

Banking Regulations and Globalisation, by Andreas Busch, Oxford University Press, United States, 2009. Rs. 6,866, pp300.

The present context of global financial crisis and the utter failure of the banking and financial market regulatory mechanism across the globe fascinated me to choose this book for reading. The book is titled as 'Banking Regulations and Globalisation' by Andreas Busch, who has a number of well researched publications to his credit. Does globalization erode the nation state's capacity to act? Are nation states forced to change their policies even if this goes against the democratic will of their electorates? How does government action change under conditions of globalization? Questions like these have not only featured highly in political debates in recent years, but also in academic discourse. This book seeks to contribute to that debate. The general question it addresses is whether globalization leads to policy convergence—a central, but contested topic in the debate, as theoretical arguments can be advanced both in favor of and against the likelihood of such a development. The author brings alive the main issues confronting the banks, legislatures, and regulators, providing deep background on the development of their banking and regulatory system, the political debates that shaped them and the crises and scandals that shook them. He shows that whatever the common pressures, countries have taken different trajectories toward reform, some successful and others not. Though the book touches upon the financial markets but specifically it focuses on the banking sector for a number of reasons.

The book is designed to include 8 chapters in all including the last chapter on conclusion. The first chapter is more of setting the problem in perspective. It attempts to bring out varied definitions on 'globalisation' from the literature. However, it leaves it with inconclusiveness, as the definition of 'globalisation' varies from concentration on very specific economic phenomenon to more general socialised effects on a global scale. It is interesting to note the presentation in the form of a chart on the tremendous progress

in the literature on globalisation since 1990s till date, a phenomenal increase to more than 1200 publications per year from a mere around 10 in 1990. The author brings out three clear distinct phases of globalisation; the first phase includes the popularisation of the term of globalisation among the academia which took relatively the crude stance on globalisation and that seem to be exaggerated both of their positive as well as the negative aspects of globalisation. The second stream of literature is relating to the collection of empirical facts which then focused on the critically examined claims of the first wave. This book seeks to contribute to the third phase by providing a detailed analysis of a specific policy area across four major economies and an extended time span. The book covers four countries, *viz.*, the US, the UK, Germany and the Swiss as deliberate choice, as these countries are not only major financial hubs or banking centers in the world, but they also have strong similarities and very distinct political as well as financial and banking system. The four country specific case-study forms the empirical core of the book. These countries, according to the author's definition, fall under four categories, such as 'liberal market economies (UK)', 'credit oriented system (Germany)', 'capital market dominated (USA)' and 'coordinated market economies (Swiss)'. The study covers a period of 25 years from 1974 to 1999.

Chapter 2 elucidates a brief introduction into the peculiarities of the banking system and the principal tools used by different countries in their hand for regulating them. It also addresses the challenges the countries faced during the period under analysis. It also needs to be mentioned that, this was also the period which coincided with liberalisation of capital and currency markets, great strides were made in the information technology and computerisation and their application in the banking as also a lot of innovations in the financial world creating great opportunities as well as the risks. In a nutshell, it gives a general overview of the banking developments and the regulation in the context of simultaneous progress toward globalised phenomenon.

The book follows the same prototype for each country by providing a brief historical background on their respective banking system as also the regulatory system, followed by a description of the new challenges, a description of the sectoral policy network, a narrative and concluding remarks. Chapter 3 strongly puts across that in US a political reform of the restrictive 1930s New Deal banking regulation largely failed in the 1980s and 1990s. Even though there was agreement on the necessity of change as evidenced by the banking crisis of savings and loans sector in the late 1980s, it was the courts and regulatory agencies provided for the safety valve functions in the system through reinterpretation of existing regulations. However, in the US a set of domestic factors ensured that there was no long term strategy guiding reforms of the regulatory system. Although major changes took place, attempts to steer policy towards a well-defined aims were very few.

Chapter 4 argues out that in Germany's banking system, more often consultative, informal policy style was predominant and which the author is convinced that it paid well, especially when coupled with a high degree of self regulations. It also contributed for institutional continuity and stability to a successful policy outcome with no major bank failures after the 1974 case of Herstatt Bank. The author candidly pointed out that this success, of course, had its own costs as well. As the administrative system was not forced to enhance state capacity in this area and thus found it difficult to project its interest onto the European and international level which both grew importance. In the sense that, the Germany could not market this model somehow for the outside world and even within Europe as much as other major countries such as the UK in particular.

