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COMMENTARY

Towards a New Bretton Woods? The First G20 Leaders Summit and the Regulation of Global Finance

ERIC HELLEINER & STEFANO PAGLIARI

Amid pressures from British Prime Minister Gordon Brown and French President Nicolas Sarkozy, US President George W. Bush called the leaders of the countries comprising the 'Group of 20' (G20) to Washington on 15 November 2008 to discuss the current global financial crisis. The meeting has been widely touted as a historic development in world politics, marking the first time the G20 had met at the leaders' level. While the meeting marked a breakthrough at the level of form, what about its substance?

In the lead-up to the meeting, many analysts – and even some leaders – hoped that it would trigger an ambitious re-building of the international financial system similar to what was achieved at the 1944 Bretton Woods conference that established the post-war international financial order. There were indeed some interesting parallels between the Bretton Woods conference and the G20 'Summit on Financial Markets and the World Economy'. The USA organised and hosted the Bretton Woods meeting in part to make up for policy mistakes that were widely seen to have contributed to international financial crisis of early 1930s. Likewise, in the lead-up to the Washington summit, US officials acknowledged that 'a big proportion of what's happened has been down to the US and we recognize our responsibility and the need for us to take the lead'.[1]

A parallel can also be drawn between Bretton Woods and the Washington meeting's objective of widening global financial governance to be more inclusive of poorer countries by widening the G7/8 to a G20 for the first time at the leaders' level. It is often forgotten today that over half of the countries invited to Bretton Woods were from what is now called the South and that some were assigned a significant role at the conference. US policy makers explicitly saw the conference as a way to shift post-war planning away from a strictly US–British focus (as the

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British initially preferred) in order to build a new multilateral financial order that had wider legitimacy (Helleiner 2006).

The most important parallel, however, was the shared sense of the need to assert public authority more centrally into the international financial system in the wake of a devastating international financial crisis. The financial crisis of the early 1930s prompted policy makers to think in increasingly ambitious terms about this goal, culminating at Bretton Woods in a number of genuine innovations in global financial governance, ranging from the endorsement of capital controls to the creation of the new public international financial institutions. After the liberalising and deregulatory trends of the previous decades, the crisis of the late 2000s is also spawning widespread calls for a reassertion of public authority in the global financial realm. It was thus not surprising to see that one of the central issues on the G20's summit agenda was the reform of the regulation of international financial markets.

What were the actual achievements of the summit in the regulatory sphere? At first sight, they were significant. The G20 leaders released a very detailed final communiqué, which outlined a wide range of commitments on the regulatory front, designated some reform agendas a very high priority and assigned regulators an urgent timetable to fulfil them.[2] By examining the path to the Washington summit and its communiqué in detail, however, this commentary highlights that the policy agenda did not in fact go much beyond pre-existing international initiatives that had already been developed in more technocratic international bodies. In this way, the analysis highlights how far short the summit fell from expectations that it might set a new agenda for ambitious and innovative international financial reform. It also reveals the enduring influence of technocratic bodies in the politics of international financial regulation even in the face of a momentous crisis that has politicised financial politics to an unusual degree.[3]

When we look back in 10 years' time, the G20 meeting is less likely to be remembered for any of the single issues discussed at the table than for a governance reform: the commitment to widen the membership of these same technocratic bodies to include more emerging market countries. Even the long-term significance of this reform is unclear. If their new seat at the table gives emerging market governments a genuine ability to shape international regulatory outcomes, this reform will be a lasting and important legacy of the summit. If, however, their new influence turns out to more symbolic than real, existing resentments may be strengthened in ways that could boost centrifugal forces in international financial politics. The kind of internationally coordinated regulatory initiatives backed by the G20 leaders summit could give way to a more fragmented and decentralised international financial order.

At the core of the crisis: bank regulation

To understand the G20 agenda on international regulatory reform, it is necessary to recognise that the leaders did not begin with a *tabula rasa*. Over the past year, an international regulatory response to the financial crisis had already been developed under the umbrella of the Financial Stability Forum (FSF). This body was created in 1999 in response to the East Asian financial crisis and it comprises financial officials from the main industrialised countries and international financial institutions.[4] In April 2008, the FSF outlined a comprehensive set of more than 60 regulatory recommendations that drew on an extensive body of work by national and international regulatory authorities as well as private sector-led initiatives (Financial Stability Forum 2008a). These recommendations were quickly backed by G7 countries and had already begun to be implemented by the time of the Washington summit.

