hands free to adapt to changing circumstances. However, it should not be forgotten that nowadays the great majority of central bankers are — like Wood himself — academically trained economists, not commercial bankers as in days of old. So, in that sense and armed with John Wood’s lucid book, presumably, we should now find them easier to understand.

Bank for International Settlements

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The title, Finance and Modernization, already announces an ambitious attempt to cover all the sub-themes that financial historians evoke when confronted with the long-studied relationship between finance and economic development (or industrialization, as modernization remains a broad, unexplained concept). The first, introductory, chapter deals precisely with this in the case of Austria, linking financial development with political and economic conditions in the long term, along with industrial organization in the banking sector (competition is considered good for economic development). It provides a good summary of the banking history of the country, though one finds no mention of the possible endogeneity between banking and economic development. However, the chapter invites us to look further at the ‘modernization’ role of banks. Austria features prominently, for obvious reasons, but other cases in Europe and the Far East are also examined (particularly the exotic cases of India and China). Methodologically, an economic historian will be on familiar ground: the book includes both quantitative and qualitative articles; some of them present new archival evidence and others use modern financial theory to test the market efficiency of nineteenth-century stock markets. The case studies are diverse and offer good comparative challenges.

A constant theme of the book, not mentioned in the excellent concluding remarks by Alice Teichova, is the volatile nature of risk taking by banks throughout history and in different geographic regions. If today we blame banks for the subprime crisis, in past historical episodes we would have thanked them for entrepreneurship and intelligent risk management. So the issue of causality between finance and economic development is resolved like this: whatever is good for the economy should also be good for banks; however, only good bank practices can be good for the economy. That favourable economic conditions benefit the financial sector is obvious from the beginning, though economic crises can also have disastrous effects (take the 1930s). But sometimes good economic conditions are translated into credit booms, excessive risk taking and failures. Still, we find reasons to remain optimistic about the future, and

1 Opinions expressed are those of the reviewer, and do not necessarily reflect the views of the Bank for International Settlements.
history provides us with a number of examples of intelligent bank management. Take, for instance, the Rothschild bank. In the case of stock trading, the early nineteenth century already witnessed this bank’s reputation for information gathering, which was mainly done through its branch network in the financial centres where it operated. It became a leading trader in German stock markets. Wise information gathering is no easy task. From this book we also learn that the Rothschilds were very reticent to use technology and rejected working with the news agency Reuters. Information continued to be collected through its traditional network of agents (successful Indian bankers also worked this way before the arrival of the Europeans). The bank, we are told, was looking for accuracy, not for rapidity. Personal relationships were important, and they developed through current financial and economic activities, such as trade, trade finance and participation in occasional investment opportunities. On the other hand, we are told, there were bad ways to gather information. In the case of interwar Austria, this was done through the demand in credit contracts of positions on supervisory boards. We learn that this was insufficient to obtain accurate insider information (the evolution of the banking sector and its link to small, medium and big enterprises is rarely harmonious). Good news arises when we learn that, contrary to common belief, there are also historical examples where banks can learn from their own errors. Creditanstalt, a ‘Rothschild Bank’, suffered heavy losses in the crisis of 1857, but then managed well through the credit boom of the 1860s, which ended with the crisis of 1873 and the fall of a large number of Austrian banks, as they assumed too risky positions in the companies’ promotion business (bad bank practices affecting the economy). We can sum up the banking creed through an additional case. In the correspondence of two founders of the Twensche Bank in Holland we find some premises of good banking practices, and I will name three: (1) collect information; (2) take occasional chances; and (3) build a sound reputation. Successful banking, we are told, is related to these basic principles.

Of course, things are never that simple. The extension of railways in the Balkans involved a fierce battle between banks, which cooperated through the formation of (international) syndicates but also competed for business. This struggle had politics and national rivalry as a background. Besides, different banking formations affected small and big enterprises asymmetrically. If modernization is a synonym for industrialization, history provides us with mixed evidence as to the best financial systems (stock markets or bank lending). In any case, the intellectual context takes us down the correct road. The volume, like the conference, honours the 150th anniversary of the Österreichische Creditanstalt, a tremendous age given today’s rate of mortality. Significantly, the conference was hosted in Vienna, which combines successful industrialization and a complex financial history.

The academic tradition in history and in economic history whereby conference papers are published in a collection is often a challenge. It involves bringing together scholars from different geographic regions, looking at barely related questions, using different approaches and trying to draw intersecting lines to find the main common interest. From a reader’s perspective, the outcome can be uncertain and the
conclusions drawn are often ambiguous. Complete intellectual satisfaction is rarely achieved. In addition, one approaches such a collection with one’s own research interests. In this sense, I was confronted with new, interesting questions, but was left with few innovative answers.

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Catherine Schenk (ed.), Hong Kong SAR’s Monetary and Exchange Rate Challenges: Historical Perspectives (Basingstoke: Palgrave Macmillan, 2008, 216 pp., £60).

This rich collection of papers covers the evolution of Hong Kong SAR’s unique monetary and financial arrangements throughout most of the twentieth century, including its colonial history and interaction with Mainland China, the development of the currency board, and its transformation as an international financial centre.

There is much useful material here for international economists and economic historians; for academics and policy makers; for students and professors; for specialists and laymen. Having written extensively on currency board arrangements (CBA), I nevertheless learned a great deal from this book about how CBAs operate in practice. But the appeal – and usefulness – of this volume goes far beyond any minutiae of monetary arrangements. By rooting itself in historical perspective, and by providing fascinating detail on how changes in Hong Kong SAR’s monetary arrangements actually came about (including chapters by two key players, John Greenwood and Joseph Yam), this book offers valuable insights to anyone interested in the dynamics of economic policy making.

Catherine Schenk introduces the volume with a historical overview of Hong Kong SAR’s monetary arrangements, which provides a useful roadmap for readers unfamiliar with Hong Kong SAR’s unique monetary history. This is followed by two chapters on Hong Kong SAR’s interaction with Mainland China covering both an earlier period (1912–35) and a key post-war period (1965–75). I particularly enjoyed reading about the 1912–13 ‘tramway boycott’ and the 1925–6 Canton–Hong Kong strike-boycott for the insights they offer regarding the politico-economic dimensions of relations with the mainland.

The second part of the book is on Hong Kong SAR’s currency board arrangement. Unlike most modern CBAs, such as Argentina’s (1991–2002) arrangement or those operating in Eastern Europe, Hong Kong SAR’s regime went through significant evolution as power over the ability to determine monetary policy was wrested from the commercial banks (surely a unique situation in modern times) and given to what eventually became the Hong Kong Monetary Authority. Leo Goodstadt sets the stage by showing how thinking about ‘laissez-faire’ monetary policy gradually changed in the light of various bubbles and crises. The chapter by Tony Latter will be of particular interest to students of monetary and exchange rate regimes as it explores the scope for discretionary monetary policy within what would normally be