Chapter 5 deals on the regulatory policy approach in the UK which has been characterised by reaction to the crises in the banking system, *viz.*, the secondary banking crises in the 1970s the failure of Johnson Matthey Bank (JMB) in the 1980s and the Bank of Credit and Commerce International (BCCI) and Barings in the 1990s. It is pertinent to note the author's remarks that the role for parliament

was weak which led the Bank of England to initially dominate the 'club-style' sectoral policy network. With repeated piecemeal reforms in the banking regulation failed to provide long-term stability the latter was disempowered in favour of a new 'unified financial regulatory agency' thus providing an example of major shake up in the institutional change. In fact, the unified model introduced by the UK was later adopted by several nations across the world.

In chapter 6 the author presents the regulatory system in the Swiss, which according to him, is characterised as 'consensual style' for policy making and also applies to banking regulation. Such a style has produced largely a positive policy outcome in the face of a high potential risk caused by concentration in the banking system. The highly federal political system does therefore not lead to political deadlock since a strong element of centralized self regulation manages to balance the fragmentation. It is also very important underline that the influence of European regulations are considerable, it is however, concealed in the euphemistic phrase of 'autonomous adaptation'.

Chapter 7 is indeed very interesting to read, it basically draws together all the four country-specific analyses and comparatively evaluates the findings. It compares the structures and outputs of the four policy networks, arguing that the country-specific contingencies lead to different outcomes in the face of similar challenges during the period of investigation. In the US, a pluralist system of associations in combination with a fragmented regulatory and legislative system leads to policy failure and blockade, in the UK market concentration and a concentrated regulatory and legislative system creates high state capacity despite a pluralist system of associations. In Germany, on the other, a concerted associational system is weakened by market fragmentation but combined with concentrated regulation creates policy successes; and in Swiss a segmented but concentrated market combines with comprehensive concentration to create flexible adaptation with minimal resource requirements. Compared with these factors, the most significant aspect emerge out of whole analysis was, that the standard political

institutions show little influences on their own, but a mediated one depending on the context.

Finally, Chapter 8, on the whole, evaluates the outcome of the study in terms of the competing hypotheses of policy convergence and diversity. It postulates that a distinction between the dimensions of policy, politics and polity helps to gain new insights here; while there is substantial, if far from perfect, convergence in the policy dimension (the content of regulation) no such effects can be found in the other two dimension (the processes and the institutional aspects of banking regulation). The study, thus, confirms that, in so far as, financial market regulation is concerned, the global forces contribute more to reinforcement of national differences than convergence that the underlying financial system and their regulatory structure continue to exhibit considerable differences rather than convergence.

Based on careful analysis of historical developments, specific challenges, the character of policy networks and institutions, and their interaction in the political process, this book concludes that nation states still possess considerable room for maneuver in pursuing their policies. Even if they choose supranational coordination and cooperation, their national institutional configurations still function as filters in the globalization process. The key national distinctions remain in the regulation and supervision of banking despite there has been great deal of globalisation. The author also emphatic about the importance of such national filters in a more globalised world.

The special feature of this book need necessarily a mention that apart from the above coverage, since the book was released amidst the global financial crisis, rightly it attempted to gather some of the key factuals and developments relating to the recent global financial crisis, although strictly speaking it is beyond the scope of the book as the study covers the period of 1974 to 1999. Accordingly, the book had, presented a postscriptum : The Subprime Mortgage Crisis and Banking Regulation, the readers are compelled to expect

that the book will throw some light on the regulatory aspects in the backdrop of rich research experience on the banking regulation of the four major countries. However, this section presents the collection of facts that were reported in various newspapers/journals with rare comments sprinkled by the author and one such comment is picked up and cited hereunder:

‘...the three big central banks in the area most affected by the credit crisis have thus apparently opted not to coordinate their actions, but to follow individual and different courses of actions. ...’

However, the above comments does not seem to be valid, as the crisis deepened practically all the major central banks as also the governments around the world have extended close cooperation and exercised coordinated actions in tackling the crisis. In fact the unique feature of the present financial market crisis resolution endeavour was that all major central banks as well as the political setups came together to resolve the crisis through mostly unconventional means in an unprecedented way. But for these historic steps, the crisis would have led to a situation much worse than the great depression as described by a number of experts.

The book doubtlessly throws very valuable insights on the evolution of regulatory systems in these four major financial and banking systems and therefore it is a valuable addition to the existing literature on globalisation and banking regulation and for academics and students of dynamics of globalisation for its intricate analysis and lucid presentation.

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