Efforts to update the regulation of the banking industry sat at the core of the FSF's recommendations. Since the late 1980s, the Basel Committee on Banking Supervision (BCBS) had developed rules concerning capital requirements for international banks (the 1988 Basel I and 2004 Basel II agreements), but two developments had left these capital requirements outdated. The first was the securitisation trend wherein loans, such as those for subprime mortgages, were transformed into securities that were then bundled and sliced up into tradable portfolios with distinct risk profiles. The second development involved the attempts by banks to escape existing capital requirements by moving part of their securities activities to newly created structured investment vehicles (SIVs). These were funds created and managed by banks to invest in a range of long-term asset-backed securities while keeping these activities off-balance sheet and continuously financing them by borrowing short-term in the money market. SIVs became a central part of what has come to be called the 'shadow banking system'.

Prior to the G20 leaders summit, the Basel Committee, backed by the FSF, had committed to widening its regulatory umbrella to bring these developments under its capital requirements. In July 2008, it sought to close the regulatory loophole created by the securitisation trend by reforming the procedures used to calculate risk on banks' trading books. The goal was to make more costly the holding of the kind of financial products that have ended up generating massive losses for most banks during the financial crisis (BCBS and International Organization of Securities Commissions 2008). In addition, the Basel Committee extended the capital requirements to off-balance sheet vehicles, reducing the incentive for banks to avoid existing charges by moving assets off their balance sheet. Because the crisis highlighted the vulnerability of banks to drastic changes in the liquidity available in the markets, the Basel Committee also required banks to establish a liquidity risk management framework and to maintain cushions as a safeguard against protracted periods of liquidity stress (BCBS 2008).

The final Declaration released at the G20 leaders summit simply supported these initiatives advanced by the FSF, requesting financial regulators by 31 March 2009 to 'set out strengthened capital requirements for banks' structured credit and securitization activities', and 'to ensure that financial firms implement policies to better manage liquidity risk, including by creating strong liquidity cushions'. Moreover, and again prioritised for the March deadline, the final communiqué called on regulators to 'develop enhanced guidance to strengthen banks' risk management practices', and prompted firms to 'reassess their risk management models to guard against stress'.

Some commentators had called for a more radical reform agenda than the proposals endorsed by the FSF under which capital requirements would be extended to a wide range of highly leveraged financial institutions. Transformations in financial markets have meant that many institutions – including investment banks and bond insurers – have become more systemically important either because they are 'too big to fail' or because they are 'too interconnected to fail'. When public money has been used during the crisis to bail out these institutions, the question has naturally been asked whether they should also be covered by the same kinds of prudential risk management rules as commercial banks.

The G20 leaders were reluctant, however, to depart from the track set by the FSF. At the same time, the summit communiqué acknowledged that in the medium term a review of the scope of financial regulation should be undertaken 'with a special emphasis on institutions, instruments and markets that are currently unregulated, along with ensuring that all systemically-important institutions are appropriately regulated'. Moreover, the G20 leaders endorsed a proposal initially advanced by the British Prime Minister Gordon Brown, and backed by the FSF in its April 2008 report, that supervisors 'collaborate to establish supervisory colleges for all major cross-border financial institutions'.

In its April 2008 report, the FSF had also set the stage for a different kind of reform of existing bank regulation. Many critics had pointed out that official support for market price-based assessments of risk and value was generating a pro-cyclical bias within the existing regulatory regime; that is, it encouraged, rather than combatted, the tendency for financial institutions to engage in increasingly risky activities during booms, while reinforcing constraint during economic downturns and heightening the contraction in financial institutions' activities.

