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Towards a New Bretton Woods?

**A Critical Synopsis
of Governmental, Non Governmental
and Private Sector Proposals to
Reform the International Finance System**

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The views expressed in the paper are those of the author.

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Content

1. Introduction
2. International Organizations
 - 2.1. G20 Washington Summit November 2008
 - 2.1.1. Financial Crisis and Shifting Global Governance Structures
 - 2.1.2. The G20 Washington Summit in November 2008
 - 2.1.3. Root causes of the global crisis
 - 2.1.4. Actions to be taken
 - 2.1.5. Common principles for reform of financial markets
 - 2.1.6. Commitment to an Open Global Economy
 - 2.1.7. General assessment
 - 2.2. G20 London Summit April 2009
 - 2.2.1. Discursive shifts in the G20 Communiqué
 - 2.2.2. The recovery plan and the big numbers
 - 2.2.3. Reforming financial markets
 - 2.2.4. Reforming financial governance institutions
 - 2.2.5. General assessment
 - 2.3. Financial Stability Forum (FSF), now Financial Stability Board
 - 3.1. A forum with informal and undemocratic interpretative power
 - 2.3.2. Strengthening prudential oversight
 - 2.3.3. The FSF's over-reliance on self-stabilizing market forces
 - 2.3.4. The FSF on Credit Rating Agencies
 - 2.3.5. Strengthening the authorities' responsiveness to risks
 - 2.3.6. Emergency measures and the follow-up report
 - 2.3.7. General assessment
 - 2.4. IMF
 - 2.4.1. The IMF in a shifting global environment
 - 2.4.2. IMF's proposals for crisis management
 - 2.4.3. IMF's proposals for reforming the financial architecture
 - 2.4.4. Updating the reform proposals in 2009
 - 2.4.5. General assessment
 - 2.5. United Nations
 - 2.5.1. Democratizing the reform process
 - 2.5.2. The UN's Stiglitz Commission on Financial Market Reform
 - 2.5.3. General assessment
3. Private Financial Industry
4. Civil Society
5. Synopsis
 - 5.1. Regulating Banks and other Financial Institutions
 - 5.2. Non Bank Financial Institutions
 - 5.3. Business Models
 - 5.4. Regulatory Institutions
 - 5.5. Regulatory Instruments
 - 5.6. Governance
 - 5.7. Short-term Crisis Management
 - 5.8. Epilogue

List of reports on financial market reforms

1. Introduction

The financial and economic crisis that is sweeping the entire planet has initiated a broad debate on reforming international financial markets – nothing less than a new global financial architecture is being discussed in a whole variety of arenas, involving powerful existing and newly emerging international actors. This paper presents in the form of a synopsis some of the most important views in a systematic way.

This is, of course, a snapshot of the situation in April 2009 – a snapshot in a highly dynamic process both in terms of the actual crisis itself as in terms of the positions and discourses in the ongoing reform debate. What only very recently seemed unthinkable has already become real policy as the example of the nationalization of many banks or even the expropriation of shareholders as in the case of the German Bank *Hypo Real Estate*. Taking stock of reform proposals in such a dynamic process is necessarily limited, selective and has to proceed through examples.

First of all, the analysis concentrates on the *international level*, leaving aside national reform initiatives and agendas.

Secondly, the documents analyzed come from three main areas of the international political arena: *international organizations, civil society and the private financial sector*. The synopsis will look into the reform proposals of the following institutions: the G20, the Financial Stability Forum (FSF), the International Monetary Fund (IMF) and the United Nations (UN). On civil society level, the synopsis will discuss the reform agendas of: Attac, the Beijing Declaration, BankTrack, New Economics Foundation (NEF), Friends of the Earth Europe (FoEE), Global Unions and actors at the World Social Forum (WSF). And finally, the private financial sectors' take on financial market reform will be discussed shortly by analysing a statement of the International Institute of Finance (IIF), the global association and lobby organisation of financial institutions.

Thirdly, the synopsis is limited to *financial market reforms*, leaving aside related issues such as stimulus programmes, banking bailouts and emergency packages, and, most importantly, the issues of poverty and climate change, which are aggravated by the financial crisis.

Analytical Grid for Financial Market Reform

Regulating banks and other financial institutions

Reserve requirements

Transparency

Regulation and supervision

Competition and cartels

Investment banking

Accounting

Local, public and cooperative banks

Non-bank financial institutions

Hedge funds and other HLI

Private equity funds

Business Models

Short selling

Securities

Off-balance sheet transactions

Over-the-counter (OTC)

Commodity trading

Derivatives

Leverage

Regulatory institutions

Rating agencies

Central Banks

International regulatory institutions

Regulatory instruments

Financial Transactions Tax (FTT)

Capital Controls

Offshore Financial Centres (OFCs)

Counter-cyclicality

Financial lobbyists

Compensation and liability of management

International financial governance

IMF

G20

UNO

FSF and others

Short-term crisis management

Bailing out financial institutions

Economic recovery programmes

2. International Organizations

2.1. G20 Washington Summit November 2008

2.1.1. Financial Crisis and Shifting Global Governance Structures

The financial crisis has caused intense upheavals in the global governance structures. It has caused intense competitive attempts between different international formal and informal organizations and governance structures, to become the key decision-making and reform arena. The outcome of these shifts in power structures will have great impact on the way the future global economy will develop. One of the most decisive international actors, whose power has been greatly extended by the ongoing crisis, is the G20. In contrast to existing formal organizations such as the IMF and the United Nations, the G20 is one of those informal governance bodies like the G7 and G8 that neither have a clearly defined structure, nor a mandate or a legally binding status in international relations. These informal fora have been strongly criticized for their intransparency, lack of accountability and exclusiveness.

While the G20s power derives solely from the willingness of its members to follow through with its the recommendations, it is exactly this informality which gives it an advantage in finding compromises on extremely complex issues. The G20 has raised high expectations to play a key role in reforming the rules of international finance, especially since unlike other informal bodies its membership is considerably larger and includes the most powerful emerging markets. But only the future will show if the G20 actually manages to become the key player in international reform debates.

The G20 had been established in 1999, responding to the financial turmoil of the Asian crisis, as a forum for cooperation and consultation on issues of international finance between the G7 and emerging markets. It brings together 19 of the world's 25 largest national economies, the European Union (EU), as well as representatives from IMF, FSF and the World Bank.¹ Collectively, the G-20 economies comprise 90% of global gross national product, 80% of world trade and two-thirds of the world population, including many of the world's poor. In this respect, it is a major step forward compared to other informal meetings of the richest countries like the G7 or G8. However, there is still a democratic deficit: the G20 does not give voice or representation to most countries of the world, especially poor nations, and it bypasses the UN.

2.1.2. The G20 Washington Summit in November 2008

In autumn 2008, after the crisis had reached a critical level following the collapse of the investment bank Lehman brothers, an initiative by French and EU President Nicolas Sarkozy and British Prime Minister Gordon Brown led to a special meeting of the G-20 at heads of state level: the *G-20 Leaders Summit on Financial Markets and the World Economy*, which took place on November 15, 2008 in Washington, D.C. This meeting raised high expectations as providing the foundation for a new

¹ At the G20 meeting in Washington the following countries participated: Argentina, Australia, Brazil, Canada, the People's Republic of China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States of America, the European Union and, allowed extraordinary presence, Spain and the Netherlands.

international financial architecture, similar to the international system established after World War II. It was thus publicly dubbed as “Bretton Woods II”.

Although publicly celebrated as a major success, the concrete achievements of the summit are vague. The final “Washington Declaration” is a deeply contradictory statement that testifies to the cleavages internal to the global power elite. While on the one hand very much impacted by the spirit and politics of the outgoing Bush administration – neoliberal free-market ideology playing a crucial role in the text – the G20 initiative also contains important improvements on regulating financial markets. The outcome of the G20 meeting in Washington should, however, not be overestimated. Many heads of state knew that the G20 could only really start to work once the new Obama administration was in power. The document is a compromise, which bears the marks of differences in opinion, emphasis and priorities of individual governments and is part of a larger reform process.

The Washington Declaration proposes 47 short and long-term actions, most of which are at a level of generality that makes evaluation difficult and gives little hope for substantial change. Specifically, the document declares the G20 summit reached agreement on the following points:

2.1.3. Root causes of the global crisis

The causal analysis of the G20 highlights several of the most critical issues such as “weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products (...) consequent excessive leverage (...), inconsistent and insufficiently coordinated macroeconomic policies, inadequate structural reforms.” It also recognizes the responsibility of policy-makers, regulators and supervisors, who “did not adequately appreciate and address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic ramifications of domestic regulatory actions.”

This is an astonishingly open confession by the most powerful states, that their regulatory and supervisory institutions were fundamentally inadequate and failed to keep track of the processes they were supposed to control. Not too much, but too little and ineffective regulation was the problem – this is an assertion that squarely contradicts the neoliberal doctrine that had governed international institutions for the last decades. The recommendations, however, are not just vague and inadequate, but partly directly contradictory to the analysis of the causes of the crisis (see below).

2.1.4. Actions to be taken

The G20 not only urges further measures to halt the recession and strengthen growth, but promises to “*take whatever further actions are necessary to stabilize the financial system*”. These include closer macro-economic coordination, monetary policy support, “*fiscal measures to stimulate domestic demand to rapid effect, as appropriate*” – i.e. to implement Keynesian, demand-side policies. In the same vein, the G20 calls on the IMF, World Bank and multilateral development banks to expand their financing facilities for emerging and developing economies.

As general as these statements are, the G20 reaffirm their commitment to use Keynesian economic policies to stimulate growth by pumping money into the

economy. This call, however, – by itself a radical break with the dominance and global enforcement of supply-side economics and structural adjustment programmes – is qualified by adding as a condition the maintenance of “*a policy framework conducive to fiscal sustainability*”. It is not, however, explained, how both large state-sponsored fiscal and monetary stimulus programmes and a balanced budget should be achieved at the same time.

2.1.5. Common principles for reform of financial markets

In this section the Washington Declaration is particularly unspecific and contradictory. In the introduction, the document highlights two regulatory reforms:

Intensifying international cooperation: While acknowledging that regulation “is first and foremost the responsibility of national regulators”, the G20 promises “intensified international cooperation among regulators and strengthening of international standards, where necessary, and their consistent implementation”.

Strengthening regulatory powers: The G20 proposes that “Regulators must ensure that their actions support market discipline, avoid potentially adverse impacts on other countries, including regulatory arbitrage, and support competition, dynamism and innovation in the marketplace.”

Whereas the first proposed reforms are obviously necessary but formulated too imprecisely, the second point is particularly illustrative of the G20s heterogeneous composition. The text first describes the job of regulators – ensuring adequate disclosure and avoiding a race to the bottom in regulatory standards. The last part of the sentence, however, commits regulators to perpetuate precisely those problems that caused the crisis. While playing an integral and positive part in economic development, *innovation* in financial markets has been a serious problem. There were too many complicated and exotic financial instruments, innovations at such a speed, that neither market participants nor understaffed supervisors were able to really understand the instruments and their risks. Whereas the G20 acknowledged in their analysis of the causes (see above), that regulators were unable to “keep pace with financial innovation” – leading to “severe market disruption”, they now urge regulators to “support (...) innovation”. The evidence of the last decade strongly suggests that we need less dynamism and innovation in financial markets – rather, certain innovative financial products need to be prohibited, and all new financial instruments should be licensed by regulators before being traded on financial markets.

The G20 commit themselves to financial market reforms in the following five areas – 47 reforms, set out in detail at the end of the declaration that Finance Ministers have to implement partly before March 31, 2009 (i.e. the next G20 meeting in London) and partly in the medium term.

1. Strengthening Transparency and Accountability

The G20 promises to strengthen transparency by enhancing disclosure and accounting standards. The short-term recommendations, which are extremely vaguely formulated, mainly deal with the immediate crisis, especially how to value toxic assets that nobody wants to buy, and how to enhance disclosure of complex

instruments to market participants (not to regulators). The institutions assigned with these regulatory functions are the existing “*key global accounting standards bodies*”, whose governance should however be further enhanced. The key global accounting standard bodies – although not being specifically mentioned in the document – are, above all, the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB). These bodies are also called upon „*to address weaknesses in accounting and disclosure standards for off-balance sheet vehicles*“. Furthermore, the G20 demands that those “*private sector bodies that have already developed best practices for private pools of capital and/or hedge funds should bring forward proposals for a set of unified best practices.*”

There are a variety of problems with these proposals:

Weak disclosure standards: Disclosure should be enhanced for all financial products, not just for those which are considered – by whomever - to be especially complex instruments; and disclosure has to include not just other market participants, but also independent supervisors – otherwise supervision will not effectively stabilize international financial markets.

