Moving Money: Banking and Finance in the Industrialized World by Daniel Verdier. Cambridge: Cambridge University Press, 2002. Pp. x, 311.

A recent wave of scholarship by economists and financial historians has focused on the nexus between financial development and economic growth. Advocates of the "finance-led" view of growth have suggested that institutional differences in banks, securities markets, and monetary arrangements may provide additional insight into why we observe variation in rates of capital accumulation and technological growth across countries. The roots of empirical inquiry into this subject lie in the observed differences in the structure of financial systems across countries, even those of comparable levels of economic development. Why do such differences exist? In *Moving Money*, Daniel Verdier tackles this question for a set of industrialized countries over the past one and a half centuries.

Given his training as a political scientist, it is perhaps not terribly surprising that Professor Verdier's approach to this question emphasizes a thesis that is grounded in political institutions and political economy. In particular, he focuses how state structure has influenced the evolution of financial systems in roughly a dozen countries since 1850, a set that consists of Western Europe and a group of British offshoots. The advantage of this small sample is that it permits the author to develop a fairly detailed historical account of how banks and financial markets have evolved and to do so in a comparative fashion. Scholars interested in developing an institutional knowledge of the how national banking systems have changed over time and the forces that induced these changes will find the rich historical detail in the book particularly useful.

The first part of the book lays out the author's argument of how centralization might affect the structure of banking systems and the mobility of capital, and places it in the context of the existing literature on banks and financial markets. (A mathematical treatment based on a two-sector-two-region core-periphery model is provided in Appendix 1.) The author's central theme is that the extent to which a state is centralized determines how financial markets are organized. He argues that, due to agglomeration effects, financial capital, if left unimpeded, has a tendency to flow towards centers of economic activity (although this effect will be tempered on the asset-side of the balance sheet by informational asymmetries). If governments are decentralized in orientation, then local governments, businesses, and banks will have proportionately more power, and will use this to block or impede the flow of finance from the periphery to financial centers (where the finance may concentrate but never return) by encouraging regulatory intervention. As a result of this distributional politicking, he argues that banking structures in decentralized countries will have less market liberalization in the financial sector, less market-induced specialization among banks, less developed stock markets and less internationalized banking systems. On the other hand, he argues that more centralized countries are not as likely to impede the flow of finance to financial centers; this, in turn, will lead to financial systems that have deeper financial markets and an international orientation as well as more concentrated and specialized banking systems. As a consequence, he suggests that bank regulation over the last decade and a half has been directed at altering the competition for market share between centrally-located banks and those on the periphery.

The following two parts of the book analyze the argument using cross-country data from two periods: 1850-1913 and 1960-2000. Both periods are treated similarly in that one chapter is devoted to each of four organizational characteristics of the financial systems: geographical concentration, internationalization, intermediation, and product specialization. Each chapter provides a general description of historical factors or trends influencing the characteristics; this is followed by a description of the predictions from his model, scatter plots based on a sub-sample of present-day OECD countries, and simple OLS regressions. The self-contained nature of each chapter focuses the reader's attention on how the particular organizational feature relates to the general argument; the organization of these chapters makes for relatively easy comparison between the two episodes. However, the drawback to treating each characteristic in relative isolation from the others is that it leads to parsimonious econometric specifications, which do not consider the possibility of feedback across the characteristics.

Although Verdier acknowledges that other factors may have been important in where capital locates and how financial systems are structured, the book's rather single-minded focus on the role of state centralization as an explanatory variable gives other potential influences short shrift. This is not meant to

imply, for example, that changes in financial products are not discussed, but rather that technology and economic growth are important determinants of financial structure and can also be a force for altering or triggering regulation. The interaction of growth, technology, and regulation could have been given more prominence, especially in the empirical section. At points in the argument, there also seems to be too little attention paid to differential rates of return in explaining the location of capital. Moreover, the conclusions seem more relevant for the European countries in his sample than the British offshoots; the latter are often treated as outliers, with unique historical circumstances, or are bent to conform to his sample by using peculiar definitions. (For example, while most European banks are classified as core or periphery on a functional basis, the US banks are classified based on regulatory status – whether they were national or state banks. This seems like an arbitrary choice.)

In terms of the statistical analysis, there some curious omissions from the data set (Japan and Argentina) and the regressions likely suffer from lack of identifying variation as well as what Arthur Goldberger calls "micronumerosity," or problems of small sample size. A*d hoc* specifications, endogeneity, and omitted variables bias also undermine the empirical analysis. And in some chapters, variable definitions seem peculiarly chosen. For example, why is it appropriate to examine gross foreign investment in 1914 to measure market internationalization – a year when, because of the war, investment flows are distorted and there are perverse activities in financial markets? (The US stock market actually shut down for nearly half the year out of fear that Europeans would liquidate their US holdings.) And why is it appropriate to compare US net foreign investment with gross flows in other countries in 1914 to measure internationalization, especially since US gross flows are large? (At this time, the US is moving from a net debtor to a net creditor position.)

Despite its useful contribution in providing a long-run perspective of factors shaping banking systems in developing countries, the book draws few lessons as to how these experiences should be used by policymakers. If state centralization is important for altering banking structures over the past 150 years, what is the appropriate response of policymakers? Does it matter for economic growth or for financial stability? (Verdier's view seems to be that the current pace of disintermediation makes his story about 19th-century competition over resources by core and periphery banks less relevant for understanding the future.) Given that the study covers the present as well as the past, it also spends little time on key regulatory issues today, such as the movement to harmonize banking regulations across countries (Basle I and II accords), and whether this is altering the shape and structure of national banking systems.