The FSF had supported the Basel Committee's efforts to collect data to evaluate the pro-cyclicality of Basel II in April and then been more specific in a follow-up report in October, expressing the need to 'explore measures that can be taken to strengthen capital buffers in good times and enhance banks' ability to dip into them during adverse conditions' (Financial Stability Forum 2008b: 8). The FSF had also 'identified compensation issues as one of the procyclicality-related topics meriting further analysis', thus calling attention to the criticism that the remuneration practices of financial firms had created incentives for employees to engage in excessive risk-taking (Financial Stability Forum 2008b: 14). Reflecting the emerging consensus on these issues, the G20 leaders set a 31 March 2009 deadline for the International Monetary Fund (IMF), the FSF and other regulators and bodies to 'develop recommendations to mitigate pro-cyclicality, including the review of how valuation and leverage, bank capital, executive compensation, and provisioning practices may exacerbate cyclical trends'.

Weapons of mass destruction: credit derivatives

The G20 summit also made commitments to bring greater order to the market for credit default swaps (CDS). These are financial derivatives that permit the buying and selling of insurance against the default of a corporate or sovereign bond. These contracts have mainly been traded 'over the counter' (OTC); that is, they have been negotiated privately between the buyer and the seller of the insurance without a formal clearing house or exchange that could minimise counter-party risk and force margin requirements for all contracts. This market grew at an astonishing speed from 2000 onwards, reaching a nominal value of almost US$60,000 billion before the crisis broke out, while regulators left it unchecked.

While these contracts were seen as beneficial instruments to spread default risk, they now stand accused of having exacerbated the current crisis. Warren Buffett's famous description of derivatives as 'weapons of mass destruction' now appears vindicated. The insurance giant American International Group (AIG) had to be rescued by the US Treasury after it had issued US$440 billion in swaps to cover defaults on debt. The opacity of the market has also contributed to uncertainty. In the aftermath of the default of the US investment bank Lehman Brothers, both the total amount of credit default swaps on its debt and the hands in which these contracts ended were unknown, and these knowledge gaps heightened the panic in the financial markets.

This experience has prompted regulators to call for transactions of OTC derivatives to be recorded and cleared through a central counter party standing between the parties of the trade. Even the International Swaps and Derivatives Association (ISDA), the most important private industry organisation in the sector, has shifted its position. After long resisting tighter public controls over OTC derivatives, the ISDA began to endorse the creation of a central counter party, while developing a series of protocols to facilitate net settlement of credit default swaps on the debt of Lehman Brothers, Washington Mutual, Freddie Mac and Fannie Mae. Different US-based futures exchanges, hedge funds and groups of banks have begun competing to create the centralised platform requested by regulators and to reap the first-movers' benefits. At the same time, European policy makers, perceiving the risk of being left behind, have started to collaborate with market participants, especially in the City of London, to create a European clearing system for credit default swaps (Van Duyn and Chung 2008).

In its April 2008 report, the FSF backed industry-led initiatives in this area, requesting that 'market participants should act promptly to ensure that the settlement, legal and operational infrastructure underlying OTC derivatives is sound' (Financial Stability Forum 2008a: 20). At their November summit, the G20 leaders reiterated the goal of bringing order to the CDS market, but with some slightly stronger wording. They called upon regulators and supervisors by 31 March 2009 to 'speed efforts to reduce the systemic risks of CDS and over-the-counter (OTC) derivatives transactions; insist that market participants support exchange traded or electronic trading platforms for CDS contracts; expand OTC derivatives market transparency; and ensure that the infrastructure for OTC derivatives can support growing volumes'.

Reforming the gate keepers of financial markets: credit-rating agencies and accountants

In addition to the regulation of the banking sector and credit derivatives, the FSF has focused on two actors that have been under the spotlight since the beginning of the crisis: credit-rating agencies (CRAs) and accountants. CRAs occupy a central position in the 'originate-to-distribute' securitisation model that is at the heart of the crisis. When subprime mortgages were packaged into complex debt securities, CRAs provided a rating that enabled these securities to be sold and distributed across the global financial markets. When the housing bubble burst, it became clear that CRAs had significantly underestimated the risk attached to these kinds of products, assigning top ratings to bonds backed by poor quality US mortgages.