Over reliance on private accounting standard setting bodies: Both the IASB and the FASB are independent, privately funded accounting standard-setters, whose membership is not democratically legitimized. Since the issue of accounting has become so complex that hardly anyone except professional accountants understand it, policymakers have been relying entirely on private entities to establish financial accounting and reporting standards. This has led to a situation, in which private bodies, whose membership comprises high-level managers of financial corporations such as Citicorp and UBS, set the standards for exactly these corporations – a perfect example of self-regulation, opening the floodgates to lobby and conflicts of interest.² Simply stating that the „*governance of the international accounting standard setting body should be further enhanced*“ is not enough – accounting standards should be set by democratically legitimised, publicly accountable officials in a transparent way.

Off-balance sheet transactions: Off-balance sheet operations have been a major cause of the financial crash – they helped banks to conceal their toxic assets and subprime mortgages through the creation of Special Purpose Entities (SPEs) and Special Purpose Vehicles (SPVs), the assets and risks of which have not been disclosed. Simply addressing “*weaknesses in accounting and disclosure standards for off-balance sheet vehicles*“ is not enough. Not just because of their responsibility for the crisis, but also since the whole idea of balance sheets is to require corporations and financial firms to honestly report assets and liabilities, there is no reason to permit off-balance sheet operations and they should simply be prohibited.³

Best practices for Hedge Funds: The only mention of hedge funds – probably the most risky and destabilizing financial institutions – in the entire document is limited to

² Cf. <http://www.iasb.org/Home.htm> and <http://www.fasb.org>. The standards of the IASB have been enacted into EU-law since 2000 by the European Commission. And in the U.S. the Securities and Exchange Commission (SEC) has designated the FASB to create legally binding standards for all corporations. For a list of the members of the IASB see <http://www.iasb.org/About+Us/About+the+IASB/IASB+members.htm>.

³ In the medium term, the declaration demands that „*Regulators should work to ensure that a financial institution’s financial statements include a complete, accurate, and timely picture of the firm’s activities (including off-balance sheet activities) and are reported on a consistent and regular basis.*“ But how does it make sense to permit off-balance sheet activities, if they have to be reported anyway? If all financial institutions’ activities have to be properly reported, off-balance sheet transactions can simply be banned.

merely tasking private sector bodies to harmonize those best practice standards that were already in place during the crisis. Not only are best practices not even legally binding, but the standards that have been established by the Hedge Fund Standards Board (HFSB), the UK Hedge Funds Working Group or the U.S. Presidents' Working Group on Financial Markets are entirely inadequate to regulate hedge funds. This last group, to take just one example, in 2007 rejected the need for further regulation of hedge funds and instead established voluntary guidelines. Since most of its members were themselves investors or managers of funds, the regulations merely served the industries interests.⁴ Instead of trying to tame hedge funds by proposing self-regulatory codes of conduct these destructive and destabilizing financial institutions should be regulated in the same way as banks, and those who do not want to comply with the rules should be prohibited.

2. Enhancing Sound Regulation

In this section, the G20 mainly just promises reviews and future actions in the longer term. Most significant is the „pledge“ that the G20 will *„ensure that all financial markets, products and participants are regulated or subject to oversight, as appropriate to their circumstances.“* Furthermore, the G20 promises a review in the long run *„of the scope of financial regulation, with a special emphasis on institutions, instruments, and markets that are currently unregulated“*. Other proposals include the adoption of the FSFs strengthened code of conduct for credit rating agencies, and in the medium term the registration of those CRAs giving public ratings; „strengthened capital requirements for banks' structured credit and securitization activities“; some vague suggestions on reducing risks and increasing transparency of over-the-counter (OTC) derivatives and Credit Default Swaps (CDS); and a call on regulators to *“develop enhanced guidance to strengthen banks' risk management practices, in line with international best practices, and [to] encourage financial firms to re-examine their internal controls and implement strengthened policies for sound risk management.“*

On the issue of regulation the G20 has agreed on some generally promising points, but the concrete measures proposed are entirely unsatisfactory:

Strengthening Regulation: Properly regulating and supervising all financial markets, products and participants would be a major step forward, since it would radically shrink or even eliminate the entire unregulated shadow financial sector. For example, off-shore financial centres, CDOs and CDSs as well as hedge funds would most likely become small and unattractive niche markets or disappear entirely. The G20s pledge to regulate and supervise the entire financial market with all its products and actors reveals that the crisis is being understood as requiring drastic measures of reform. The promise, however, has to be specified to give it real meaning. The G20's addition, regulating these only *„as appropriate to their circumstances“*, and the concrete proposals rather reveal the G20s internal cleavages than raising hopes that the G20 will actually fulfil this promise effectively.

CRAs: On the issue of credit rating agencies and capital requirements the G20 merely repeated what the FSF had already called for in April 2008: the adoption of a

⁴ For an April 2008 version of the Report (that includes a member list on page 60) see www.ustreas.gov/press/releases/reports/investors'committeereportapril152008.pdf. See also <http://www.nytimes.com/2007/02/23/business/23hedge.html> and <http://www.worldservicesgroup.com/publications.asp?action=article&artid=2749>

strengthened international code of conduct for credit ratings (for a detailed critique of this approach see the section on the FSF).

Capital requirements: It is clearly not enough to merely raise capital requirements for structured credit and securitized products – they have to be raised more generally. The pro-cyclical nature of capital requirements in the Basle II framework, which has caused a dramatic decline in actual capital requirements of banks in recent years and thus fuelled further risk-taking and higher leverages in boom times, has even been criticized by mainstream economic analysts (for details see the section on the FSF).

OTC-derivatives and CDS: Two of the most controversial financial instruments that play a central role in virtually all accounts of the causes of the financial crisis are over-the-counter (OTC) derivatives and Credit Default Swaps. Regarding these highly speculative and risky transactions the G20 only loosely promises to „*speed efforts to reduce the systemic risks (...), insist that market participants support exchange traded or electronic trading platforms for CDS contracts; expand OTC derivatives market transparency*“ – but most importantly, the G20 calls for ensuring „*that the infrastructure for OTC derivatives can support growing volumes*.“ Since OTC derivatives can hardly be regulated and thus increase systemic risks, they have been heavily critiqued. Many analysts of the financial crash simply call for the prohibition of derivatives being traded over-the-counter (or their drastic shrinking) and demand that all financial products be traded on proper exchanges with adequate oversight. Contrary to these demands, the G20 not only confines itself to very vaguely calling for more transparency in OTC derivatives markets, but calls for increasing the volume of OTC derivatives. The volume of OTC derivatives in July 2008 had already reached a level of 684 trillion – an amount equal to eleven times the World GNP of 2008 (62 trillion), i.e. sufficient to buy eleven times all the goods and services produces on the entire planet last year.⁵ In the face of these extraordinary proportions it is hard to see the need to further grow the market of highly risky and unregulated OTC derivatives.

Risk assessment: Finally, most of the proposals on the issue of risk assessment mechanisms are formulated very vaguely. For example, although the financial crisis has demonstrated beyond any doubt that financial corporations' internal risk control measures are inherently flawed, the G20 still calls on firms to „*reassess their risk management models to guard against stress and report to supervisors on their efforts*.“ Self-regulation does not work. Any viable future financial architecture has to abandon this doctrine and implement effective regulation.

3. Promoting Integrity in Financial Markets

This section mainly deals with tax havens and money laundering. Regarding offshore financial centres (OFCs) the G20 promises to „*protect the global financial system from uncooperative and non-transparent jurisdictions that pose risks of illicit financial activity*.“⁶ And the G20 further recommends strengthening efforts to counter money laundering and terrorist financing – efforts, which are not specified –, and the promotion of „*tax information exchange*“.

⁵ BIS, Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity, www.bis.org

⁶ For a study on the effect of tax evasion through OFCs see the study of the Trade Justice Network http://www.globalpolicy.org/nations/laundry/haven/2005/Price_of_Offshore.pdf

While declaring their commitment „to protect the integrity of the world’s financial markets“ and dedicating an entire section to issues of moral and legal misconduct, the concrete proposals are weak:

Tax havens: Drying up OFCs is clearly one of the most important reforms that should be legislated as soon as possible – OFCs not only channel billions of dollars beyond the reach of the treasury but pose a serious risk to financial stability and make possible all sorts of illegal financial activities. Closing tax havens would surely be one of most effective measures against money laundering and the financial structures of terrorist networks. The assurances of the G20 demonstrate that some parties in the global power structure have understood the importance of regulating these white spots in the international regulatory landscape. But the formulations are so vague to mean basically anything between radically drying up OFCs by implementing effectively coordinated regional and national policies and merely requesting OFCs to increase their transparency and cooperation. More promising in this regard are efforts by the U.S. that forced the largest Swiss bank UBS to partly lift its bank secret in February 2009 – efforts, that clearly demonstrate states abilities to effectively crack down on OFCs.⁷

Money laundering and terrorist financing: Most certainly, the most effective efforts to counter these crimes would simply be closing tax havens.

4. Reinforcing International Cooperation

The crisis has clearly demonstrated the limits of nationally regulating global financial markets, and accordingly the G20 calls for increased international cooperation between national regulators and supervisors. The solution they came up with, besides proposing a „comprehensive contact lists“ to coordinate crisis management and conducting „simulation exercises“, was setting up so called colleges of supervisors for large cross-border firms.

This is clearly insufficient. Colleges of supervisors had been proposed by the FSF and the G7 already in April 2004 and are continually lauded by the banking community.⁸ Supervisory colleges are bodies comprising representatives of regulatory authorities from different nations whose task is to “strengthen supervision” through regular meetings with all major cross-border financial institutions in which they collectively evaluate their activities and the risks they face. These proposals should be seen as mainly constituting an instrument to circumvent effective international regulatory mechanisms – they clearly cannot substitute international regulation by independent regulators that work similar to national regulatory efforts.⁹

⁷ Cf. <http://www.nytimes.com/2009/02/19/business/worldbusiness/19ubs.html>

⁸ See below on FSF and IIF, see also the study by the British Bankers’ Association under <http://www.bba.org.uk/bba/jsp/polopoly.jsp?d=557&a=13944>

⁹ For a critique see Nicolas Véron, „Supervisory Colleges: Way Forward or Red Herring?“, veron.typepad.com/files/tribune_081126_en.pdf. On standards for supervisory colleges see <http://www.c-eps.org/News--Communications/Latest-news.aspx>

5. Reforming International Financial Institutions

The G20 promises a variety of fundamental changes in the global financial governing institutions, reforms that *„adequately reflect changing economic weights in the world economy in order to increase their legitimacy and effectiveness.“* Specifically, the G20 calls for enhancing the membership in the FSF to include some emerging economies and, in the long-term, also expanding the membership of the IMF. It argues that emerging and developing economies, including the poorest countries, should have greater voice and representation. Besides changes in membership, the G20 also calls for a redefinition and strengthening of the role of the IMF: *„The IMF, given its universal membership and core macro-financial expertise, should, in close coordination with the FSF and others, take a leading role in drawing lessons from the current crisis, consistent with its mandate.“*

Assessing these proposals is again difficult given the lack of concretisation in the proposals:

G20: First of all, negotiating a new financial architecture at heads-of-state level within the G20 is by itself a major change in the international financial governance structure. Although the G20 does not discuss its own role in the future financial architecture, it is clearly one of the new candidates for important functions.

Enhancing the membership of IMF and FSF: What has been called for since decades by civil society organizations is now being endorsed by the G20 – increasing the power of emerging countries in the IMF. But while civil society groups have been demanding universal membership or equal representation between OECD and G77 countries, the reforms proposed by the G20 are moderate: Since countries should get representation only according to their economic power, probably only emerging economies will become members in the IMF and the FSF. It is interesting to note, that these proposals are demands also put forth by the global financial lobbying organization IIF in its letter to Bush before the G20 (see below).

