Financial Structures and Regulation: A Comparison of Crises in the UK, USA and Italy by Alessandro Roselli. London: Palgrave Macmillan Studies in Banking and Financial Institutions. 2012. Hardback: ISBN 978-1-4039-4872-4. $100.00, 304 pages.

This book is both historical and institutional and readers of this journal will appreciate the numerous references to the work of Hyman Minsky on financial instability. News of the LIBOR scandal in London coming on the heels of the bailout of large banks and other financial institutions in the US reminds us that problems remain with the structure of global banking. This book addresses a fundamental question that policy makers should ask: How can we avoid future taxpayer's bailouts of financial firms? Alessandro Roselli's proposed solution is looking to history for answers and asking: Why banks have been considered"special" historically, i.e, deserving of federal deposit insurance and access to the Federal Reserves credit window? And if they still are "special" why are banks permitted to engage in activities that go beyond their historical function and that result in colossal bailouts? The author is well-qualified to make pronouncements on this topic because he has served as a liaison of the Bank of Italy to the Federal Reserve and, more recently, to the Bank of England.

The author traces the history of banking in the US, the UK, and Italy beginning in the early twentieth century. He divides the period into three parts: the interwar years (1920–1940), the post-World War II period (1950–1980), and the most recent decades (since 1980). Roselli uses two broad measures of financial depth to analyze the evolution of the financial systems in the three countries. The first measure is the ratio of financial institution assets to total financial assets (FIN) while the second is the ratio of total financial assets to real wealth (FIR). Though these measures are not exact, the authors purpose is to provide a"point of reference and as a means of checking our remarks on interrelations between institutions and financial structure" (p. 5).

The book discusses important legislation, institutional changes, and financial innovations in each of the three countries. The differences existing between the US, the UK, and Italy are important to note. Some of them pertain to insurance, regulatory mechanisms, and banking-sector fluctuations. For example, though the US adopted federal deposit insurance in 1933, in the UK it did not happen until 1979, and in Italy until 1986. In the UK, there is a single regulator, unlike in the US with its myriad of state and federal regulatory agencies. The three countries have also had different experiences within the context of the recent financial crisis, whereby Italys banking sector has remained relatively stable. Though Italy is not without its problems, the author posits, the Italians have been more conservative in mortgage lending than their Anglo-Saxon counterparts which partially explains their relative financial stability.

A straightforward definition of a bank is an institution that plays a role in the payments system by offering the public demand deposits as a convenient form of money, while also providing credit, primarily to informationally opaque business firms. Banks want to be thought of as "special" in order to have access, among other things, to the federal safety net provided by such agencies as the FDIC and the Federal Reserve. The problem is that bankers want it both ways: to be "special" and to be treated like other firms. This is precisely the reason why banks get into trouble and have to be bailed out with taxpayers money: Because they argue—and quite successfully, it seems—that in order to meet the competition of financial nonbank firms in providing payments and lending services, they need to be allowed to engage in a broad range of activities and to innovate in financial instruments as they deem necessary. Consequently, if we are to ever end the reoccurring cycle of staggeringly growing bailouts, we must decide if banks are really "special." As Roselli effectively notes, it is the bankers themselves, through their use of financial innovations like securitization, that have brought the banks' "special" status into question. One can view securitization as a way for banks to make liquid their non-liquid loans (home mortgages, among others), but, in so doing, the banks substantially depart from their traditional role of a loan monitor.

Is it time for banks to go the way of the Bell land phone monopoly in the US? The solution—though not perfect, Alessandro Roselli suggests, is introducing some form of"narrow banking" to restrict banks to their historically traditional "special" function of payments-and-credit service. The author favors a tripartite structure in which "narrow" banks would exist alongside redefined commercial banks and investment banks. Though economists from both the left and right have advocated versions of this proposal, it has not gained political traction in the US yet. However, in the UK, the Vickers Report which proposes separating retail and investment banking ("ringfencing") has been endorsed by the current Conservative government. Moreover, the Labour Party has pledged to bring a separation of retail and wholesale banking if they return to power with the next elections.

For the reasons discussed above, among others, Rosellis is a thought provoking book. Those interested in understanding the evolution of the global financial system, and possible ways to reform it, will garner great insights from reading it.

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