Most critics argue that this failure was caused by three fundamental conflicts of interests at the heart of the CRAs' business model. First, the agencies are paid by the issuers of the securities they rate rather than by the investors who use the ratings. Second, CRAs largely base their ratings on information provided by issuers of the securities they are rating. Third, CRAs act as advisers to issuers on how to structure their offering to achieve the best ratings and then rate the same securities.

These conflicts of interests had only been partially addressed by the most important international attempt to regulate CRAs led by the International Organization of Securities Commissions (IOSCO). As a result, IOSCO began in May 2008 a revision of its *Code of Conduct Fundamentals for Credit Rating Agencies*, an initiative endorsed by the FSF in its April report.[5] IOSCO's initiatives were viewed skeptically by many, particularly European policy makers, who called for more radical changes. From Brussels, the European Commissioner Charlie McCreevy described the IOSCO Code of Conduct for CRAs as 'toothless' since it did not address the limits of the existing regime of voluntary self-regulation that characterises the industry (quoted in Tait and Davies 2008).

The G20 leaders endorsed IOSCO's initiatives, requesting that by 31 March 2009 regulators 'take steps to ensure that credit rating agencies meet the highest standards of the international organisation of securities regulators and that they avoid conflicts of interest, provide greater disclosure to investors and to issuers, and differentiate ratings for complex products'. At the same time, the G20 tried to add some 'teeth' to the existing international code of conduct by requesting that IOSCO 'review credit rating agencies' adoption of the standards and mechanisms for monitoring compliance'. Moreover, the communiqué sets the stage for more demanding forms of regulation, as called for by some European policy makers, including in one of its 'medium-term actions' the goal that 'credit rating agencies that provide public ratings should be registered'.

The FSF's April 2008 report had also called for a revision of the existing international accounting standards set by bodies such as the International Accounting Standards Board (IASB) whose standards are recognised by more than 100 countries around the world. Two weaknesses of the existing accounting regime have been highlighted by the crisis. First, during the credit crunch, buyers completely disappeared in the markets for some of the most exotic financial products, making the pricing of these assets almost impossible. Second, the crisis demonstrated the need to shed light on the opaque relationship between financial institutions and their off-balance sheet vehicles, in order to understand the respective risks and responsibilities. As these weaknesses were revealed, the IASB began revising the existing standards to address these issues.

As was the case with CRA reform, however, critics – particularly in Europe – have argued that this kind of 'fine-tuning' of the existing regulatory architecture did not go far enough. Many commentators have argued that the crisis was deepened by a key principle in international accounting: the commitment to 'fair-value' or 'mark-to-market' accounting. Fair value implies that financial firms are expected to report the value of their holdings according to the current market prices, instead of the historic cost of the asset. This practice is criticised for increasing the kind of pro-cyclicality of the financial regulatory regime discussed above. As institutions have been forced to report current depressed prices, they have had to curtail their lending or sell off more assets, further depressing the prices, and generating a vicious cycle. More generally, when prices have been extremely volatile and erratic in the middle of the panic market, it has been difficult to justify the delegation to the market of the role of independent arbiter over the value of banks' assets.

Dissatisfaction with the use of fair-value accounting has been particularly prevalent in the banking industry. While banks widely supported this approach when the value of many of their financial assets was rising, they abandoned this position with the worsening of the financial crisis. The Institute of International Finance, representing the world's major international banks, called in May 2008 for a relaxation of fair-value accounting. In the aftermath of the bail-outs of several European banks in September and October 2008, European policy makers increasingly created a common front with the banking industry in order to give their financial institutions breathing space in the middle of the panic and reduce their competitive disadvantage *vis-à-vis* American financial institutions (Hall and Tait 2008). In mid October, the IASB responded to these pressures by suspending fair-value accounting in a higher number of banks' holdings.

The G20 leaders simply acknowledged the steps taken by the global accounting standards bodies, calling for them to advance their work to address 'weaknesses in accounting and disclosure standards for off-balance sheet vehicles' and to improve the valuation of 'complex, illiquid products, especially during times of stress' as well as the 'disclosure of complex financial instruments'. The G20 also provided a platform for reforms in the governance structure of the IASB, calling for 'a review of its membership, in particular in order to ensure transparency, accountability, and an appropriate relationship between this independent body and the relevant authorities'. This has been a particularly contentious issue, since the IASB remains a private standard-setting body that undertakes a public role and the crisis has heightened the tensions existing between its accountability and independence.

