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Book Review

The Status Quo Crisis: Global Financial Governance after the 2008 Meltdown. By Eric Hellener. Oxford University Press, New York, 2014. 256 pp., $ 29.95.
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With great depth of understanding *The Status Quo Crisis* traces the current financial crisis and its management, highlighting crucial gaps at international level. Among the abundant literature already published on the crisis, this exciting book stands out as the first to analyze the weaknesses of international interventions and explain why the world economy remains susceptible to another crisis. The title of the book provides, in a nutshell, a summary of its content. It examines the major global financial governance reforms seeking to prevent a repeat of the global economic and financial crisis. Its thesis is that these reforms have kept the world economy in a *status quo* situation. Eric Helleiner explains how continuity characterizes the world economy and how we remain in an ongoing crisis.

When the crisis began there were expectations for renewed management of the worldwide financial sector and in developing international macroeconomic policies to prevent another crisis, especially through “macroprudential regulation”. Four important decisions reinforced these optimistic expectations. The G20 leaders’ forum was to take leading role in world crisis management. There was an intent to reduce the role of the US dollar as the world’s dominant international currency. Third, there was an effort to change the market-friendly character of international financial regulation. Finally, the Financial Stability Board (FSB) was created to act as global economic governance.

Unfortunately, none of these developments turned out to be as significant as intended or initially hoped for. The book argues that these four measures failed, in large part, for reasons that are political in nature. Five years after the financial meltdown, the international landscape languishes in the same condition as before the crisis began. G20 management of the crisis created only a limited demand for funds because of the stigma involved in seeking such funds. The US dollar remains the dominant world currency; in fact, dominance of the dollar was strengthened by the crisis. Market-friendly international financial standards were not significantly changed because of the dominance of the ideology of free markets. Finally, the FSB had a limited ability to overcome the political powers of individual nations.

After US real estate prices declined in 2006, international trade and financial flows declined sharply, leading to a global financial crisis. By the summer of 2007, financial institutions linked to subprime mortgages faced huge losses. Confidence in financial markets was further eroded by the Northern Rock bank run and when Bear Stearns ran into trouble. The Lehman Brothers collapse worsened the situation and led to a panic in global financial markets. Interconnections between financial institutions, and the possibility that the collapse of one institution could lead to collapse of several others, attracted the attention of regulators around the world.

This was extraordinary moment and an opportunity for renewal. Joseph Stiglitz declared that it could be a new “Bretton Woods moment” referring to the 1944 conference that established the post-war international financial order.

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The book explains why the four decisions enacted after the fall of Lehman Brothers were not as effective as expected.

The G20's leaders' forum as financial crisis manager was concerned to provide macroeconomic stimulus programs supported by the International Monetary Fund (IMF) lending capacity increase. However, the IMF was rendered less important by Fed intervention, acting as international lender of last resort in many countries. Above all, the role of the G20 in coordinating monetary and fiscal policies is questionable as each government responded more to domestic political pressure rather than to global measures.

The role of Fed as world lender of last resort also contributed to the failure to weaken the US dollar as the dominant world currency. But the dollar mainly appreciated because demand for dollars and T-Bills increased. Uncertainty about global financial management encouraged the purchase, by governments and the private sector, of securities denominated in US dollars. On the other hand, the ability of the Euro to challenge dollar predominance was constrained by the outbreak of the European debt crisis after 2010.

Market-friendly international financial standards were not overturned despite various international regulatory reforms. This was mainly because of the political influence of private financial interests that favored maintaining market-friendly regulation. Macro-prudential philosophy could and did justify stronger regulation, but a free-market mentality prevailed.

The FSB was a new international institution created in the wake of the 2008 crisis. Unfortunately, it lacked formal power to set international financial standards because membership in the body created no legal obligation to adhere to the standards recommended by the body. FSB pronouncements could be and were ignored. Enacting post-crisis international financial reforms was therefore slow and uneven. Some difficulties stemmed from factors preventing implementation of international standards before the crisis, including competitive pressures and lobbying by large financial institutions.

National politicians have long been reluctant to accept international constrains on their policy autonomy. They always find good reasons for keeping regulatory power in their own hands. This was reinforced by disappointing results of G20 and the FSB efforts to negotiate cooperative cross-border arrangements. As such, nation states remain the key pillars of global economic governance in the financial regulatory realm.

In sum, a number of factors contributed to the failure to enact fundamental reforms after the outbreak of the crisis. The economic weakness of Europe strengthened the economic dominance of the US dollar. Financial interests and neoliberal ideology influenced international policy choices. This, in turn, led to ineffective actions by key international bodies such as the IMF, the G20 leaders' forum and the FSB.

The book ends with a glimmer of hope that the crisis will generate positive long-term effects. Four possible future scenarios are set forth, two of which are desirable: strengthened international institutions and greater cooperation among countries. Its central message is that greater cohesion among political actors worldwide is necessary to revive the economy.

This is an essential book for those wanting to discover the origins of the recent financial crisis and why international organizations have failed to resolve the underlying problems with our financial system. It provides an unconventional guide through the maze of the measures taken to contain the crisis.

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