Strengthening the role of the IMF: While some formulations on the IMF are ambivalent – taking *“a leading role in drawing lessons from the current crisis”* could mean enhancing the IMF's power or urging it to rethink its policies – other recommendations clearly point to strengthening the role of the IMF. The IMF is for example endowed the task of using *„its focus on surveillance“* to prevent future crisis. If tasking the IMF – one of those hubs of neoliberal policies of liberalized financial markets that got us into this crisis – with preventing future crisis is a good choice is at least problematic, the more so due to the poor predictive capacities the IMF has shown in the wake of the current financial turmoil.¹⁰

2.1.6. Commitment to an Open Global Economy

Even though the G20 speaks of strengthening and enhancing regulation and supervision, the Washington document is steeped in a discourse of neoliberalism and free markets. Right at the beginning, the G20 pledges: *“Our work will be guided by a shared belief that market principles, open trade and investment regimes, and effectively regulated financial markets foster the dynamism, innovation, and entrepreneurship that are essential for economic growth, employment, and poverty*

¹⁰ Cf. Weissmann 2008 and the IMFs „Global Financial Stability Report: Market Developments and Issues“ (April 2007).

reduction” – a sentence, that is strikingly similar to formulations in a letter sent to President Bush by the lobby organization of the global banking community IIF. And an entire section is dedicated entirely to making clear to everyone, that even if strong state-led emergency measures are necessary to save finance capitalism, the underlying philosophy has not changed: “*commitment to free market principles, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively regulated financial systems.*” The G20 also makes clear: once financial stability is re-established, all emergency measures involving state control should be “*unwound in a timely, well-sequenced and coordinated manner.*”

This insistence on free-market principles has to be interpreted as a strategy in the discursive conflicts that have been backlashing against the neoliberal doctrine since the crisis erupted. They clearly contradict other parts of the document. In general, these odes on the free market seem like a concession to the Bush administration rather than a general line of argument in the document. Confronted with more and more financial sectors entirely depending on the intervention of states, these statements more and more resemble artefacts from another time. The future negotiations and the developing crisis of capitalism will decide, if the global powers are willing or even able to implement another neoliberal financial regime or will install a new financial architecture that is stable and better serves people and the planet.

2.1.7. General assessment

The G20 initiative at reforming financial markets is just in itself an historic break – for the first time emerging countries have been integrated in one of the possibly most powerful governance structures and the most powerful countries got together to discuss a new financial architecture. Assessing the outcome of the G20 process so far reveals first of all the severity of the crisis of capitalism. Stabilizing the world economy demands – so the farthest going pledge by the G20 – that *all* financial markets, products and institutions be regulated or supervised. While regarding this statement the G20 is more progressive than other international organizations have been so far (including IMF, FSF and the United Nations Doha Declaration), the G20s insistence on neoliberal free-market ideology reveal its conservative outlook on economic policies in general.

The G20 Washington Declaration is a deeply contradictory but significant document that reflects the heterogeneity of responses in the global power structure. On the one hand, it identifies a variety of important failures in regulatory and financial institutions and demands new regulatory measures covering all financial markets, institutions and instruments. On the other hand – manifestly attesting to the neoliberal doctrine of the Bush administration – the document glorifies free markets and puts those institutions centre stage for regulating and governing financial markets that helped create the current crisis. While the analysis of the causes of the crisis reveal a profound and open understanding of the processes leading up to the crisis that would in itself provoke far-reaching reforms, a close reading of the concrete proposals reveal their limitedness and hesitancy.

The Washington G20's reform proposals sole aim is stabilizing financial markets. Other crucial issues such as the question of distribution of wealth globally and within societies or questions of financial markets' detrimental impact on climate change are not addressed. However, only assessing the G20s proposals against the aim of

stabilizing global financial markets, the proposals are inadequate. Furthermore, as in the other official documents analyzed in this paper (IMF, FSF, UN), many crucially important reform proposals are entirely missing: the closing of off-shore financial centres and the strict regulation of hedge funds (although promoted by the European preparatory G20 meeting in February 2009), the banning of all off-balance sheet vehicles, financial transaction taxes, addressing the issue of competition and cartels in financial markets, let alone strict regulation of all derivatives or capital controls. And in terms of global governance, the G20 entirely neglected and circumvented the United Nations, tasking (besides itself) the IMF and the FSF with important global financial governance work.

2.2. G20 London Summit April 2009

After intense preparatory work, the installation of several G20 working groups and a finance ministers meeting, the G20 held its second large crisis summit in London on 1 and 2 April 2009.¹¹ The G20 negotiated an agreement, which was generally considered by the world media as a major success.¹² Looking closely at the final agreements and particularly the G20 Communiqué, however, reveals that besides some improvements the achievements are not sufficient to counter the severe crisis let alone to prevent future financial turmoil.¹³

2.2.1. Discursive shifts in the G20 Communiqué

The final document of the G20 summit shows a variety of changes compared to the discussions and reports of the summit in November 2008. Most importantly, one has to note a change in discourse. While the G20 in Washington downplayed the crisis by justifying their summit with the *„serious challenges to the world economy and financial markets“*, the London Declaration admits that world faces *„the greatest challenge to the world economy in modern times“*. The language is much more serious and although there are still elements of continuity, the emphasis has shifted. The London document begins by stressing the interconnectedness of a globalized economy and by declaring that ordinary people of all countries should be the beneficiaries of the proposed reforms and recovery programs: *„We start from the belief that prosperity is indivisible; that growth, to be sustained, has to be shared; and that our global plan for recovery must have at its heart the needs and jobs of hard-working families, not just in developed countries but in emerging markets and the poorest countries of the world too; and must reflect the interests, not just of today's population, but of future generations too.“*

The G20 clearly adhere to the free trade and market paradigm, but they endorse a framework of thought that resembles the discourse of embedded liberalism,

¹¹ For a timeline of the main events leading up to the G20 summit in London see <http://www.londonsummit.gov.uk/en/summit-aims/timeline-events/>. The European G20 held a preparatory meeting in Berlin, which produced an interesting document that highlights the specific European perspective. Cf. Federal Chancellery - Chair's Summary of the Berlin G 20 Preparatory Summit, Press Release No. 86, <http://www.bundesregierung.de/Content/EN/Pressemitteilungen/BPA/2009/2009-02-22-chair-summary.layout?variant=Druckansicht.html>

¹² The major exception being the Financial Times, which extensively covered the G20 conclusions and dismantled the large numbers as a media coup.

¹³ G20 (2009), „The Global Plan for Recovery and Reform“, 2 April 2009, http://www.g20.org/Documents/g20_communique_020409.pdf

combining free markets with regulation and governance institutions and clearly takes up Keynesian approaches. This becomes clear in the G20 statement on their belief that *„the only sure foundation for sustainable globalization and rising prosperity for all is an open world economy based on market principles“* – all clearly rhetoric of the neoliberal era, which is amended by adding that this requires *„effective regulation, and strong global institutions“*.

Many of the recommendations and promises in the G20 Communiqué have been directly adopted from the final reports of the four G20 Working Groups set up after the Washington Summit. The 29 paragraphs are organized under the following five headings:

Restoring growth and jobs

Strengthening financial supervision and regulation

Strengthening our global financial institutions

Resisting protectionism and promoting global trade and investment

Ensuring a fair and sustainable recovery for all

2.2.2. The recovery plan and the big numbers

Two numbers dominated the media coverage of the G20 summit: \$5.5 trillion investment in the G20 countries until 2010 to fight the recession and an additional \$1.1 trillion decided at this summit in terms of a global economic stimulus package. These amounts were, however, not fresh money but the added balance of what G20 countries had already planned to invest until 2010 – the only new thing in this regard is the planned international collaboration. That this investment will trigger 4 percent growth as predicted in the document will be seen in the future. Also, most of the \$1.1 trillion in additional funding is not new commitments. A share of these investments will actually go to the poor countries, especially the \$100 billion for regional development banks.

2.2.3. Reforming financial markets

The language regarding the necessary reforms of financial markets is still too vague and only few changes have been reliably decided upon by now. For example, the G20 promise very generally to *„build a stronger, more globally consistent, supervisory and regulatory framework for the future financial sector, which will support sustainable global growth and serve the needs of business and citizens.“* On the other hand, the US president has stated, that the London summit was just a beginning. And indeed, the depth and complexity of the crisis will require a reform process which will take some years. One feature of such a crisis is, that the elites, too, are not capable to work on all problems immediately. The next years will be characterized by a permanent struggle over the direction and depth of reforms – inside the elites and between elites and other social forces.

Besides the promise that each member country will ensure strong domestic regulatory systems the concrete agreements of the London summit are the following:

Creation of a new and stronger Financial Stability Board that includes all G20 countries and provides an early warning system for the global financial markets

All systemically important financial institutions, instruments and markets should be regulated or subject to oversight.

Implementation of the FSF's principles on compensation

After the crisis, capital requirements should be reformed to prevent excessive leverage and to build up buffers in good times.

Publication of three lists by the OECD, which reveal those countries not adhering to OECD international tax standards.

Call on accounting standard setters to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards

Extend oversight to Credit Rating Agencies by demanding their compliance the International Organization of Securities Commission's (IOSCO) Code of Conduct.

Creation of the Financial Stability Board (FSB)

The FSF will not only be reformed and enlarged to include all G20 countries, Spain, and the European Commission, but will also be given new powers and responsibilities.¹⁴ The extension of membership to the G20 demonstrates the diminishing power of the G7/8 financial governance structure and indicates that the status of the FSB is enhanced. Adopting the respective recommendation of Working Group 1, the FSB is tasked to *„collaborate with the IMF to provide early warning of macroeconomic and financial risks and the actions needed to address them.“*¹⁵

Regulating financial markets

On this question of which financial institutions and instruments should be regulated the G20 summit in London suffers from some watering down, which was very much the result of the British government pressure. The UK still is trying to keep new regulation as soft as possible. Whereas the Washington summit had announced that *“all financial markets, products and participants are regulated or subject to oversight, as appropriate to their circumstances“*, still leaving open the possibility that the entire financial market be regulated, the London declaration explicitly excludes all those institutions and instruments from the regulatory landscape which are not systemically important. The Communiqué promises, *„to extend regulation and oversight to all systemically important financial institutions, instruments and markets. This will include, for the first time, systemically important hedge funds“*.

Concrete criteria as to what is *„systemically important“* are absent. It is not clear, who will do the regulation and how it will be done. And furthermore, it is entirely unclear what it means to extend regulation to systemically important institutions, instruments and markets – will those regulatory standards that currently apply to banks be extended or will new standards be established? Implicitly, the G20's obscure statement reveals that Hedge Funds and other highly leveraged institutions, whose

¹⁴ This actually already happened in March 2009. Cf. G20 Working Group 2 (2009), 7.

¹⁵ Cf. Recommendation 4 of Working Group 1.

bankruptcy or crash would not endanger the global financial system as such, will not be subject to regulation. Clever hedge fund managers, one would assume, will simply split up those funds, which are defined as „*systemically important*“, thus preventing regulation and otherwise continue business as usual. On a more general level, merely regulating systemically important institutions, while a step in the right direction, does not address more fundamental problems in the functioning of financial markets, mostly the problem of collective failure and herding behavior. Many small hedge funds, which due to general market tendencies collectively sell a national currency, can be as threatening to the economic system (and the people affected) as large institutions.

It is revealing to take a look at the final report of Working Group 1, from which this recommendation has been directly adopted.¹⁶ The text is somewhat more specific and adds several important details. For example, the Working Group recognizes the problem of „*potential systemic risk of a cluster of financial institutions which are not systemically important on their own*“. But instead of consistently calling for the regulation of all financial institutions (since collectively they can be very destabilizing), the Working Group cautiously constricts its recommendations to the mere possibility of oversight. It states that „*non-systemically important financial institutions, markets and instruments could [!] also be subject to some form of registration requirement or oversight, depending on the type and degree of risk posed, for example for the integrity or efficiency of markets.*“¹⁷ The Working Group also elaborates that national regulators (with the help of the IMF) should establish mechanisms that allow for investigating and deciding which institutions are systemically important – a proposal that aggravates the problem of regulatory competition between countries and leaves important question open. The timeline for these reforms is also revealing, since they should only be implemented within two years.

Compensation

The G20 endorsed at the London summit the implementation of „*the FSF's tough new principles on pay and compensation*“. On April 2, the last day of the G20 summit, the FSF had published its *FSF Principles for Sound Compensation Practices*, which establish recommendations for financial corporations and firms on how to govern their compensation and bonus systems.¹⁸ The FSF's nine principles call for *effective governance of compensation*, for *effective alignment of compensation with prudent risk taking* and for *effective supervisory oversight and engagement by stakeholders*. The main recommendations are that the board of directors and independent staff should oversee and govern the compensation system and that compensation should not become an incentive for excessive risk-taking

¹⁶ „All systemically important financial institutions, markets and instruments should be subject to an appropriate degree of regulation and oversight, consistently applied and proportionate to their local and global systemic importance.“ G20 Working Group 1 (2009), xi (recommendation 5).

