labour and an increase in real wages (for women only half as much as for men), there were signs of general deterioration in living conditions, decline in female status, increasing role of disability in downward mobility and enduring control of merchant capital (Chapters 1-5, 2-4, 3-3, 3-4). In conclusion, the policy emphasis is on provision of social security to the poorest of the poor in Indian villages. Of enduring importance to their welfare are the efforts of the local and central governments in guaranteeing the transfer of low-price grain to rural regions such as those in North Arcot and their distribution through Fair Price Shops and other food programs like the noon meal scheme in schools (Chapters 3-2, 3-5, 3-7 and 3-8). Village-level studies have thus been used to inform policy debates at the state and national level.

The theoretical literature informing the essays of this collection is varied and they use approaches from development economics and political economy. Some of the contributions are critical, like the essay by Janakarajan on electricity (Chapter 2-3), and essays by Harriss–White on water and infrastructure (Chapter 2-2), on the life chances of girls (with Susan Erb—Chapter 3-3), on education (with Lisa Gold—Chapter 3-6), and on corruption (Chapter 3-8). Others are prescriptive, like the essay by Harriss–White on poverty-targeting (with Ruhi Saith—Chapter 3-2), and on social security and its reforms (Chapter 3-7). Given that the findings of the project and the general failure of policy in rural India may have disappointed the research team and the various hands and minds that have joined in this gigantic project, a number of interesting experimental approaches have been adopted in evaluating policies.

It is a huge task to bring to the reader an understanding of the successes and the challenges facing a country as big and varied as India through the experiences of a single district. This collection does this in a most commendable way and, while part of the credit goes to the selection of the survey villages which succinctly capture the essential development problems facing the sub-continent, most of it is due to the pertinence of the enquiry and the ensuing analysis, for which the editors deserve credit. For those interested in the 'what, when and why' of issues confronting rural India this volume will be an indispensable reference.

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Rethinking Bank Regulation: Till Angels Govern, by JAMES R. BARTH, GERARD CAPRIO JR., and ROSS LEVINE (Cambridge: Cambridge University Press, 2006, pp. 428 + xiv, £35.00 h/b).

Do bank regulation and supervision have a positive impact on bank efficiency, bank stability and, ultimately, on economic welfare? Many observers would tend to answer this question affirmatively. In particular, international financial institutions such as the IMF, World Bank and BIS advocate the importance of strengthening official supervision and regulation, that is supervision and regulation of banks carried out by governments. Barth, Caprio and Levine contest this general belief about the role of official supervision and regulation. Their main argument is that official supervisors and politicians may use their powers to misuse regulation and supervision for their own private benefits. The analysis in this book goes at the heart of a much more general discussion about the role of the government. According to one theory (also called the public interest view), there is a role for the government whenever market failures exist. Government interventions may adopt corrective policies to reduce these market failures. Yet, this assumes that governments always pursue policies that are maximizing social welfare. Or, in other words, '. . . politicians behave like angels' (p.9), or at least that there are institutional arrangements in place, such as strong laws and/or independent media, that make sure that politicians behave in this way. An alternative theory (i.e. the private interest view), however, states the opposite, that is that politicians do use their position for their own interest, unless there are sufficient checks and balances precluding such behaviour. Barth *et al*. provide evidence for the private interest view in the case of bank regulation and supervision. This also explains the title of their book: unless angels govern, official bank regulation as it is advocated nowadays by many observers should be reconsidered carefully.

In principle, the authors do not contest the view that market failures are important in banking. In Chapter 2, they provide an overview of potential banking market failures. Imperfect information leads banks to deal only with those they know, keeping out other entrants (credit rationing). Moreover, financial intermediation basically is an inter-temporal trade, which exacerbates information problems. Banks also have incentives to hide information, because information about good or bad borrowers is valuable for making lending decisions. Information problems of depositors may lead to bank runs or even crises, which are very costly. Crises may also be due to risk taking by banks, since they are protected from the downside risk due to limited liability. Finally, lack of information on the extent to which banks are safe and sound may discourage depositors from holding their wealth at banks, thereby reducing resource mobilisation. Governments may correct these market failures by establishing bank regulation and supervision, such as capital requirements, reserve requirements, directed credit, government ownership of banks, entry restrictions, deposit insurance, and requirements related to information disclosure that help depositors and investors to monitor and discipline bank behaviour.

In Chapter 3 the authors provide an extensive overview of the different approaches to bank regulation and supervision around the world, based on a unique and comprehensive new data set of bank regulations for 1998–1999 and 2002–2003, covering over 150 countries. The data have been obtained using a detailed questionnaire, which was sent to government officials. The data are made available on a CD-ROM attached to the back of the book. The overview makes clear that bank regulation and supervision differ considerably among countries. The question is: what determines these regulatory and supervisory choices?

Chapters 4 and 5 provide the main body of the analysis in this book. Using the information from the dataset, the authors provide empirical evidence that official supervision and capital requirements do not improve bank efficiency. They even show that strengthening the discretionary powers of official supervisors in countries with weak institutional environments, such as lack of open and democratic political institutions, weak law systems and (or) lack of independent media, leads to lower levels of banking system development, stronger corruption in lending and higher bank fragility. At the same time, regulations that encourage depositors and investors to monitor and discipline bank behaviour, such as requirements of providing timely and transparent information, are positively related to bank efficiency.

These results are supportive of the private interest view of government regulation. They highlight the risk of relying on government to correct market failures (i.e. they identify the risk of regulatory failure). Politicians may actually use their discretionary powers for their own private benefits, for example by only giving new bank licenses and allocating credit to friends or political allies. Incentives to do so are stronger whenever checks and balances on government behaviour within the economy are weak or absent.

The analysis has strong practical implications. In particular, the analysis criticises the best practice recommendations of the Basel Committee (Basel II) with respect to bank regulation and supervision. Basel II advocates strengthening official capital requirements and supervision, as well as regulations requiring accurate information disclosure. These recommendations are strongly influenced by a developed country perspective, relying on a technical approach to regulation. The analysis in this book shows that such an approach may do more harm than good. First of all, the contents of regulation and supervision should be country-specific, taking into account the political and legal institutional setting. Second, and related, a technical approach to regulation assumes that politicians choose welfare optimising policies, which seems to be the opposite to what happens in the real world. Therefore, recommendations such as those proposed by Basel II only make sense if they are accompanied by substantial improvements in the institutional environment. There is a role for government regulation, but this should focus on emphasising that banks provide timely and reliable information.

Barth, Caprio and Levine have written an important and valuable book, both from an academic as well as from a policy perspective. Their dataset will be a very useful resource for future research on

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the nature and impact of bank regulation and supervision on banking, finance and growth. I can highly recommend this book to anyone involved or interested in issues concerning the relationship between finance and growth.

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