A renewed push to regulate hedge funds and the offshore sector?

The initiatives on accounting standards and credit rating agencies signal a more forceful stance and a renewed activism on the international scene by some European leaders. On 23 September 2008, in a highly emphatic speech before the UN General Assembly in New York, President Sarkozy called for the rebuilding of a 'regulated capitalism in which whole swathes of financial activity won't be left to the sole judgment of market dealers . . . a capitalism in which banks do their job, and the job of the banks is to finance economic development, it isn't speculation' (Sarkozy 2008a). Under the banner of 'no financial institution should escape regulation and supervision' (Sarkozy 2008b), Sarkozy has subsequently tried to bring back into international debate the regulation of offshore financial centres and the hedge fund industry.

Their regulation has represented an important priority of France and other continental European countries since the late 1980s. For instance, in 2004, as the French Minister of the Economy, Sarkozy had argued in front of the IMF International Monetary and Financial Committee that offshore centres were ‘sources of vulnerabilities for the international financial system’ (Sarkozy 2004). He raised this issue again during the crisis, calling for the elimination of ‘the grey areas that undermine our efforts at coordination, in this case the offshore centres’ (Sarkozy 2008b). The crisis has provided a platform for this initiative by raising new questions about whether these centres are contributing to international financial instability by encouraging improper or excessively risky behaviour as well as by reinforcing the overall lack of transparency in the system.

Hedge funds – Sarkozy’s second target – are mostly private pools of capital subject to light regulation and transparency requirements, and with only loose constraints on the kind of trading strategies and level of leverage they can adopt. Loose regulation has been defended in the past, particularly by US and British officials, on the grounds that hedge funds boost the efficiency of financial markets by helping the process of price discovery and by acting as ‘contrarians’ during irrational swings and bubbles. These arguments have become weaker in the current market turmoil, as hedge funds are accused of contributing to the crisis by accelerating the falls in equity prices. At the apex of the panic in the financial markets, the US and several European countries decided to place a partial ban on short-selling – the attempt to profit from the decline in the price of a share – which has been one of the typical investment strategies of hedge funds.

Since 2007, initiatives from IOSCO and the FSF have sought to increase the transparency of the hedge fund industry, but the approach has fallen short of the more prescriptive regulation advocated by some continental European officials since the American hedge fund Long-Term Capital Management (LTCM) collapsed in 1998. The German government tried twice to press for regulation of hedge funds at the international level, in 1999–2000 and 2007, drawing support from France and some of the countries where hedge funds had been most active during the East Asian financial crisis of 1997–98, but US and British government opposition and the actions of the financial industry effectively thwarted these initiatives. In both instances, the hedge fund industry and its bank counterparts proposed voluntary self-regulating initiatives to deflect the pressure for more stringent public regulation. The crisis has given new impetus to European regulatory initiatives. In September 2008, the European Parliament approved a report drafted by the former Danish Prime Minister Poul Nyrup Rasmussen (2008) requesting the European Commission to revise the regulation of the hedge fund industry, including the introduction of mandatory capital requirements and measures to reduce the traditional secrecy that characterise hedge funds.

At their November 2008 summit, the G20 leaders addressed these two issues but their final recommendations certainly fell short of what many policy makers in continental Europe wanted. In the case of the off-shore centres, as a medium term objective, they reiterated previous commitments to ‘protect the global financial system from uncooperative and non-transparent jurisdictions that pose risks of illicit financial activity’. The G20 leaders also committed to promote information sharing ‘with respect to jurisdictions that have yet to commit to international standards with respect to bank secrecy and transparency'. More specifically, they stated that 'lack of transparency and failure to exchange tax information should be vigorously addressed', but left unspecified the means. They also supported existing international initiatives to combat money laundering, terrorist finance and stolen assets, each of which have implications for offshore centres.

