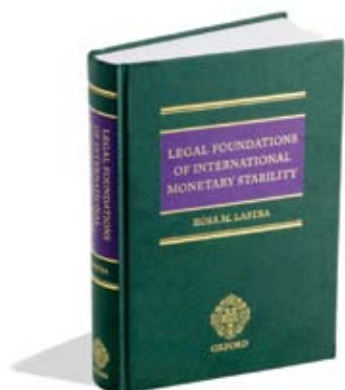


Reading the fine print



Rosa Maria Lastra

Legal Foundations of International Monetary Stability

Oxford University Press, Oxford, 2006, 600 pp., \$199 (cloth).

ROSA Lastra has produced a highly insightful and readable work on international financial regulation. This book should appeal to lawyers, economists, financial sector specialists, policymakers, and, perhaps most of all, those interested in the intersection between these different disciplines.

The book is well structured. The first part focuses on the national level and addresses developments in the monetary and regulatory functions of national central banks. The second part moves to the European regional level, analyzing the complex structure of the European System of Central Banks (ESCB), comprising the European Central Bank and the national central banks within the euro area. And the third part focuses on the international level, and in particular on the role of the IMF. The comparative analysis is enhanced by the common approach that Lastra applies to each part, starting by setting the historical context, then moving to an in-depth analysis of the institutional framework, and culminating with an assessment of the financial architecture in terms of financial supervision, regulation, and crisis management.

The limits of central bank power

Each part of the book is notable for its originality. In the first part, Lastra sets out boldly in recognizing that, while the central bank's statutory objectives include price stability, the bank is still carrying out a government function, even if it is a function that is best achieved through substantial (but ideally not complete) operational independence from political influence. This framing of the issue provides a fresh perspective on a subject that, in the hands of others, can become a stale debate on the seemingly irreconcilable tension between central bank independence and accountability. However, although the author strives to introduce the experience of developing and emerging market economies into some aspects of the discussion (for instance, when she touches on currency boards and banking crises), readers might benefit from a more systematic reference to the comparative practices of central banks in such economies.

In the second part, Lastra describes how the ESCB operates within the European Union's constitutional and administrative context. Using currency issuance to further develop the theme of monetary sovereignty, she provides a clear analytical anchor to guide her readers through the otherwise challenging ESCB institutional framework.

Making sense of the IMF

In the third part of the book, which focuses on the IMF, Lastra masters the substantial challenge of explaining the legal and regulatory framework as it pertains to the Fund. As the author acknowledges in her preface, "the unique nature of the [IMF], the economic character of most of its functions and operations, the idiosyncratic and rather opaque terminology that applies to its activities and financial structure . . . and the specific knowledge required to understand the legal aspects of those activities (a knowledge that is traditionally the reserve of [IMF] lawyers and a few academics

who venture into its study) explain the relatively thin body of doctrine dealing with the complex issues of public international monetary law."

Notwithstanding advances in the IMF's publication of internal documents over the past two decades, understanding of the IMF's legal framework outside the institution remains sketchy, at best. The author, aided by her long professional association with the IMF Legal Department, patiently guides the reader through some commonly misunderstood legal issues: for example, the legal obligations of the IMF and its 185 member

"Lastra's work is sure to inform the debate on the evolving role of the IMF."

states with respect to surveillance, why Stand-By Arrangements are not contracts, and the legal basis for conditionality in IMF financing. Notably, Lastra's historical account of the evolution of the IMF's role in the international monetary system from the international regulator of "exchange rate stability" to the guardian of a "stable system of exchange rates" is highly relevant in light of the recent revision of the IMF's operational framework for surveillance over member countries' exchange rate policies. Lastra's work is sure to inform the debate on the evolving role of the IMF.

The legal foundations of institutions at the national, regional, and international levels are important but often neglected aspects of the functioning of monetary and regulatory systems. By deepening our understanding of these relationships, *Legal Foundations of International Monetary Stability* represents a significant achievement.

Thomas Laryea
Assistant General Counsel
IMF Legal Department