

Rosa María Lastra, *The Legal Foundations of International Monetary Stability* (Oxford, Oxford University Press 2006) 600 pp., hardback ISBN-13: 978-0-19-926934-1
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The globalisation of financial markets has attracted much academic and policy-making commentary in recent years, especially with respect to the growing number of banking and financial crises that have been occurring since the 1970s. Since the Asian financial crises of late 1997 and 1998, financial regulators and policymakers have been engaged in numerous studies examining the economic causes of banking and financial crises. Academic economists and lawyers have been deployed in this endeavour to design financial regulatory frameworks that promote the efficient pricing of financial risk-taking, especially for financial institutions where the social costs of bank failure can be devastating for the economic development of a country. Moreover, international lawyers and political economists have been involved in designing international institutional frameworks that seek to create incentives for national central banks and economic policymakers to promote monetary and financial stability by providing stable macroeconomic growth (i.e., low inflation, a balanced fiscal policy and stable foreign exchange rates) and by designing regulatory regimes that reduce systemic risk in the banking and financial sectors.

In *The Legal Foundations of International Monetary Stability*, Dr Rosa Lastra of Queen Mary College, University of London, examines the important legal issues that confront policymakers in managing monetary and financial stability. Since the pioneering works of former IMF Legal Counsel Joseph Gold in the 1970s and 1980s, international monetary law and financial regulation have emerged as important areas of public international law. The complex concepts of economics and finance, however, which are necessary for an adequate understanding of the role of monetary and financial law in the financial system, have made this field a difficult area for lawyers to tread. It is to the credit of Dr Lastra that she has tackled this difficult and important topic and has shed much light for lawyers, economists and social scientists in understanding the legal basis for international monetary and financial stability.

Dr Lastra, a leading commentator in the field of international monetary law and policy, brings a great deal of insight to her analysis based on her previous work examining the legal principles governing central bank operations and the historical development of the (International Monetary Fund (IMF) as an institution and its Articles of Agreement. She does so by describing the legal framework and institutions that are designed to support international monetary and financial stability. Specifically, she explains the foundations of international monetary law with a particular focus on the law of the IMF and the law governing the operations of the European Central Bank (ECB). Unlike most studies in this area that have concentrated on the economic and political economy issues of IMF and ECB

governance, Dr Lastra's book provides an in-depth analysis of the institutional and legal framework that governs the international financial organisations with responsibility for preventing and resolving financial crises. The work also includes an informative discussion of the role of the relevant international standard-setting bodies, such as the Basel Committee on Banking Supervision, in developing international norms to govern banking regulation and how this relates to monetary and financial stability. To illustrate the application of international monetary law in national legal systems, she examines the relevant areas of monetary and financial law in some of the leading national systems, such as the United States and the United Kingdom.

The book is divided into three sections containing fourteen chapters. Part I examines the notion of monetary sovereignty and its attributes and limitations. The concept of monetary stability is then analysed along with the institutional structures that are necessary to support it. In this regard, the importance of an independent central bank in the management of monetary policy and the use of various currency regimes, including currency boards, are assessed. This part links the objective of monetary stability and central bank autonomy to the achievement of financial regulatory objectives, such as banking supervision, and the importance of good regulatory practices and the need, in certain circumstances, for central banks to intervene and play the role of lender of last resort to support the banking system in times of financial crisis. In the case of emerging market economies, the legal design of banking supervision and central bank autonomy is discussed, with the recognition that, although many of the economic and legal risks confronting regulators are common across jurisdictions, the social costs of these risks can vary significantly across countries, thus justifying in certain situations different regulatory techniques and even legal approaches when the economic circumstances of a country demand it.

Part II of the book provides a comprehensive discussion of European monetary law and its history and development. The history of European monetary integration provides an interesting case study for how the challenges of European financial integration can be overcome to serve broader economic and political objectives. Indeed, the adoption of the euro is the most important development in international monetary relations in the last thirty years. Dr Lastra examines the significance of the rise of the European monetary system with great insight and understanding of the complexities of the institutions that have been established to support it. The legal principles and requirements of the Maastricht Treaty and the Statute of the European System of Central Banks (ESCB) is discussed in much detail and provides a sound legal context for exploring further the economic and political implications of European monetary integration. The continuing challenges of this institutional framework are discussed, and in particular some of the uncertainties are addressed regarding the interpretation of Article 105 of the Treaty and its implications for the governance structure and division of supervisory responsibilities between the European Central Bank/ESCB and EU member states.

Part III examines the evolution of the international monetary system and the institutional and international legal framework that governs it. The relevant provisions of the IMF Articles of Agreement are reviewed along with how the IMF legal regime evolved from a fixed rate regime to a floating rate regime in the 1970s and the implications of this for monetary and financial stability. Moreover, the general relationship of public international law and its doctrinal basis to the development of international monetary law and the treaty framework of the IMF Articles of Agreement are examined. This part of the book provides an important contribution to the overall study of public international law. Indeed, few, if any, international law books address the public international law aspects of international monetary and financial relations. Apart from the works of Dhumale et al. (OUP 2006) and Gold (1996), the analysis of the role of public international law in influencing the development of international monetary and financial regulation has been missing in the academic literature.

Dr Lastra surveys the major issues in the international legal debate on financial crises and provides a reassessment of the way in which international financial institutions should manage them. This includes a reassessment of both the internal legal framework of the IMF with its member states *and* its legal relationship with other international economic organisations, such as the WTO and Bank for International Settlements (BIS). This book provides an important statement of how a new generation of international economic and financial law specialists are redefining the contours of public international law as it applies to global financial markets. In this sense, it is a welcome contribution to the literature that is part of a broader reassessment of the role of international financial norms and regulatory practices in reshaping how lawyers and political economists think about international economic law and how the emerging legal framework of the international financial architecture is reshaping the public international law of financial regulation. In this regard, *The Legal Foundations of International Monetary Stability* will serve as essential reading for both academics and practitioners.

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