in the book. These include the mentioning of temples that have a stock of 800 cows that can be rented out in times of drought or economic hardship to peasants in the surrounding villages as a form of religious welfare provision. Such passages are eye opening for a scholar of the economic sociology of religion in Western Europe, since they show you how narrowly one thinks about the topic. Also insightful was the fact that many of the rites used in the European literature as indicators for the decline and substitution of religion with third wave practices like yoga and Ayurveda are in the Indian case actually core parts of religious practice. Just these points alone would have made reading this book worthwhile!

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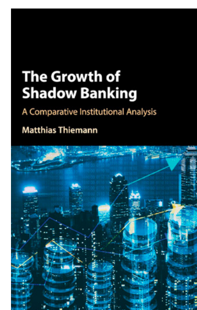
Matthias Thiemann · 2018

The Growth of Shadow Banking: A Comparative Institutional Analysis

Cambridge, UK: Cambridge University Press

Reviewer Dylan Cassar
University of Edinburgh
D.Cassar-1@sms.ed.ac.uk



The financial crisis of 2007/08 threw into sharp relief the complex system of credit intermediation that had developed over the span of several decades in global financial markets. Widely known as shadow banking, or market-based finance in technocratic discourse, the system disrupts the vertical-hierarchy organisation of bank-based finance into a chain of entities that together perform the activities of a traditional bank. Crucially, even though banks became heavily involved in it, this system remained outside of banking regulation as the activities which constituted it were kept off-balance sheet. What were the conditions that allowed for this, and what to make of so much *national* variation in exposure to the shadow banking system?

These questions are at the heart of Matthias Thiemann's *The Growth of Shadow Banking: A Comparative Institutional Analysis*. Drawing on eighty-five interviews between 2010 and 2016, the work centers on the dialectical unity between the regulator and the regulated. The two have opposing interests, where the latter seeks to circumvent rules while the former reacts in degrees of regulation. Yet there is a sense in which each requires the other to exist and this factor influences their decisions. In addition, the structural and institutional context in which this exchange unfolds needs to be appreciated, particularly in how it structures behaviour. This nuanced approach stands in contrast to literature that blames bankers' agency in regulatory capture for widespread regulatory laxity. Though it is not excluded in certain instances, this theory is deemed as lacking in explanatory power to provide a comprehensive picture, not least to explain the variation on a national level.

The first half of the book explores the growth of shadow banking, focusing on a central market – the asset-backed commercial paper (ABCP) market in the US. It attributes this development to the growing competition banks faced from non-bank entities and international banks in the 1950/60s. This pushed banks to embrace their competitors' practices by shifting from traditional credit towards off-balance sheet financing. In a crucial decision in 1988 by the Basel Committee, short-term liquid-

ity facilities were deemed as low-risk, hence remaining free of capital charges. This fuelled the growth of ABCP conduits sponsored by the banks themselves; conduits which in actual fact harboured long-term assets and were thus credit facilities *disguised* as liquidity facilities. As Thiemann argues, while a faction of the US Federal Reserve voiced its concern about the risks involved around these practices, it was overruled by those pushing a deregulation agenda firmly entrenched in a belief of self-regulating markets. In spite of this, in a clear case of regulatory agency, the pro-regulation faction within the Fed later exploited the global negotiations for Basel II and succeeded in regulating the bank's credit exposure to these facilities in the US.

It was the Basel Accords themselves, contends Thiemann, which created the structural conditions that shaped the regulators' agency, especially in Europe. The Accords established a set of common international rules for banking services, resulting in competition resurfacing at the margins of these rules. National banks could only remain internationally competitive if they were allowed to engage in off-balance sheet activities. Crucially, since Basel did not cover these practices, the latter's regulation was left to the discretion of the national regulator. This structural disjuncture between the international and national level gave rise to an alignment between the interests of the banks of a particular jurisdiction and those of the *national* regulator. For the banks, any additional (national) regulation over and above the international ones would impact on their global competitiveness. The national regulator thus put these concerns at the forefront of regulatory decisions.

Thiemann presents in impressive detail a comparative analysis of three European national systems that vary in terms of regulation and exposure to this market – France, Germany and the Netherlands. He argues that the structural disjuncture between the national and international level, one which is largely overlooked by current literature due to its overemphasis on international regulations, led to a regulatory race to the bottom in Europe. Despite this general trend, there were a few exceptions. In France, for instance, the government's protectionism of its banking system before liberalisation and the oligopolistic structure that ensued thereafter, ensured that the French banks were internationally competitive. This freed the French regulator from its concerns about banks' competitiveness, and thus it was possible to push through regulation.

While important, this structural element is "*only a necessary but not a sufficient condition*" (p. 142) to explain the three cases' variation. The institutional embeddedness of the regulator in banks' activities and rule compliance is a further factor which influences its intervention capacity. Thiemann gives particular attention to the interaction order of the actors by drawing on the social studies of finance and the literature on experimental governance and regulatory dialogues. The first evident case of this is in the context of accounting standards in 1998, where transnational pressure impacted on the institutional role and embeddedness of the regulator in the area of accounting. While the German and Dutch regulator failed to be included in the policy network, in France it established a firmly embedded and institutionally legitimate role that allowed it to tighten accounting standards.

Beyond standard setting, the regulations' effectiveness is determined by the regulator's capacity to enforce their interpretation and compliance. It is here that the emphasis on the regulator's embeddedness can be best appreciated. In Germany, the regulator performed off-site mechanical checks using information provided by the banks themselves and only monitored by auditors. This detachment led to the regulator's decision to eschew further regulation. The Dutch regulator enjoyed discretion in banking regulation but was cut off from accounting standard-setting and supervision. The regulator thus accepted the industry's claim that conduits carry no risk, and applied no capital charges. In contrast, the French regulator maintained a strong presence and dialogue with the banks and auditors. This allowed it both fine-grained knowledge about bank practices as well as the capacity to shape banks' interpretations of rules.

In diametrical opposition to literature that is critical towards the closeness between the regulator and the regulated, this finding implies that rather than resulting in regulatory capture, proximity to and regular dialogue with the regulated can be key to regulatory effectiveness. Though a compelling argument, it remains to be seen how this regular and close interaction can be prevented from degenerating into regulatory capture – principally into cognitive capture – in cases that are conditioned by the national–international structural disjuncture. In other words, what mechanisms can be put in place that grant the regulator not only the authority and clout to push through its demands but also the motivation to do so as it interacts with the regulated? This is one question that could spur further discussion between the literature that denounces the regulator–regulated interaction and literature such as Thiemann's that sees interaction as an important element of regulation.

Matthias Thiemann's *The Growth of Shadow Banking* is a highly insightful contribution that

provides a fresh perspective on what led to the spread of shadow banking. While scholars interested in markets and their regulation will find in this book a rigorous study that seamlessly blends sociological debates and approaches with those drawn from political economy, practitioners will most certainly value the meticulous fleshing out of the multi-faceted shadow banking system. Yet there is another more urgent reason why it should concern scholars and practitioners alike. The book ends on a rather ominous note. The structural factors that permitted the shadow banking system to grow largely unfettered are still in place today, a decade on from the crisis. In this respect, the book might not only serve to provide insight into the historical trajectory that led to the crisis. It should also prove useful as a forward-looking appeal for the recognition of the yet unresolved foundational weaknesses in our financial system. Immediate pre-emptive measures may be required in this regard, and those concerned would undoubtedly benefit from the normative recommendations with which the book closes.