¹⁷ Ibid. Recommendation 7 specifically addresses large institutions: „Large complex financial institutions require particularly robust oversight given their systemic importance, which arises in part from their size and interconnectedness (or correlation) with other institutions, and from their influence on markets.“

¹⁸ FSF (2009), „FSF Principles for Sound Compensation Practices“, April 2, http://www.fsforum.org/publications/r_0904b.pdf

(specifically, that compensation should include all types of risks, should be linked to the overall performance of the firms, should be sensitive to the time horizon of the risks and that the mix of cash, equity and other forms of compensation should be consistent with risk alignment). Regulators thus should not set clear criteria as to how compensations regimes should work, but rather firms themselves should align compensation with actual risks and report to supervisors. Only in cases of serious deficiencies, „*supervisors should take rigorous action*“.¹⁹

Capital requirements and capital buffers

One of the main problems of the current financial crisis and one of the potentially most important levers for effectively preventing future crisis are the capital requirements. Iterating the recommendations of the Working Group 1, the G20 promised two reforms in this regard, both of which will only be implemented „*once recovery is assured*“ (to not compound the current severe procyclical effects of Basle II):

The G20 declare, „*regulation must prevent excessive leverage*“, but – contrary to the IMF (which in early 2009 argued that the future financial system should generally have less leverage) –, the G20 did not endorse any specifics as to what is „*excessive*“, as to which institutions (if any) should be included in the capital requirements regime besides banks, and, most importantly, on *how* excessive leverage will be prevented. The G20 have charged the Basle Committee on Banking Supervision (BCBS) with settling the details – a forum of regulators and central bankers from the industrialized countries.²⁰

And secondly, the G20 demand that regulation must „*require buffers of resources to be built up in good times*“. This reform, which has been promoted by many organizations ranging from the FSF to the Global Unions (see below), will counter the procyclicality of Basle II and should be welcomed as a step in the right direction that has to be complemented by a general upgrading of capital requirements and an extension of these requirements to all financial institutions.

Tax havens

One of those issues, which were discussed most prominently in the media after the summit, was the G20s promise „*to take action against non-cooperative jurisdictions, including tax havens*“. Although the G20 boldly state, „*the era of banking secrecy is over*“, the concrete proposal are insufficient. Due to difficult negotiations at the summit, the G20 only declared that they „*note that the OECD has today published a list of countries assessed by the Global Forum against the international standard for exchange of tax information*“. Lacking any legally binding mechanisms, this merely amounts to the publication of three lists of countries by the OECD, which the G20

¹⁹ Ibid., 3.

²⁰ The Working Group 1 statement makes clear, that the G20 is not intending to generally raise capital requirements, but only a review of Basle 2 (mostly focusing on its procyclicality): „*Once conditions in the financial system have recovered, the adequacy of the international standard for the minimum level of capital for banks should be reviewed and the quality and global consistency of capital should be enhanced.*“ In the short term, the Working Group even recommends lowering capital requirements. Cf. G20 Working Group 2009, xv.

take note of (apparently unable to negotiate a straightforward endorsement of OECD standards as recommended by Working Group 2).²¹

The black list, which contained Costa Rica, Uruguay, Malaysia and the Philippines, only lasted for five days, after which these countries (none of which is strictly speaking a tax haven like the Cayman Islands) promised adherence to international standards. Most importantly, however, these lists only are instruments against *illegal* forms of tax fraud like money laundering and terrorist financing, and do not address the more important issue of *legal* ways to circumvent supervision and the obligation to pay taxes.²² Initiated by the G7 countries in 1996, the OECD has developed transparency standards and recommendations on exchange of information in tax matters.²³ These standards, however, mainly provide for exchange of information regarding criminal tax issues and only demand that the relevant information for civil tax fraud (ownership and accounting information) be given *on request* (making it impossible to track down persons whose name authorities do not know).

Accounting

The G20s „call on the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards“ is merely a recapitulation of what has already been demanded in November 2008 (see above).

Credit Rating Agencies

On the issue of CRAs the G20 demands „to extend regulatory oversight and registration to Credit Rating Agencies to ensure they meet the international code of good practice, particularly to prevent unacceptable conflicts of interest.“ While the regulation of CRAs should be welcomed, since the excessively good ratings dramatically exacerbated the crisis, the G20s recommendations are neither specific enough, to determine their outcome nor do they address the fundamental problems of the rating process. The Communiqué does not reveal, how and according to which criteria the oversight of CRAs should work. Instead of demanding publicly controlled rating agencies, the document implicitly alludes to the IOSCOs Code of Conduct for CRAs (which was recommended by the G20 Working Group 1).²⁴ This Code of Conduct, which has been especially endorsed and promoted by the FSF, is very lax and does not address the inherent contradiction in the rating process (for more details and a critique cf. the chapter on the FSF).

²¹ „The Working Group recommends that the G20 reaffirm their commitment to the high standards of transparency and exchange of information for tax purposes as reflected in the OECD's Model Tax Information Exchange Agreement and Article 26 of the OECD Model Tax Convention. All countries should be urged to fully implement the OECD standards.“ Cf. Working Group 2 (2009), 37.

²² The OECD lists are available at http://www.oecd.org/document/57/0,3343,en_2649_37427_42496569_1_1_1_1,00.html. On the different methods to identify tax havens cf. Tax Justice Network (2007), „Identifying Tax Havens and Offshore Finance Centres“, www.taxjustice.net/cms/upload/pdf/Identifying_Tax_Havens_Jul_07.pdf

²³ Cf. OECD (2002) Model Tax Information Exchange Agreement and Article 26 of the OECD Model Tax Convention, http://www.oecd.org/document/7/0,3343,en_2649_33767_38312839_1_1_1_1,00.html

²⁴ „All credit rating agencies whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration and that requires compliance with the substance

of the IOSCO Code of Conduct Fundamentals.“ G20 Working Group 1 (2009), xiii (recommendation 9).

2.2.4. Reforming financial governance institutions

One of the more significant decisions taken at the London summit is the upgrading of the importance of the IMF – the document demands „*strengthening of the international financial institutions, particularly the IMF*“ – and reforms in the mandate, resources and membership of international financial institutions. In terms of expanding the IMF's resources, which will thus be tripled, the G20 promised the following items (listed in a special annex):²⁵

\$250 billion bilateral financing from members, which will be increased to up to \$500 billion in the near term through an expanded and more flexible New Arrangements to Borrow

\$6 billion concessional and flexible finance for the poorest countries over the next two to three years from agreed sales of IMF gold

\$250 billion through general allocation of Special Drawing Rights (SDRs), the IMF's own money, \$100 billion of which will go directly to emerging market and developing countries.

In terms of institutional reforms, the G20 Communiqué remains vague. Unfortunately, also the recommendation of the G20 Working Group 3, which was specifically tasked with the reform of the IMF, does not contain many specific proposals either.²⁶ On a principal level the G20 declare their commitment to „*reform their (the IFIs) mandates, scope and governance to reflect changes in the world economy and the new challenges of globalisation*“ and even highlight that „*emerging and developing economies, including the poorest, must have greater voice and representation*.“ These formulations point to major changes and it will be interesting to see, if the U.S. will be willing to give up its blocking minority and if European states are willing to waive their overrepresentation (for example, the Netherlands and Belgium together have more IMF voting rights than China).²⁷

2.2.5. General assessment

The final document of the London summit is a highly contradictory statement. The G20 seem to understand that there are serious problems with neoliberal financial markets – particularly in terms of shadow banking and unregulated hedge funds – and call for some regulation in parts of the financial system. But instead of measures that would close the casino and end financial speculation and domination the proposals offers the option to only fix the system and to restore its operability. For a systemic change, which is required if future crises should be prevented, the London summit is not going far enough.

There are decisive shifts in the discourse of the document – particularly a shift away from the neoliberal rhetoric of the Washington Declaration towards a more inclusive and social discourse that highlights mutual dependencies, the need to effectively

²⁵ Cf. the Annex of the G20 at www.g20.org/Documents/Fin_Deps_IFI_Annex_Draft_02_04_09_-_1615_Clean.pdf.

²⁶ The paper is full of general phrases like the following: „*The G-20 members recognise that the global financial crisis has highlighted the urgency of accelerating changes to the IMF so that it can more effectively fulfill its mandate. Such changes should address any underlying deficits in resources, lending instruments, and governance structures, with a view to enhancing legitimacy, ownership and efficiency, and clarifying the roles and responsibilities of the Fund.*“ Cf. Working Group 3 (2009), 2.

²⁷ Cf. <http://www.imf.org/external/np/sec/memdir/members.htm>.

counter the crisis particularly in developing and emerging markets, and demands liberal markets that are embedded in effective regulation. However, as has been demonstrated, the actual agreements both in terms of additional funding to boost the global economy and particularly in terms of financial market reforms are rather limited.

Most importantly, one has to analyze what has not been talked about – many of the most crucial reform issues were simply left out of the agreements. For example, the G20 London summit ignored the following questions:

Capital controls or weaker mechanism such as FTTs were not endorsed by the G20, although it will be crucially important (for example regarding the question of how to prevent capital flight).

The question of financial lobbying.

The issue of global imbalances has been entirely ignored, particularly the issue of an inflating lead currency.

And most importantly, redistribution from the local to the global level is not addressed.

The G20 negotiations are a work-in-progress, and the upcoming negotiations and particularly the G20 summit in September 2009 in Pittsburgh will be critical.

2. 3. Financial Stability Forum (FSF), now Financial Stability Board

2.3.1. A forum with informal and undemocratic interpretative power

Another important actor in the debates on reform of the international financial architecture is the Financial Stability Forum (FSF), which was founded in 1999 by the G7 and consists of national financial authorities like finance ministers and central bankers from major industrial countries and members from international financial organizations such as the BIS, World Bank, IMF, ECB, OECD and others. The FSF, similar to the G20, is an informal forum without any legally formalized structure, mandate or legal basis in international relations, a forum that is exclusively from the rich G7 countries and has formally only consultative power. But it is well integrated into the financial system of industrialized countries and should be seen as a powerful interpretative and analytical authority. There have been attempts in the preparations of the Washington G20 summit to enhance the role and power of the FSF in financial market reforms, but things have not been settled yet. The main problems of the FSF are its informal character and its limited membership, which, however, will most likely soon be broadened to include in addition to the G7 some emerging economies.

After the financial crisis really had taken off in October 2007, the G7 had asked the FSF to analyse the causes of the crisis and to make proposals for reform. The FSF was explicitly instructed to deal with such controversial issues as off-balance sheet vehicles, credit rating agencies and financial derivatives.²⁸ The corresponding report “Enhancing Market and Institutional Resilience”, which the FSF released in April 2008, and a follow-up report published six months later, identify a variety of important underlying causes of the crisis and formulate several interesting proposals for reform. This report – the analysis will document this argument – can be seen as one of the principle sources of the G20s Washington Declaration and thus warrants a close reading.

In general, the FSFs focus is mostly on the micro-economic implications of regulation, ignoring such important macro-economic developments as exchange rate movements, tax evasion or the role of large institutional investors and their destabilizing effects on financial markets. And, while acknowledging a variety of failures in the current system, the reports are largely written in a neoliberal framework of thought. According to this underlying philosophy, the FSF interprets the crisis as caused by misguided incentives and excessive leverage and, although calling for better oversight, sees transparency and the functioning of the market as leading to financial stability. “The guiding principles of this work is to recreate a financial system that operates with less leverage, is immune to the set of misaligned incentives at the root of this crisis, where prudential and regulatory oversight is strengthened, and where transparency allows better identification and management of risks.” (FSF 2008b, 2). Although it is not yet clear, what role the FSF will play in a reformed financial architecture, this institution and its analysis is likely to play a crucial role on the reforms to come, and its proposals will thus be discussed in some detail.

²⁸ The G7 statement of October 2007 had asked the FSF to „analyze the underlying causes of the turbulence and offer proposals in the areas of liquidity and risk management; accounting and valuation of financial derivatives; role, methodologies and use of credit rating agencies in structured finance; and basic supervisory principles of prudential oversight, including the treatment of off-balance sheet vehicles” (<http://www.g8.utoronto.ca/finance/fm071019.htm>)

2.3.2. Strengthening prudential oversight

The first section of the report deals with issues of prudential oversight and especially those regulatory rules called Basle II, the problem of off-balance sheet vehicles, compensation in the financial industry and over-the-counter (OTC) derivatives. The Basle II framework, developed by the Bank for International Settlements (BIS) in 2004, revised the standards governing the capital adequacy of internationally active banks – it implemented a high level of flexibility and thus decreased capital adequacy requirements and increased the self-regulatory powers of banks themselves.²⁹ They have been criticized by nearly every study on financial market rules and should certainly be drastically revised. Off-balance sheet transactions have allowed banks to do business without properly reporting them on their balance-sheets, thus facilitating the growth of an unregulated shadow banking system. The way financial institutions have compensated managers by giving huge bonuses for short-term profits while not making managers accountable for long-term losses, has fuelled excessive risk-taking and short-termism in the financial industry. And OTC-derivatives have been one of the main unregulated high-risk instruments, which caused the crisis.

Upgrading Basle II: First, under the heading “strengthened prudential oversight of capital, liquidity and risk management”, the report promotes the timely implementation and further enhancement of the Basle II capital framework. But since the Basle II accord has been implemented into EU law in 2006 and European banks have lost as much as American banks, the mere implementation of this framework will clearly not suffice. Accordingly, the FSF-report further recommends upgrading Basle II concerning several points: raising capital requirements “for certain complex structured credit products such as CDOs of asset-backed securities (ABS); introducing additional capital charges for default and event risks; reviewing the pro-cyclicality of Basle II, and strengthening the banks internal risk management mechanisms.

