Ranald C. Michie, *Banks, Exchanges, and Regulators: Global Financial Markets from the 1970s*, Oxford University Press, 2021. xiii + 747pp., footnotes, bibliography, index. Hardcover; ISBN 9780199553730. £110.00.

Perhaps no one is better qualified than Ranald Michie to write a history of the global financial system since the 1970s. The author has written widely on financial history, particularly the British financial system and the historic place of the City of London in the world of global finance. His latest book is, "an attempt to explain the revolution in global finance that has taken place over the last thirty-five years" in light of the financial crisis of 2007-2009, (x).

Since that crisis ended, a large number of books have appeared examining the origins and aftermath of the "Great Recession." Some like *The Big Short*, (2010), and *Too Big to Fail*, (2009), have been turned into movies. Many of these books have maintained that the Global Financial Crisis was an accident waiting to happen. Other books have compared the Global Financial Crisis to the Wall Street Crash of 1929. But Michie argues that both of these positions are incorrect. The Global Financial Crisis was not inevitable, and it is a mistake to compare the 2007-09 crisis to the 1929 crash because the Wall Street Crash was caused by outside forces (i.e. the unfinished business stemming from the economic, financial, and monetary consequences of the First World War), while the Global Financial Crisis was generated from within the global financial system itself. *Banks, Exchanges, and Regulators* is dedicated to identifying those inside forces and showing why the Great Recession was not inevitable.

Using the data and information generated by *Financial Times* journalists, correspondents, and contributors from around the world, the author examines the unprecedented challenges and opportunities that banks, exchanges and regulators faced since the early 1970s. As in the past, Michie takes a holistic approach to the study of global financial markets. His new book is a blending of two different approaches previously employed by him: i.e. the study of banking from the perspective of financial markets, as exhibited in *The Global Securities Market: A History*, (2006), and the study of financial markets from the perspective of banking, as displayed in British *Banking: Continuity and Change from 1694 to the Present*, (2016). By adding a third dimension of analysis – i.e. the study of financial regulation – Michie paints a complex picture of the operation of banks, exchanges and regulators since the traditional system of banking became undone by the market forces, global integration, and revolution in trading technology that began in the 1970s.

The thirty years preceding that crisis had witnessed a reworking of the global financial order, which was itself a reaction to what had emerged after the Second World War. Up until the 1970s, global financial markets were controlled by governments, compartmentalized along national boundaries and segregated according to particular activities. But after the demise of the Bretton Woods system in 1973, competitive markets gradually replaced governments and central banks in determining the volume and direction of international financial flows. With a growing proportion of financial activity taking place away from those areas over which regulators had exercised control, governments began to abandon formal controls, leading regulators to search for new ways to manage financial markets. The 1980s and 1990s witnessed not only the progressive removal of barriers to international financial flows but also a great innovation in financial instruments to meet the needs of lenders and borrowers alike.

Increasingly, trust was placed in the hands of the world's megabanks to maintain this new financial order. The megabanks after all – so the argument went – had the capacity to police their own behaviour and were closely watched by the central banks. With a freer rein from regulators, the megabanks extended their operations across the globe, transcending national boundaries and time zones. As they positioned themselves at the centre of the world's financial system, the megabanks also spread themselves over a growing diversity of activities. This had the effect of destroying the compartmentalized and segregated structures of the past.

Many of the megabanks got even bigger during the mergers and acquisitions wave in financial services in the 1990s. These megabanks provided the means through which an integrated and borderless global financial system could operate without the need for intervention from regulators. The problem was that the megabanks reached such a size that many regarded them as "too-big-to-fail."

The author notes that another contributing factor to the Global Financial Crisis was the shift in lending models. After the financial crisis of the 1990s, regulators allowed banks to shift from a lend-and-hold model, in which a bank's funds became locked up in loans, to an originate-and-distribute model, in which banking loans were converted into transferable assets which could be subsequently sold. These new types of loans thus represented liquid assets. But what regulators did not appreciate at the time was that the shift would allow banks to expand their lending without limit. In addition, originate-and-distribute loans had lower screening incentives. This lack of screening incentives coupled with leverage-induced risk-taking behavior significantly contributed to the Global Financial Crisis. Governments, central banks and regulators were largely blind to the emerging risks prior to 2007.

Business historians have long known that systems with too many rigidities often breakdown. This is what happened in the world of finance during the 1970s. What we have not known – or at least what has not been conclusively proved until now – is that a financial system lacking in layers of resilience also proves vulnerable to crises. As Michie makes profoundly clear, this is what happened in 2007–8. What was required, we are told, was "a global financial system that was simultaneously flexible and resilient but achieving that was an impossible task given the divergent aims of all involved", (603).

What is remarkable is how little changed after the Global Financial Crisis. According to Michie, the very institutions that caused the Global Financial Crisis prevented it from being worse. To be sure, as the author demonstrates, new restrictions were placed on the megabanks. But many of the most powerful US-based megabanks along with a similarly small group of US-based megafunds remained. This was because they turned out to be indispensable to the market in an age of globalization. These financial institutions were the only available mechanism through which regulators and central banks could exercise a degree of control over the financial system. Similarly, exchanges continued to march to the beat of their own drum, although they were affected by what was happening to banks and financial markets generally.

Banks, Exchanges and Regulators is the most comprehensive book on global financial markets since the 1970s that we have to date. Michie's richly-detailed analysis captures the complex

interplay of internal forces that led to the crisis, and the lingering effects of the crisis to this day. While this reviewer would have liked to have heard more about the intellectual and ideological forces at play during the post-war period and how "big ideas" worked their way into corporate strategies and public policies, this book is a major contribution to the literature and a must-read for bankers, regulators and business historians.

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