Richard S. Grossman

Unsettled Account: The Evolution of Banking in the Industrialized World Since 1800. (Heidelberg: Springer-Verlag, 2010, ISBN: 978-0-691-13905-0, 400 pp., £27.95)

People love to feel special. Unfortunately, not seldom does this mean superior, but sometimes it just means different in the broader sense; as part of a collective or as an individual. While not always eager to admit it, people tend to find their convictions superior to the beliefs of others, the countries they happen to been born in to be fundamentally different from others, and the era they live in to be a radical break from a relative stable past. Nevertheless, however unique each individual and community is, they resemble each other much more than one might wish. Countries' perceived superiorities are quickly dismissed by the fact that one can hear the same pride in so many different countries: 'our' food is best, 'our' people are the most beautiful, hospitable, friendliest, entrepreneurial and can be found anywhere in the world, 'our' country has the most beautiful landscapes, 'our' language is the most difficult, etc. The same goes for eras. For example, during the recent boom, it was often claimed that this boom was fundamentally different from earlier ones. During the current bust, dramatic news headings claim basically the same, but from the negative side. The effects of the crisis are devastating, and important to react to. The share of households around the world suffering from –already prevalent– poverty increased during the crisis, just as it did during previous crises.

Precisely here is where '*Unsettled Account*' makes an invaluable contribution. It is a realistic book, reminding us of the fact that banking crises have been surprisingly common during the past two centuries. In fact, these crises are so common that the author in this book, and in his various publications cited throughout the book, has no problem in performing statistical analyses with large-enough number of observations of 'banking crises' and bank *bank*ruptcies.

Grossman starts-out from a brief account of the origins of banking, going as far back as discussing 5,000 BC interest-bearing loans of food, and mentioning how Egyptians used a word for interest which was derived from 'to give birth'. He then quickly moves-on to the focus of the book: banking crises. While banking crises were somewhat more common before 1900, even during the relatively brief period from 1980 to spring 1996, as many as 133 of IMF's 181 members experienced significant banking problems. Three causes of banking crises are identified: 1) boom-bust fluctuations, with banks lending too much in periods of growth with the over-committed defaulting when growth slows down, 2) shocks of confidence usually related to war, and 3) bank structure. The first seems to the most usual scenario, e.g. with all of the major 19th century UK banking crises were preceded by a period of startling growth, and speculation of some kind.

Some institutional arrangements seem to be associated with more stable banking sectors. Grossman's analysis shows for example that branching can spread geographical risks, thus making banks less crisis-prone. Elsewhere, he argues that double or unlimited liability makes bank owners more wary of overly risky investments. Nevertheless, Grossman is honest about the complexity of finding evidence for the effectiveness of such institutional arrangements in avoiding crises. This realistic caution not to over-stretch findings fits well with the admirably low-key, solid tone of the book.

When banks go bust or are about to go bust, there are several ways to respond, or not to respond, for governments (Grossman's focus) and other stakeholders. These are thoroughly analyzed in Chapter 4. This section will proof particularly useful for policy-makers to draw lessons from. Many measures have been tried-out in the past, probably more so than most policy-makers would expect. While understandably not providing in-depth analysis in all cases, the book presents a large amount of tables with information which serve as reference for scholars and policy makers to guide them where to look for evidence. This should help them not to make the same mistakes made in other times and places. For example, the European Commission is currently exploring potentials and feasibility of interest rate caps (Dubois & Anderson 2010). Unsettled Accounts provides an excellent guide to identify past experiences with such tools. Grossman further analyses in great depth the pros and cons of bank bailouts, and describes experiences with measures such as imposing bank holidays, simply closing down banks for a period of time to calm-down markets.

Next, causes and consequences of mergers are discussed. The book focuses on merger frequency and development of concentration in the banking sector, and how these relate to banking crises. Not surprisingly, economies of scale are argued to stand out as an important driver of the merger movement. This analysis is followed by a chapter on regulation, such as entry rules and capital requirements. Grossman interestingly observes that capital requirements are not clearly related to actual capital-asset ratios, with banks in countries without such regulation sometimes holding more capital than those in countries with regulation. Capital requirements do clearly restrict entry though.

The various statistical analyses presented throughout the book are often utterly simplistic, usually mere bivariate correlations or between-group difference significance tests. Even the most basic aspects of a hugely complex environment are bluntly ignored. Furthermore, sensitivity analyses and interpretation of the statistical output are largely absent. Nevertheless, in their simplicity, some of the bivariate analyses are highly original and revealing, for example showing that the earlier a central bank was established, the later it obtained a supervisory role.

The book focuses on cross-national comparison. Nevertheless, in-depth country-case studies of England, Sweden and the US are also presented. Such multi-method approach is its strength. At the end of the book Grossman dedicates some special attention to recent developments, with emphasis on deregulation. Nevertheless, this book should not be considered as a key reference concerning the current financial crisis. A recent publication by the author provides more insight in this respect, comparing the current crisis with the great depression (Grossman and Meissner 2010).

Naturally there are gaps in the book. The consumer side of the story receives little attention. Dedicating some attention to this would have added flesh to the somewhat 'dry' legal-economic oriented text. The recently decreasing role of banks in borrowing, as compared to other financial companies, should not go unnoticed in this regard.

Furthermore, little attention goes to the social impact of crises. All these technicalities have a real-life impact (e.g. Dubois & Anderson 2010) which should always be kept in mind when dealing with the numbers. Grossman's international focus is rare and admirable. The US-European bias can be criticized, but by making some references to early developments elsewhere in the world, Grossman goes already further than many other authors. In the preface, he makes a humble remark about his knowledge of the banking systems in countries included in his analysis. This is not necessary. What this important book might miss out on depth, is gained in exceptionally enlightening broadness.

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References

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