There are mainly three problems with the capital requirement regime of Basle II: First, it only deals with banks, leaving unregulated all other financial institutions like hedge funds (whose business model would likely not work under the same capital requirements as banks). Secondly, it has substantially strengthened the self-regulation of private banks and has constrained the power of independent supervisors. And lastly, the effects have been highly pro-cyclical: banks had to hold very little reserves and thus highly increased their leverage and risk-taking during the boom before the crisis. The Basle II framework thus has to be radically reformed to serve as a stabilizing mechanism in international financial markets rather than as a pro-cyclical and destabilizing force. The proposed upgrading by the FSF is a step in the right direction but clearly not enough – more has to be done especially regarding the problematic issue of banks self-regulatory internal risk assessments.

Off-balance sheet vehicles: The FSF recommends, among other complicated reforms, strengthening the capital treatment of off-balance sheet vehicles, including them in the internal capital and liquidity management and obliging banks to adequately include risks arising from off-balance exposures in their risk assessment and internal stress testing procedures.

Off-balance sheet transactions should simply be banned – there are no good reasons to allow financial institutions to circumvent regulations and oversight mechanisms by

²⁹ See <http://www.bis.org/publ/bcbsca.htm>.

not properly reporting all their financial activities. And since the FSF report states, that the proposed reforms “will substantially reduce the incentives that motivated banks to generate and hold large off-balance sheet risk exposures” anyway, one wonders, why the FSF does not simply require to properly report all financial activities on the books.

Compensation and bonuses: The report calls for the private industry to “align compensation models with long-term, firm-wide profitability”.

This recommendation is similar to statements by the G20 and the IMF in that it is extremely unspecific and relies on initiatives by the banks themselves. Again, it is at least doubtful, if financial institutions are able to self-regulate, especially in terms of such sensitive issues as bonuses. Instead, regulators should set rules for responsible compensatory policies in the financial sectors, which actually enforce an incentive structure that favours long-term as well as ecologically and socially beneficial financial investments.

OTC-derivatives: Another controversial issue, OTC derivatives, is only touched at, when the report states that “market participants should act promptly to ensure that the settlement, legal and operational infrastructure underlying OTC derivatives markets is sound”.

As has been argued before, not only is the reliance on “market participants” to self-regulate problematic, but, instead of strictly regulating or banning OTC-derivatives, the FSF – like the G20 – calls for a sound infrastructure which allows this market to prosper.

2.3.3. The FSF’s over-reliance on self-stabilizing market forces

The second section deals with the issue that ranks most prominently among official institution’s reform agendas: “enhancing transparency and valuation”. Entirely in line with neoliberal frameworks of thought, the FSF interprets the financial crisis as being caused by the inability of the competitive market forces to exert their discipline. This incapacity of markets to function as neoliberal theory says it would was in turn caused by intransparent business models and concealing of risks, especially associated with structured products and off-balance sheet vehicles. Transparency, functioning accounting standards, and sound valuation practices, so the argument goes, are “the cornerstone of a well-functioning financial system” and are thus essential “to maintain market confidence and to promote effective market discipline.” (22)

More specifically, the FSF lays out recommendations to improve market transparency in four areas:

Risk disclosure: The full and transparent disclosure of a firms risk is supposed to discourage excessive risk taking. Accordingly, the FSF encourages the financial industry to strengthen the “robust risk disclosures” – the FSF details a variety of disclosure guidelines (on the disclosure of Special Purpose Entities, subprime credit, Collateralized Debt Obligations and Mortgage-Backed Securities) and calls for enhancing these guidelines further by including them in the Basle accord by early 2009.

Disclosure standards for off-balance sheet vehicles: Interestingly, regarding the controversial issue of off-balance sheet vehicles, the document calls for the private

industry body of the International Accounting Standards Board (IASB) to improve accounting and disclosure standards and to establish international convergence.

Valuation: Regarding the problems of fair valuation that became most apparent in structured products during the turmoil, the FSF lays out a variety of highly complex measures to strengthen and improve firms valuation techniques, measures to be cooperatively implemented by the private industry and regulatory bodies such as the Basle Committee, the IASB, and the International Auditing and Assurance Standards Board (IAASB).

Securitization: Similarly, regarding the issue of securitization the FSF demands collaborative efforts between regulators and market participants “to expand information on securitised products and their underlying assets” and proposes strengthening the Basel II capital treatment of securitisation activities (30).

Transparency is clearly a precondition of functioning markets and every step that increases the transparency of the international financial system should be welcomed. But transparency is not enough. The FSF’s proposals interpret transparency as being in the best interest of market participants and thus rely heavily on cooperation between regulators and market participants, if not plainly on self-regulation. This approach underestimates a fundamental contradiction or tension inherent in capitalist market economy. While being important from a macro-perspective, on a micro-economic level full transparency is clearly inconsistent with the functioning of competition, in which the competitive advantage of one market actor often rests upon imperfect transparency. The FSF’s approach which tasks the private industry with strengthening its risk disclosure, calls on the private association IASB to deal with the extremely controversial and difficult problem of off-balance sheet vehicles and demands close collaboration with the private industry on valuation and securitization is therefore very problematic. Rather, independent and democratically legitimized regulators should set all disclosure standards, ban off-balance sheet vehicles, enforce improved counter-cyclical valuation measures and strictly regulate and license all securitized assets. Still another problem is the question of transparency for whom – vis-à-vis the market or vis-à-vis independent supervisors, a question that is left open by the FSF.

2.3.4. The FSF on Credit Rating Agencies

A fifth of the report is exclusively dedicated to Credit Rating Agencies (CRAs), whose high ratings of complex structured subprime debt and whose flawed models are identified as a major cause of the crisis. But while correctly analysing the involvement of CRAs in the credit bubble, the proposed remedy falls short of addressing the fundamental flaws of the current rating process. Since the proposals of the FSF are widely shared amongst multilateral financial institutions they will be discussed in some detail. However, in order to put these discussions into perspective and to avoid overestimating the importance of CRAs, it should be stressed that CRAs were only as important as they were because the risks in the financial system were so great; and CRAs are only one aspect of the crisis – even if their ratings would have adequately depicted the values of toxic assets, the unregulated financial system would have developed into the current crisis.

Specifically, the FSF calls firstly for the implementation of a revised code of conduct for CRAs, secondly for further transparency measures regarding structured products, and thirdly for a reassessment of investors and regulators over reliance on CRAs.

A revised Code of Conduct for CRAs

Already in 2004, the International Organization of Securities Commissions (IOSCO), which consists of the national regulators of the world's securities and futures markets, had set out a "Code of Conduct Fundamentals for Credit Rating Agencies".³⁰ And this code, the FSF argues, should be revised by the IOSCO in three important respects:

CRAs should "improve the quality of the rating process including the models, methodologies and information used for ratings." This refers to obvious flaws in the rating methods of the large CRAs, which had given high ratings to structured and complex subprime credits that are now generally dubbed as "toxic". These highly complex mathematical rating models, for example, projected the future performance of the subprime real estate credit market based on the very recent past experience that was characterized by an extraordinary „benign economic environment with rising house prices“ and entirely neglected other possible economic scenarios, let alone the possibility of general economic downturn.

The FSF calls for addressing "conflicts of interest, including concerns about analyst remuneration and about the separation of consulting and rating activities." Most CRAs are paid by the same institutions, whose financial vehicles they are supposed to rate and often they are only paid if they actually issue a certain rating. Additionally, the same CRAs also offered consulting services to financial institutions (whose products they rated) regarding the break-up of Collateralized Debt Obligations into different tranches according to differing investor risk preferences. These practices of in-built conflicts of interests in the rating process, so the FSF, can be avoided by changing the issuer-pays model and by separating the rating activities (which should give an objective picture of the quality of the financial papers) and consulting services (which give advice according to the profit-maximization interests of financial firms).

And thirdly, the FSF demands CRAs to "provide investors with additional information on the methodologies and criteria used for ratings, how CRAs address data limitations, and data on the historical performance of ratings." This point, emphasizing transparency in the rating process, reveals the neoliberal way of thinking employed in this report. The idea is, that by giving full transparency about the methods and criteria used by a certain CRA for its ratings and about the correct or incorrect estimations of past ratings of that CRA, the competition between different rating agencies that is fuelled by investors' interest in objective ratings will force CRAs to adopt high standards and improve their ratings.

Since most of the high ratings of low quality sub-prime related CDOs that led to the crisis occurred between 2004 and 2007 and since IOSCO's old Code of Conduct is in place since 2004, one wonders if these seemingly obvious recommendations have

³⁰ See <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD180.pdf>. The ambivalence of IOSCO towards regulation becomes evident in a letter sent to the G20 when they met in Washington in November 2008 (and in which it portrays itself, ironically, as having "laid the foundation for a strong securities regulatory landscape"). While IOSCO argues that the financial crash has made it „evident that regulatory gaps, such as those posed by certain unregulated or under-regulated products, must be closed“, at the same time it emphasizes „that regulation should not undermine the benefits of free markets“. For the letter see <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD282.pdf>

not been mentioned there. And sure enough, all three points are prominently discussed already in IOSCOs 2004 Code of Conduct: Section one deals with the “quality and integrity of the rating process”, section two is entirely devoted to “CRA independence and avoidance of conflict of interests” and in section 3 transparency and the disclosure of “historical default rates of CRA rating” are discussed.³¹ So the FSFs demands for improving IOSCOs Code of Conduct for CRAs mainly restate, what has already been demanded five years ago and are thus clearly insufficient.

Improving the transparency of ratings for structured products

Besides, the FSF calls CRAs to further improve the transparency of its ratings regarding structured products. Structured products are at the heart of the credit crisis: investment banks and Special Purpose Entities had packaged securities of differing quality, for example sub-prime real estate and credit card debt, into packages, that now were given triple A ratings by CRAs. This led to the impression that AAA structured products have the same risk structure and quality as other premium papers such as US government bonds, thus creating the false market incentives that led to the crisis, during which many of the structured papers had to be downgraded or defaulted.³² To prevent similar disasters in the future, the FSF demands:

that structured products should be clearly differentiated from normal ratings (for example by introducing different rating scales or different symbols other than AAA, AA, A, BBB etc.);

that CRAs should further expand their information on structured products and their risks; and

that CRAs „should enhance their review of the quality of the data input and of the due diligence performed on underlying assets by originators, arrangers and issuers involved in structured products.“

While improving the transparency of ratings for structured products would certainly make these products less attractive on the market and would thus decrease their destabilizing effects, this is obviously only a very small step that only works under the questionable assumption of individual rational market actors. But in financial markets characterized by large institutionalized investors, herd behaviour and general expectations of rising prices (as was the case before 2007), transparently rated structured products could still be successfully traded, even if their underlyings do not justify their value. Instead of simply rating structured products more transparently, their prominence should be radically reduced and they should be licensed by democratically legitimized authorities.

Addressing the financial systems over reliance on CRAs

The last point the FSF mentions on CRAs is the over reliance of investors on the ratings of CRAs and the role the official recognition of certain CRAs by regulators has played in this regard. But instead of questioning the whole process by which the

³¹ IOSCO (2004), Code of Conduct Fundamentals for Credit Rating Agencies (December), www.iosco.org/library/pubdocs/pdf/IOSCOPD180.pdf

³² Cf. Roger Lowenstein (2008), Triple-A Failure, New York Times Magazine (April 27, 2008).

ratings of private CRAs are included in official banking regulation (for example Basle II) and their monopolistic effects (only the largest CRAs have a licence for official ratings), the FSF only calls for a review of CRAs in official regulation. And this review will probably not lead far, since the FSF assures CRAs, “that credit ratings play an important role in investment and risk management frameworks.”

What is needed are fundamental reforms of the rating process: Rating agencies should not be private for-profit companies but instead publicly controlled non-profit institutions. Who in the world would trust a safety check for an airplane that is issued by a private firm which is paid for the rating (and the other consultative services it gives) by the corporation producing the airplanes and which furthermore has to compete with other rating firms (possibly giving better ratings and thus being more attractive) – instead of ensuring safe airplanes through a public authority?

2.3.5. Strengthening the authorities’ responsiveness to risks

The FSF’s discussion of policy and governance issues associated with financial market regulation reveals the FSF’s general outlook – instead of demanding markets to be strictly regulated according to rules set by democratically elected authorities, the FSF calls for regulators and supervisors to adapt to new market developments and strengthen their responsiveness to risks. The report concedes that regulators did not react fast enough to market developments: “international processes for agreeing and implementing regulatory and supervisory responses have in some cases been too slow given the pace of innovation in financial markets.” (40). Three areas of reform are discussed: regulators capacities to adequately do their work in the face of financial innovation, the problem of how to regulate multinational financial players with national regulatory authorities, and ways to improve international governance of financial regulation.

