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Book Review: *International Finance Regulation*

Georges Ugeux, founder of Galileo Global Advisors and adjunct professor at the Columbia Law School where he teaches a course on European banking and finance, has had a long career in international financial markets. He has worked at Soc Gen, Morgan Stanley, Kidder Peabody, the European Investment Fund, and the NYSE. He draws on that experience as well as his training as an economist and lawyer to tackle a daunting topic: *International Finance Regulation: The Quest for Financial Stability* (Wiley, 2014).

Ugeux challenges the model that views "the history of finance as a stable one agitated by external periodic disruptions." Instead, he suggests, "financial markets are never in a stable situation because the environment in which they operate is not stable." (p. xiv) Financial regulators would do well to learn from volcanologists who "monitor the forces that could provoke eruptions and take preventive actions to limit the consequences of this eruption" since "the world is similar to a volcano. It is a huge magma of tectonic forces that constantly collide more or less strongly. The energy spent in focusing on new rules that aim at avoiding a repetition of the previous crisis would be better applied at monitoring and understanding the global forces that can affect the financial system today." (p. xviii)

Backward-looking rules are only one problem with current financial regulation. Another is its fragmentation, especially across national borders. As a senior bank executive in charge of regulation said, "It's a bloody nightmare. The regulators have no respect for one another at all. Each country is looking after itself." Ugeux finds everyone guilty. "Germany implemented its hedge fund regulation the day after a European framework had been discussed, ignoring the discussions. France implemented a banking regulation while the European banking union was being launched. The United States implemented a derivative system that contradicted the agreement it had with Europe four months before." (p. 185)

Despite the "tens of thousands of regulatory texts that have been written by lawmakers and regulators over the past five years," many issues remain unresolved. Ugeux highlights fourteen, among them: "Financial institutions do not genuinely embrace global financial regulation." That is, "despite statements to the contrary, their mind-set has not changed." It remains "a cat-and-mouse fight." (p. 189)

Moreover, as yet "no effort has been made to disconnect risks and remunerations. While Europe has put together a limit to the bonus system, it has only led to an increase of base salaries and, rather than reducing the risks associated with some high-powered activities, is effectively making financial institutions more vulnerable to market fluctuations as a result of the increase in fixed costs.” (p. 191)

And, as critics of the Federal Reserve argue, “central banks have lost independence by becoming lenders. … By losing their independence to become supports of their overindebted governments and banks, they are changing the game, as well as capital markets, in a way that is financially unsound and creates exit problems.” (p. 192)

Ugeux is not especially hopeful that we can resolve the problems that stand in the way of global financial stability. In fact, if the volcano model is apt, stability itself is a chimera. Undeterred, however, Ugeux soldiers on, claiming that “it will require a combination of courage and competence that has, so far, not been displayed by a nationally obsessed political class.” He concludes with a stolid quotation from William I, Prince of Orange. (Known as William the Silent, he seems to have been more taciturn than silent.) “It is not necessary to hope in order to undertake, Nor to succeed in order to persevere.” (p. 193)