The wording of G20 summit communiqué about hedge funds was a little more ambitious. In FSF reports earlier in the year, hedge funds were mentioned only in the context of supervisors needing to strengthen their guidance on counter party credit exposures to these institutions. The G20 leaders instead addressed directly the supervision or regulation of the hedge funds themselves, acknowledging the need for a 'set of unified best practices', and prioritising the issue with th 31 March 2009 deadline. However, the task of setting these standards was once again left in the hands of the 'private sector bodies', falling short of the ambitions of some European policy makers.

Widening governance: the most significant reform?

We have seen, then, how the content of the G20 summit communiqué *vis-à-vis* international financial regulation was not terribly novel. For the most part, it simply reinforced existing international regulatory initiatives, albeit giving some of them a more urgent timetable and priority. Perhaps this was inevitable. The 1944 Bretton Woods meeting was preceded by two years of preparatory work and the delegates were all financial policy makers well versed in the technical details of that work. The 2008 Washington summit, by contrast, involved heads of state and their officials had very little time – just a few weeks – to prepare and brief them. In that context, one can certainly understand why the detailed regulatory provisions of the final communiqué mostly just reiterated initiatives that had already been developed in other forums. While the Bretton Woods meeting marked the end of a negotiation process, the Washington meeting is likely just the start.

At the same time, for those who held out hope that future reforms at least might rise to the standards of the Bretton Woods analogy, the Washington summit proved disappointing at a deeper level. The Bretton Woods meeting was guided by an innovative and shared vision that drew certain lessons from the crisis of the 1930s. At the Washington meeting, it was hard to detect any new common intellectual vision that guided the discussions. The delegates ritually expressed their joint desire to preserve an open global economy, but they failed to lay out a novel set of ideas about how the financial system could be refocused to serve new goals in light of lessons learned from the crisis.

If the G20 leaders summit is unlikely to be remembered in 10 years' time for its vision or for any specific regulatory initiative, it may still have one lasting legacy: its recommendation that the governance of the key technocratic bodies that coordinate the regulation of international financial markets be reformed. As noted above, the agenda of international financial regulatory reform has been largely set by the FSF, a body that is dominated by financial officials from industrial countries. The exclusiveness of the FSF and other associated international standard-setting bodies has been a longstanding source of resentment among developing countries, which have often been asked by the G7 to embrace various international regulations, standards and codes that were developed in these bodies in which they have little or no say. Not surprisingly, they have often seen these rules as inappropriate to their particular contexts and/or serving the interests of the industrial countries. Without governance reform, the FSF and other narrowly constituted standard-setting bodies lack the legitimacy to direct a global regulatory response to the current crisis effectively.

The most important achievement of the Washington G20 summit was to begin to try to address this issue. In the lead-up to the summit, some suggested that the problem could be handled by shifting discussions over international financial regulatory issues to the IMF which has a more universal membership. However, this proposal met resistance on the grounds that the IMF lacks strong expertise on regulatory issues and that it suffers from its own legitimacy problems among developing countries because of their lack of influence in the institution. Instead, the G20 leaders chose to back a widening of existing regulatory bodies. The final communiqué stated that by 31 March 2009 'the FSF must expand urgently to a broader membership of emerging economies and other major standard setting bodies should promptly review their membership'. At the same time, the G20 also urged the IMF to work more closely with the expanded FSF and supported as a medium term objective the reform of governance of the Fund (as well as that of the World Bank) with the objective that it 'can more adequately reflect changing economic weights in the world economy in order to increase their legitimacy and effectiveness'.

These commitments will widen the range of countries sitting at the table of the technocratic bodies that have driven the agenda of international financial reform. But, as they gain more representation, what perspectives will new member countries bring to the international regulatory debates? Will they call for the reform of existing international regulations, such as Basel II, to better reflect the needs of developing countries? Will they seek to broaden the international regulatory agenda to include items that might be of particular concern to poorer countries, such as debt restructuring, capital flight or commodity futures trading? If they do push for these kinds of changes and they meet with some success, the first G20 leaders meeting will be remembered as an important turning point.