Regulators should adapt to markets and innovations: First, the FSF calls on regulators, supervisors and central banks to adequately translate risk into action – they should “have the requisite resources and expertise to oversee the risks associated with financial innovation” (40) and communicate their own risk assessments to the financial industry (41).

These proposals reveal a more general problem of democratic regulation: The complexity and speed of innovation of financial instruments and institutions has increased to such an extent, that it has become impossible for understaffed supervisors to keep up; democratically elected authorities and regulators are furthermore unable, to really understand and consequentially set rules for these financial markets. NGOs that call for democratic control of financial markets have thus demanded to set rules in such a way, that regulators are actually able to do their job – i.e. for adapting markets to regulators and thus society’s needs. In contrast, the FSF’s report demands regulators to adapt to markets. This is not just problematic in itself but clearly insufficient to stabilize and regulate financial markets, if the problems of the complexity and speed of innovation – often directly aimed at avoiding existing regulations – will not be addressed. Another problem in the FSF’s approach is its reliance on the self-regulatory capacities of financial firms. Not only does it focus on increasing regulators “communication with markets”, but its exclusive cooperation “at senior level with private sector participants, including investors and CRAs” runs contrary to democratic control of financial markets.

International cooperation and information exchange: One of the main problems of financial regulation is that while financial firms are increasingly operating transnationally, financial regulation and supervision is still mainly organized nationally and to some extent regionally, i.e. in the E.U. To address this problem, national authorities have started to cooperate internationally. The FSF emphasizes particularly the need to improve “authorities’ exchange of information and cooperation in the development of good practices” (41). To deal with the largest financial conglomerates, often described as being “too big to fail”, the FSF proposes to create so called “international colleges of supervisors” from the main jurisdictions. If just by creating such a college for each of the largest financial firms and by thus closely exchanging relevant information, national supervisors will be able to prevent regulatory arbitrage and close existing loopholes in the complex financial regulatory landscape seems questionable.

Improving international governance: Going beyond cooperation and information exchange between national regulators and supervisors, the FSF calls for existing international policy bodies to “enhance the speed, prioritisation and coordination of their policy development work.” (43) Most interesting is the plan to intensify the cooperation between FSF and IMF, “with each complementing the other’s role.”

Although closer coordination between these central institutions would certainly improve the functioning of existing international financial market rules, the reliance on these organizations is problematic. Issues of democratic accountability or the question of reforming membership in FSF and IMF are not addressed – and other international bodies such as the United Nations are entirely ignored.

In general, the aim of financial market reforms should be to reduce the complexity of financial markets, products and institutions. This is not just an issue of economic reason, aimed at stabilizing the financial architecture, but fundamentally an issue of democracy. Democratic institutions are increasingly undermined if entire sectors of the economy – powerful enough to provoke the most fundamental crisis of capitalist societies – are not discussed and decided upon democratically due to their high level of complexity. Thus, decreasing complexity is a democratic precondition and benchmark of proposals for financial market reform. The reforms proposed by the FSF clearly do not satisfy this condition. Another important issue that does not get enough attention in the report is the question of the legal possibilities of regulators – very often, they were simply not legally allowed to do their job due to secrecy and data privacy obligations and the protection of business and trade secrets. Effective reforms that would actually deal with these problems would radically strengthen the legal powers of supervisors and to introduce an obligatory licence for all new financial products that is to be issued by independent, democratically legitimized regulators.

2.3.6. Emergency measures and the follow-up report

The last section of the report deals with the issue of emergency measures, or, in the language of the FSF, “robust arrangements for dealing with stress in the financial system”. Here the FSF calls for close international cooperation also in dealing with “weak banks”, i.e. banks or financial institutions that have gone bankrupt, and – this is added in the follow-up report of 2009, the FSF aims at “filling a number of gaps in the existing crisis management frameworks” – these are issues of international

concern that deal with questions of how to internationally coordinate the rescue or “resolution” of multinational financial institutions.³³

In the follow-up report of October 2008, the FSF reviews the implementation of its recommendations. Its optimistic tone which emphasizes the great amount of work being under way internationally, stands in sharp contrast to the intensification of financial turmoil, in the face of which there have been almost no improvements in the financial architecture so far. In the short term, the FSF only promises to further follow up its recommendations and to reinforce its study of the procyclicality of capital requirements, the issue of loan-loss provisioning, compensation arrangements in financial institutions and the “interplay between valuation and leverage as a source of procyclicality” (FSF 2008b, 8). Only in the medium term, the FSF promises to touch more fundamental issues. The most important one is the FSF’s promise to “reassess the scope of financial regulation, with a special emphasis on institutions, instruments and markets that are currently unregulated.” (FSF 2008b, 9). Interestingly, this sentence has subsequently been included as one of the farthest going formulations in the Declaration of the G20 meeting in Washington in November 2008.³⁴

2.3.7. General assessment

The report of the FSF has laid out a comparatively early analysis of the financial crisis and has produced a variety of very specific and detailed reform proposals. In general, the FSF’s statements are more cautious and obscure on ideological questions, making their assessment a somewhat more subtle task. Accordingly, the causal analysis of the crisis is cursory and superficial. Even more so than the reports of IMF and G20, the FSF focuses on specific question and thus entirely neglects other issues. Those topics, however, which are dealt with by the FSF, are discussed in great detail and with a good deal of analytic expertise.

In terms of specific recommendations on reforms in the Basle II regime, increasing transparency measures for certain products and markets, improving the working of credit rating agencies or the strengthening of authorities’ responsiveness to risks the FSF has strong interpretative authority. These issues have been analyzed and discussed in great detail and a variety of critical points have been highlighted. This analysis has shown that the FSF’s proposals – even though a neoliberal anthem similar to the G20s praise for free markets is missing – are predicated on a neoliberal analysis of the causes and remedies for the crisis. Although embedded in a regulatory framework, self-regulation of financial actors and market participants’ interest in stabilizing financial markets are seen as the beneficial driving forces of market reform.

³³ FSF 2008a, 49; 2008b, 26-27. This work will be complemented by the Basle Committee, which is also studying “the potential impediments and possible improvements to co-operation in the resolution of cross-border banks.” (FSF 2008b, 6).

³⁴ “A review of the scope of financial regulation, with a special emphasis on institutions, instruments, and markets that are currently unregulated, along with ensuring that all systemically-important institutions are appropriately regulated, should also be undertaken.” G20 2008.

2.4. IMF

2.4.1. The IMF in a shifting global environment

The IMF is a well-established formal international organization with a set structure, mandate and legal power. Founded in 1944 at the Bretton Woods conference, it has played since a leading role in overseeing the international financial system and the macroeconomic policies of its member countries. Through its institutionalized and formalized structure, the IMF has – contrary to informal fora like the G20 and the FSF – direct power, influence and somewhat autonomous scope for action. Although having almost universal membership, the IMF has been vociferously criticized both for its undemocratic and biased decision making procedures (rich countries having all the voting power) and for its neoliberal policies.³⁵

The IMF's opinion on reforming the global financial system is best and most comprehensively captured in its October 2008 „Global Financial Stability Report“ (GFSR). In its earlier GFSRs the IMF has entirely failed to adequately assess the severity of the situation and the severity of the crisis. For example, in its April 2007 report, published just before the crisis really took off, the IMF had argued, that a major dislocation regarding subprime loans “still appears to be a low-probability event” and that “risk management practices have improved at regulated banks and brokers”.³⁶ The October 2008 report, a 250-page document entitled “Financial Stress and Deleveraging: Macrofinancial Implications and Policy”, starts by acknowledging the extent of the financial crisis as it has evolved until October 2008. Contrary to the FSF, its focus is on macrofinancial issues. Building on its April 2008 GFSR, the whole analysis is embedded in a framework of interpreting the financial crisis as an accelerated and disorderly process of deleveraging - the IMF thus focuses on the collective failure to appreciate the risks associated with the massive extent of “leverage taken on by a wide range of institutions – banks, monoline insurers, government-sponsored entities, hedge funds”, and accordingly neglects other important factors. The bulk of the concrete proposals deal with short-term “comprehensive policy” measures aimed at restoring stability in financial markets, making the deleveraging process proceed in an orderly and non-destructive way and at preventing the threat of a more severe adverse “feedback loop between the financial system and the broader economy”. Only little attention is given to reforming those parts of the financial system that led to the crisis.

2.4.2. IMF's proposals for crisis management

To achieve an “orderly deleveraging”, the IMF sets out five very general principles that all financial market reforms or bailout measures should adhere to:³⁷

Employ measures that are comprehensive, timely, and clearly communicated.

Aim for a consistent and coherent set of policies.

Ensure a rapid response on the basis of early detection of strains.

³⁵ See for example Morten Boas and Desmond McNeill (2003), *Multilateral Institutions. A Critical Introduction*, London: Pluto Press.

³⁶ IMF 2007 GFSR, 10, 60. Cf. Weissman 2008.

³⁷ IMF 2008, xi-xii, 49ff.

Assure that emergency government interventions are temporary and taxpayer interests are protected.

Pursue the medium-term objective of a more sound, competitive, and efficient financial system.

Chapter 1 deals with the issue of *global financial stability*. The IMF argues that governments are confronted with the following three interrelated problems of the deleveraging process: the problems of insufficient capital, of falling and uncertain asset valuations, and of dysfunctional funding markets. The report estimates that some \$675 billion of additional capital is needed by banks globally in order to keep credit extension positive while also strengthening capital ratios. First, since raising new capital is difficult, authorities should inject capital into viable institutions, and at the same time facilitate the orderly resolution of nonviable banks. Secondly, the public sector is also called for using its balance sheets to absorb assets “to prevent ‘fire-sale’ liquidations that threaten to reduce bank capital” – which effectively means that the state should buy toxic papers to bail out threatened banks. And thirdly, the public authorities should give out guarantees for debt liabilities of banks for a temporary period of time and temporarily expand the normal limits of deposit insurances.

Reviewing these proposals four months later it is still not clear, whether these stabilizing measures will be successful in the end. There is a quantitative and a qualitative problem here. First, the IMF greatly underestimated the extent of the banking crisis: after having spent hundreds of billions of dollars already, the write-downs of banks did not stop and global banking losses are projected at dozens of trillion USD.³⁸ And secondly, merely bailing out banks by buying toxic assets without changing the business models of these banks not only redistributes immense amounts of cash from taxpayers to shareholders of financial assets, but also does not solve the financial crisis. Banks that receive money from the state should be democratically controlled and their activities should be redirected from speculative activities to actually serving people and the environment.

Chapter 2 analyses in great detail the *problems of the bank funding markets*: It has become severely difficult to regain a functioning inter-bank liquidity market, since all banks are distrusting each other. The IMF argues that these systemic risks will not be resolved “until broader policy measures, including those aimed at the underlying counterparty credit concerns, are implemented” (73). In other words, until banks have liquidated or sold off all their toxic papers and have credibly demonstrated their sound financial positions, the bank funding markets have to be facilitated by central banks.

Chapter 3 is concerned with another very specific problem of the current financial crisis: the procyclicality of so called “*fair value accounting*” (FVA), a method by which the potential values and risks of assets in the books of financial institutions are estimated. During times of boom and rising general market prices, this method caused the value in the books of banks to increase as well, leading banks to augment their leverage and thus further support the upswing. However, under conditions of general downturn, the assets in the books of banks drop, causing banks to stop their lending activities and thus aggravate the crisis. To counter the

³⁸ On global write-downs see the secret EC publication projecting 18.1 trillion toxic assets in European banks alone, <http://www.fxstreet.com/news/forex-news/article.aspx?StoryId=4ab9df5f-3d77-4e28-a552-69cf140165c0> and Nouriel Roubinis estimate <http://www.bworldonline.com/BW012609/content.php?id=024>

procyclicality of the still preferred FVA method the IMF proposes to raise capital buffers generally, to use forward-looking provisioning (e.g. building up a capital cushion of some 30–40 percent above normal levels in good times to absorb shocks) and more refined disclosures (109).

The proposal to build up capital buffers of some 30 to 40 percent makes a lot of sense – it is a very effective cushion to absorb downturns when they emerge, and other actors in the international arena will very probably consider this suggestion. But building up buffers should be complemented by measures aimed at preventing the need for shock absorbers in the first place. Furthermore, the question of crisis sensitivity of FVA should be considered more generally.³⁹

Chapter 4 finally analyses the possibility of spill-over of the financial crisis to *emerging markets*. In line with enforcing neoliberal policies on developing and emerging countries, the IMF calls for „fostering a broader and more diversified investor base“, removing impediments on the smooth price discoveries of markets, and „ensuring that stock exchanges are run well“ (xvii; 135).

Particularly regarding developing and emerging countries, which did not cause this crisis but will most likely be affected badly, it seems reasonable to promote fundamental measures such as the introduction of capital controls to prevent the contagion of financial and economic turmoil. Regulating and controlling international capital flows as well as decelerating financial flows through financial transaction taxes are not protectionist in themselves, but merely measures to regain control over the functioning of the economy and prevent major crisis with all their harmful consequences. All these measures are missing in the IMF documents.

2.4.3. IMF's proposals for reforming the financial architecture

Regarding the issue of reforming financial markets, the IMF observes that this “period of change provides an opportunity to rethink the financial architecture with fewer constraints about the need to preserve existing market practices than in the past.” (54) And, in a similar vein: “There is an opportunity and a need to move toward a macroprudential and regulatory framework that is more integrated in its approach and uniform in its standards, and that involves closer and more effective cross-border coordination and collaboration among supervisors, regulators, and central banks.” (55) While these statements sound very promising, the actual proposals for reform are not only very limited, but reveal the still powerful neoliberal orthodoxy in the IMF's economic thinking.

Regulating financial activities: One very important point urged by the IMF is that regulation should not focus merely on regulating financial institutions, but rather financial activities. So far, institutional investors such as Private Equity, Hedge Funds and other financial non-bank institutions were not regulated or properly supervised simply because they were not banks – although many of their activities are very similar to the activities of banks. This loophole in the regulatory framework should be closed, the IMF argues: “Regulation and supervision should be designed according

³⁹ FVA has even been criticised by neoliberals as one of the main sources of the crisis – especially since it accelerated the downturn by unprecedented declines in asset values and a corresponding rise in instability among financial institutions in 2008. See for example Peter J. Wallison (2009), “Fair Value Accounting - A Critique”, RGE Monitor, January 2009.

to the type of financial activities being performed by regulated institutions, and less by the type of intermediary – bank, insurance company, or investment fund.” (55)

Transparency and accounting: While transparency is mentioned over and over again in the report, the IMF merely calls for the implementation of the FSF accounting standards, and – in the long-term – for “more timeless standards for general risk disclosures that are consistent across firms and borders.” (56).

Capital requirements: Regarding the issue of capital requirements, the IMF confirms the risk-based approach of the Basle II framework with all its problematic aspects such as its self-monitoring “internal ratings-based approach” (IRB). The IMF calls for three regulatory reforms: Capital requirements should bolster a long-term perspective, they should avoid the current procyclicality, and changes to capital requirements should be phased in to avoid the destabilizing and pro-cyclical effects of suddenly raising capital requirements in a period of general downturn (55-56).

Over-the-counter transactions: And lastly, on the issue of over-the-counter (OTC) transactions that have analyzed as one of the major causes for the crisis, the IMF merely calls for the private sector, not regulators or supervisors, to develop „better clearing and settlement mechanisms for over-the-counter products“. (xiv)

Regulating financial markets in terms of financial activities would be a major improvement. Properly implementing this proposal would at once include hitherto unregulated institutions such as hedge funds into the regulatory sphere and should become a prerequisite of any financial market reform. But since the IMFs formulations are very vague and the regulation of institutional investors is not explicitly mentioned anywhere in the report, this point is prone for diverging interpretations. Similarly, the other proposals are weak. A call for general transparency and full accounting of all financial actors is missing. The proposals on capital requirements are improvements compared to the status quo but do not adequately implement the necessary general decrease of leverage in the financial sector – capital requirements should be simplified and raised, the self-regulatory aspects of Basle II should be abandoned. Finally, calling on the private sector to reform the clearing and settlement of over-the-counter products – transactions mainly aimed at avoiding existing regulation in supervised exchanges – is at least naïve. Instead, over-the-counter transactions and products should be banned, obliging all financial institutions to trade all their products on properly supervised and regulated exchanges.

2.4.4. Updating the reform proposals in 2009

At the end of January 2009 the IMF published a short update to its October 2008 Global Financial Stability Report. Although reiterating many arguments, this update gives – due to the further unfolding of the crisis – a more dramatic account of the crisis tendencies in the global capitalist economy and promotes somewhat more radical measures to counter these.⁴⁰

First of all, the IMF concedes, that the “speed and size of the impact of the adverse feedback loop between the economy and the financial system has overwhelmed

⁴⁰ Global Financial Stability Report – GFSR Market Update, January 28, 2009, <http://www.imf.org/external/pubs/ft/fmu/eng/2009/01/index.htm>

policy responses so far.” The established international institutions and governance structures did not expect the crisis, had little intellectual tools for understanding it and were unprepared to find the right political responses. Starting from a blunt analysis of the severity crisis, its strengthened impact on the real economy and the inadequacy of policy responses so far, the IMF underscores, “more aggressive actions by both policymakers and market participants are needed to ensure that the necessary deleveraging process is less disorderly.” The IMF proposes a “broad three-pronged approach” which includes “liquidity provision, capital injections, and disposal of problem assets”. In particular, the IMF recommends the following four actions to be taken:

1. *Move expeditiously toward recapitalization and measures to deal with distressed assets.* Specifically, the IMF calls on supervisors to proactively assess the viability of large banks and, if needed, banks should be “taken over by the public sector and either restructured and resold, or wound down in an orderly fashion.” This process, the IMF argues, could involve “a publicly-owned ‘bad bank’ to remove distressed assets from the balance sheets of institutions”.
2. *Immediate, short-run policies and actions taken need to be consistent with the long-run vision for the structure of a viable financial system.* This argument runs in two directions: On the one hand, the IMF does not promote democratically controlling the financial sector in the long-term and thus recommends bail outs to not contradict with this preference for a market-based non-state banking sector. On the other hand, the IMF argues, that there is no way to return to business-as-usual. Any “viable financial sector of the future will be less leveraged and therefore smaller relative to the rest of the economy.” This should be reached by gradually implementing “higher bank capital ratios”.
3. *Rules governing the process toward a more stable financial system need to be clear and consistent.* This involves, so the recommendation by the IMF, full transparency of issues surrounding public support for non-viable banks and on the identification and valuation of financial institutions’ assets.
4. *International cooperation on a common framework for financial policies should receive high priority.* The IMF argues that international coordination of bank bail-outs is necessary to prevent protectionism

Clearly, the focus is on emergency measures to stabilize the financial system through temporarily radical state actions that both take toxic assets out of the financial system and at the same time provide the necessary liquidity and capital needed to get the financial system and the economy back on a growth track. The update of the GFSR brings little new details on financial market reform. But particularly one statement should be highlighted in this context, since it sets boundaries for future financial market reforms: the IMF’s major concession that not just for the period of dealing with the crisis, but in general, a viable future financial sector will be “smaller relative to the rest of the economy”. This argument – making a deleveraged and therefore less powerful and dynamic financial sector the goal – echoes statements brought forth by progressive NGOs since years. The coming positions of the IMF in the reform debates should be assessed against this yardstick: do the rules proposed by the IMF actually ensure that the financial system stays deleveraged and smaller relative to the economy.

2.4.5. General assessment

As can already be seen from this short summary, the reform proposals of the IMF considerably overlap with those of the FSF and the G20. It should therefore be of no surprise, that IMF Managing Director Dominique Strauss-Kahn welcomed the outcome of the G-20 meeting in Washington and called the agreed action plan a “significant step by the international community toward stronger cooperation aimed at resolving the global financial crisis” and “praised the agreement on principles for reform of financial markets”.⁴¹

The focus of the IMF is clearly not on reforming the rules governing financial market. Rather, most of the IMF's work is dedicated to the immediate crisis management, including the provisioning of further liquidity and the international coordination of national governments crisis responses as well as on in-depth analysis of the unfolding crisis and its prospects. This focus not only pervades the IMF's Global Financial Stability Reports and its update but also the IMF's ongoing political work – for example a recent report of the IMF to the Group of 20 deputies' meeting almost entirely neglected specifics of financial market reforms, while in detail assessing and giving proposals on the problems of crisis management.⁴² The IMF's analysis of the crisis is focused on leverage. The causes of the crisis are interpreted to lie in unsustainable levels of leverage taken at high risks by unregulated financial institutions; the unfolding of the crisis is seen as a process of unorderly deleveraging; and the reform proposals thus aim at making this deleveraging process proceed in an orderly fashion.

Contrary to the G20's unimpaired tribute to free markets, the IMF has a somewhat more realistic view of the crisis and its consequences. Although generally still preferring private sector initiatives – revealing the IMF's unimpaired trust in self-regulating markets – in the face of economic downturn the IMF concedes, that “finding a purely private sector resolution of financial market strains had become increasingly difficult” (IMF 2008, 50). While the IMF – contrary to the G20 – has not recommended regulating or supervising the entire financial sector, the IMF's specific proposals are at least in part more radical and progressive than those of the G20, the FSF and partly even the UN Doha Declaration or the UN Commission on financial market reforms. Especially the concession of the IMF in its January 2009 GFSR update that a viable financial sector should be permanently deleveraged and smaller to the economy is a promising sign of advances in the IMF's understanding of the crisis and necessary remedies. Similarly, the IMF's recommendation to regulate the financial sector according to the financial activities (and thus not leaving unregulated non-bank institutions) and its call on raising capital requirements generally (to achieve permanently smaller leverages) should be welcomed.

There are, however, major problems in the IMF's take on financial market reform. Not only are the proposals on financial market reforms very unspecific, but the IMF's references to reforming the Basle II regime, its call for the private sector to reform OTC markets and the vague proposals to increase transparency in the financial sector are insufficient even to merely stabilize the financial sector. Similar to the statements by the G20 and the FSF, other important issues such as reforming the

⁴¹ IMF Managing Director Dominique Strauss-Kahn Calls G-20 Action Plan Significant Step toward Stronger International Cooperation, Press Release No. 08/286, November 15, 2008, <http://www.imf.org/external/np/sec/pr/2008/pr08286.htm>.

⁴² IMF (2009), Group of Twenty. Meeting of the Deputies January 31–February 1, 2009, London, U.K. Note by the Staff of the International Monetary Fund, <http://www.imf.org/external/np/g20/pdf/020509.pdf>

financial sector's adverse impacts on distribution and the environment are entirely neglected. Although the IMF specifically focuses on the financial crisis' repercussions for developing and emerging markets, the reform proposals fail to adequately address the challenge of effectively minimizing the global spread of the crisis. For example, a small tax on foreign exchange dealings would successfully limit the destabilizing effects of currency speculation on vulnerable economies. And other crucial measures such as capital controls, the international coordination and stabilization of exchange rates, a ban of speculation in commodity exchanges and food or the closing of tax havens would all benefit poor countries. These proposals, however, are not even discussed by the IMF.

2.5. United Nations

A strengthened role for the United Nations in crisis response and financial market reform is collectively called for by all progressive civil society organizations. The financial crisis, although caused by policies and institutions in the core of the global economic system, soon developed into a global crisis that extends to all countries and far beyond the financial sector. Due to this global character of the crisis – the effects of which will surely be dramatic for developing countries – the only adequate forum for discussing a new financial architecture in a democratic way are the United Nations. But what is the UN's take on financial market reform?

2.5.1. Democratizing the reform process

First of all it should be noted that UN-institutions, primarily UNCTAD, have been generating by far the more adequate and fundamental analysis on the developments, impacts and instability of global financial markets than the Bretton Woods Institutions.⁴³ In the context of the current reform process the UN has been trying to defend and strengthen its own position in the global governance structure. In October 2008 the UN President of the General Assembly called in a high-level interactive panel on the "Global Financial Crisis", chaired by Nobel Prize Laureate Joseph Stiglitz and composed of leading economic specialists from developed and developing countries, whose mandate is to reflect on the causes of the crisis, assess its impacts on all countries and suggest adequate responses to avoid its recurrence and restore global economic stability. In his opening statement, the General Assembly's President Miguel d'Escoto Brockmann (a former Nicaraguan Sandinista foreign minister) put the main thrust of these UN efforts succinctly: *"Solutions must involve all countries in a democratic process. (...) It is time to stop viewing the global economy as the private dominion of some exclusive clubs. The G-8, G-15, G-20 are no longer sufficient in their scope to solve these problems. I believe that long-term solutions must include the G-192. Only full participation within a truly representative framework will restore the confidence of citizens in our governments and financial institutions."*⁴⁴

But the UN was not to have a key role in financial market reforms – in November the G20 discussed the issue and the absence of all rich countries' heads of state and the leaders of IMF and World Bank at the UN Financing for Development Conference in December 2008 in Doha clearly testified to the G20s interest in bypassing and thus making irrelevant the UN's efforts. The Doha conference accordingly focused mostly on issues not directly related to financial market reforms – the related proposals in the final document, the Doha Declaration, do not differ much from statements by the IMF or the G20.⁴⁵ In this context the most notable aspects of the Doha Declaration is its call on UN Member States to hold a *United Nations Conference on the World*

⁴³ For current UNCTAD analysis on the crisis see for example UNCTAD (2009), *World Economic Situation and Prospects 2009* (esp. 1-33). See also UNCTAD Policy Briefs, No.1, *Coping with financial market crisis*, 26/10/07.