We did not see the leaders of these countries raise these sorts of issues at the G20 leaders meeting itself. In the lead-up to the summit, however, some of the key emerging powers among the G20 developing countries appeared generally sympathetic with some of the more ambitious European efforts to re-regulate international financial markets. Leaders at the third annual India–Brazil–South Africa summit in October 2008 suggested that they supported strengthened and expanded regulation, stating that 'the explosion of new financial instruments unaccompanied by credible systemic regulation has resulted in a major crisis of confidence for which those responsible should be held accountable' (Agence France Press 2008). Brazilian President Luiz Inácio Lula da Silva openly chastised 'the irresponsibility of speculators who have transformed the world into a gigantic casino' (Agence France Press 2008). Expressing his support for wide reforms, Indian Prime Minister Manmohan Singh subsequently urged better supervision of credit-rating agencies and expressed a desire for a 'global monitoring authority' to facilitate 'supervision and cooperation' in the global financial system (Bagchi and Dasgupta 2008). At the Asia–Europe Meeting (ASEM) summit on 24–5 October, other Asian leaders also seemed quite receptive to President Sarkozy's pleas for tighter international financial regulation (Freedman and Stearns 2008). Chinese premier Wen Jiabao, for example, called for an expansion of 'the scope of the regulation of the international financial system' and argued that 'we should coordinate virtual economy with real economy and enable the former to better serve the latter' (Jiabao 2008).

The widening of the FSF will allow these kinds of perspectives to gain a more influential hearing in international regulatory debates, but will this lead to much change? Historically, policy making towards international financial regulation has been dominated by British and US officials because of the pre-eminent position of London and New York as international financial centres. The global role of the US dollar has also reinforced US power in this policy realm. Anglo-American policy makers have usually preferred light touch regulation, resisting pressures that have often come from continental European countries and Japan for more heavy-handed initiatives. The perspectives of the emerging powers noted above, however, suggest that continental European and Japanese views may now gain further support with the widening of the membership of international regulatory bodies.

It is worth noting that this shift is taking place at the time when the crisis has damaged the reputation of London and New York as financial centres and has undermined the credibility of several pillars of the Anglo-American financial regulatory model, such as the trust placed in transparency, market discipline and self-regulation as key regulatory mechanisms. In addition, the structural power of the euro-zone and East Asia is growing in ways that give these regions both more clout in international regulatory politics as well as more ability to chart a more independent course. Some European policy makers, such as German finance minister Peer Steinbrück, have already been keen to highlight how the crisis is generating a more 'multipolar' financial order in which 'America will not be the only power to define which standards and which financial products will be traded all over the world' (quoted in Mangasarian 2008).

If Anglo-American policy makers resist alternative perspectives too strongly at this historical moment, there is a risk of a growing fragmentation of international regulatory politics. Some signs are already pointing in this direction. Even before the crisis, during the Basle II negotiations a few years ago, Asian countries considered creating an alternative 'Asian Basle' system because of their frustration with the lack of attention given to their concerns (Walter 2008: 181). At the ASEAN plus three meetings in May 2008, Japan proposed for the first time the creation of an Asian version of the FSF, and China and South Korea have now backed this proposal (*Daily Yomiuri* 2008). As financial integration in Europe progresses, officials in that region may also be increasingly tempted to push for unilateral EU-wide regulatory initiatives if reforms at the broader international level fall short of their expectations. If the emerging economies come to see their new voice in the FSF and other bodies as merely symbolic, they too may be increasingly tempted to chart their own courses. In that event, the 2008 G20 summit in Washington may be seen in retrospect as the highpoint of an ultimately failed effort to build an international coordinated regulatory response to the crisis rather than as the catalyst for a new kind of Bretton Woods moment.

Notes

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1. David McCormick, undersecretary at the US Treasury department, quoted in Wheatley 2008.
2. For the communiqué, see G20 Leaders 2008.
3. For their influence see, for example, Porter 2005.
4. Its members are the G7 countries, Australia, Hong Kong, the Netherlands, Singapore, Switzerland as well as various international organisations (Bank for International Settlements (BIS), Organisation for Economic Co-operation and Develpment, International Monetary Fund, World Bank, European Central Bank, IOSCO, IASB, International Association of Insurance Supervisors, and the BCBS along with two other BIS-centred committees).
5. For the IOSCO report, see International Organization of Securities Commissions 2004.

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