⁴⁴ Cf. the document under <http://www.un.org/ga/president/63/statements/gfcopening301008.shtml>

⁴⁵ Doha Declaration on Financing for Development: outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, December 9, 2008, <http://daccess-ods.un.org/TMP/8306452.html>.

Financial and Economic Crisis and its Impact on Development to discuss the impacts of the global financial crisis on development.⁴⁶ After long negotiations on the modalities, in April 2009 governments finally agreed to hold the conference at the highest level (heads of state or heads of governments level), to hold four thematic roundtables, which also involve other stakeholders and civil society groups and to agree on a final outcome document.⁴⁷

2.5.2. The UN's Stiglitz Commission on Financial Market Reform

Parallel to the G20s reform efforts there is also an UN-process under way. This UN Conference, which will take place in June 2009, is being prepared by the so called "Stiglitz Commission", which is drafting a report that is supposed to serve as the basis document for this high-level meeting. The UN commission, chaired by former World Bank chief economist Stiglitz, has four working groups – on regulation, multilateral issues, macro-economic issues and reforming the global financial architecture.⁴⁸

Recommendations for immediate action in January 2009

It met at the beginning of January and issued its first recommendations for immediate action, which deal specifically with the effects of the crisis on developing countries and respective reforms.⁴⁹ The commission strongly calls for a *"global solution" to the crisis – the impacts of which will be especially harmful for developing countries – a response by "the entire international community, the G-192."* It sets out to give 11 recommendations that focus and address – so the document – *"the adverse impact of the global recession on developing countries and the poor throughout the world."*

Increasing aid – for a global stimulus programme: The commission's recommendations focus primarily on countering the liquidity squeeze. It calls on industrialized countries to take *"strong and effective actions to stimulate their economies"* while at the same time giving additional assistance to developing countries. Highlighting, that the financial crisis is escalating global imbalances and that the rescue packages adopted by rich countries cannot be matched by poor countries – making the doctrine of the *"level playing field"* now entirely an illusion – the commission calls for increasing aid by 20 percent to enable *"developing countries (...) to undertake comparable policies, to stimulate their economies, to provide social protection, and to ensure a flow of liquidity to their firms, including maintenance of trade credits."* Additional funds, the report argues, should be provided *"without the usual conditionalities"* – which, so the analysis of the UN commission, by enforcing pro-cyclicality, unsustainable macro-economic policies and deregulatory measures, contributed to the crisis. To finance these additional funds, the commission recommends issuing Special Drawing Rights (SDRs).

⁴⁶ UN 2008, 21. The President of the General Assembly has since released a first draft of a resolution which includes the proposed organization of the conference and proposes holding the conference from 26-29 May 2009. See http://www.un-ngls.org/site/IMG/pdf/pga_letter-ffd28109.pdf

⁴⁷ Cf. the UN General Assembly (GA) resolution A/63/L.66.

⁴⁸ Cf. the website of the commission http://www.un.org/ga/president/63/commission/financial_commission.shtml

⁴⁹ <http://www.un.org/ga/president/63/commission/firstmeeting.pdf>

Democratizing global governance: On the issue of global governance structures the UN commission recommends in the long-run to make developing countries “adequately represented in the multilateral institutions”. In the short run, it calls for the “creation of a new credit facility, perhaps within the IMF, the World Bank, or regional or sub-regional development banks”, which should be governed by more democratic governance structures.

Regulatory reform: The commission noted the deficiencies in the actions taken so far by developed countries and the need to learn lessons from those countries in the developed and developing world that have avoided instability. This is clear signal, although packaged in moderate language, that the UN commission criticizes the extreme deregulatory and liberalizing financial market policies industrialized countries have relied on for decades. Since the crisis has proven beyond any doubt, that developing countries have become intensely interconnected with the global financial system, the commission recommends without specifying these political reforms in developing countries that help them “insulate themselves from regulatory and macro-economic failures in systemically significant countries.” The aim should be that developing countries have expanded scope for establishing policies and institutions appropriate for their conditions.”

Recommendations to the General Assembly in March 2009

In mid-March the Commission of Experts released a series of recommendations, which were discussed at the General Assembly from 25 to 27 March and which will provide at least some of the informal basis for negotiating an outcome document at the June Conference. The 79 paragraphs of the final recommendations are organized in three sections, first generally addressing the approach taken by the Commission in responding to the crisis, secondly immediate short-term reform initiatives, and thirdly more fundamental long-term reform proposals.

Starting from the assumption, that the financial crisis originated in the developed countries, but will have disproportionate adverse effects on poor countries, the experts state, “*the international trade and financial system needs to be profoundly reformed*” and call for a “*truly inclusive response*”. Without this inclusive approach, which requires “*the participation of (...) more than the G-7 or G-8 or G-20, but the representatives of the entire planet, from the G-192*”, global economic stability cannot be restored, so the argument. In general, the Commission highlights the mutual interdependency between developing and developed countries and argues from a perspective that takes as its explicit goal the “*better functioning of the world economic system for the global good*”. The Commission puts regulatory deficits, market failure, flawed economic neoliberal doctrines and – most importantly – structural imbalances in the global economic and financial system at the centre of its causal analysis. From this, a variety of general reform principles are drawn:

the need to act quickly and comprehensively;

the need for developing countries to have policy space to protect their economies “*from regulatory and macro-economic failures in systemically significant countries*” (i.e. particularly the U.S.), and to pursue counter-cyclical policies;

the danger of protectionism in general but financial protectionism in particular (including large financial bail-outs and subsidies in the rich countries geared at their national financial institutions, which divert much needed resources from developing

countries); and the need for restored „balance between the role of the market and the role of the state“.

Short term and systemic reform proposals

The Stiglitz Commission lays out ten proposals for immediate reform. These deal with ways to increase global liquidity and ensure that some of the newly created funds will go to developing countries; propose necessary changes in global policies that increase developing countries policy spaces and the financial market deregulation that caused the crisis; demand all countries to refrain from protectionism and industrialized countries to open their markets to exports from LDCs; propose immediate financial market reforms such as drastically increasing transparency, forbidding off-balance sheets and closing tax havens; and demand international cooperation and particularly the creation of an international panel on financial and economic market reform under the umbrella of the United Nations and similar to the IPCC.

While these immediate reform proposals are full of good ideas but generally not all that new, the ten proposals in the Stiglitz Commissions' *agenda for systemic reforms* is more interesting. Some of the most important aspects will be discussed below:

A global reserve system: Particularly important is the proposal to create a „new Global Reserve System“. Although the details remain unclear and will need to be elaborated more concretely in the future, the Commissions idea to use „greatly expanded SDR, with regular or cyclically adjusted emissions calibrated to the size of reserve accumulations“ would be a major step towards a more stable global economic system.⁵⁰

Reforming global governance: The proposed changes in the global governance structure include demands to drastically increase the representational deficits in IMF, WTO and FSF and the proposal to create a democratic alternative to the G20: This *Global Economic Coordination Council*, an international body at the level of the UN Security Council that is represents – based on the constituency model – all major continents and major economies and coordinates the global efforts to reform the economic and financial system.

Financial market reforms: Starting from the causal analysis „that there are large gaps and deficiencies in the regulatory structures in place in many systemically significant countries“, the Commission proposes a variety of specific financial market reforms that aim at „deep and pervasive reforms [and not] merely cosmetic changes in regulations.“

Financial Product Safety: The regulation of financial products according to what they are and not what they are called and the creation of a „*Financial Products Safety Commission*.“

Comprehensive Application of Financial Regulation: The Commission proposes tighter regulation of incentives and demands that private investment funds, equity funds and hedge funds be registered in their countries of operation and „provide appropriate regulation to regulatory authorities“ (which is not specified).

⁵⁰ The Commission also proposes that this mechanism „mitigate the difficulties caused by asymmetric adjustment between surplus and deficit countries.“

OTC derivatives: On OTC derivatives the Commission is somewhat unclear, demands „regulated exchanges“ but only „where appropriate“, urges that „derivative instruments are held on balance sheets, valued at independently audited real transaction prices, with appropriate capital provisioning, and clarity of purpose“ and that OTC trade in derivatives should be „discouraged“.

Global regulation: Although still presented only as an unspecific and first idea, the Commissions call to create two global regulatory institutions to regulate multinational financial institutions – a Global Financial Regulatory Authority and a Global Competition Authority – is an interesting but very ambitious proposal to deal with the contradictions and difficulties of national regulation in the face of global financial institutions.

Regulatory capture: The Commission complains that even in cases where regulation was in place these were not effectively implemented and thus demands reforms „*that make the possibility of regulatory capture less likely*“ – i.e. weaken the power of financial lobbyists.

Innovative Finance for Development: Another very interesting point is the Commissions' call to implement innovative mechanisms of financing development which should include not only „*regular emissions of a new global reserves*“ such as the IMF's Special Drawing Rights (taken up at the G20 London summit), and „*revenues generated from the auction of global natural resources*“ but also international taxes – the document specifically mentions carbon taxes and financial services taxes.

2.5.3. General assessment

The UNs efforts at reforming financial markets and particularly the work of the high-level commission on financial market reforms are an addition to the other reform initiatives. It is not clear yet, what influence the UN will have in this processes, but excluding the UN and thus all non-G20 members would be a major failure and a setback for all those hoping for financial markets reforms that actually make finance work for people and the planet. Much more so than the reform proposals discussed by the other intergovernmental institutions, the recommendations by the UN Commission touch at the systemic aspects of the crisis. Particularly the proposals to reform the global reserve system, to create global regulatory authorities and to introduce innovative finance mechanisms such as financial services taxes should be further developed and will hopefully impact the UN reform initiative.

That said, the UN commissions work needs to be assessed critically as well. Although the document highlights a variety of important aspects that are structurally neglected by the more exclusive Bretton Woods Institutions and informal clubs, the UN commission's analysis and recommendations are limited in several of ways:

While Stiglitz had privately endorsed the use of capital controls to protect developing countries from global financial turmoil, the commission did not support such measures. Instead, it recommends further trade liberalization in the context of the controversial Doha conferences and attempts to rehabilitate a somewhat reformed market ideology.

Similarly, the commission neglected the issue of democratically controlling nationalized banks and using them for productive and essential public finance needs. More general, a discussion of effective measures to redistribute wealth *within* societies as one important way to prevent the accumulation of future bubbles is missing.

And the reform proposals regarding the regulation of OTC derivatives, private equity funds and hedge funds are very lax and the Commission does not adequately take into account the systemically destabilizing effects of these financial institutions.

What is most important about these UN reform efforts, however, is the specific focus and attention given to the impacts on and the involvement of developing countries in the process. As highlighted in the preliminary recommendations: *“Any global solution—short term measures to stabilize the current situation and long term measures to make another recurrence less likely—must pay due attention to impacts on these countries.”* Due to this perspective, the UN commission has pointed out several important issues which are disregarded by other official institutions: the problem of global inequality and mismatch in terms of resources to counter the crisis; the avoidance of adverse impacts from rich countries’ emergency measures; the importance of not cutting back but rather increasing financial flows to developing countries and for fighting climate change; the significance of increasing developing countries’ policy spaces in face of the spread of the crisis; and the urgency to implement drastic financial market reforms in systemically important industrialized countries.

3. Private Financial Industry

The IIF's cure all: Code of Conducts and Self-regulation

Since the private financial sector will possibly be heavily affected by reforms in the global financial architecture, they have also been trying to influence the debate. Especially the Institute of International Finance (IIF), which is essentially the main political lobby organisation of the large, multinational commercial banks, has been vocal in putting its constituency's interests and proposals on the agenda. The IIFs Board of Directors, chaired by the CEO of the Deutsche Bank Joseph Ackermann who famously promised 25 percent returns, had established a Committee on Market Best Practices, aimed at coordinating and activating the banking industry's efforts to develop practical ways to address market weaknesses, rebuild confidence and influence public reform debates. In July 2008 this committee released its final report – a document that testifies to the uninhibited neoliberal doctrine of the banking community and which can be seen as the response of the banks to the regulatory efforts of the G7 Finance Ministers and the FSF.⁵¹ In summary, this report suggests a code of conduct for the major financial institution as a cure-all for the crisis. The motivation is twofold: firstly, these self-regulatory efforts should signal to the regulators that the financial industry does not need new regulation. And secondly, a code of conduct is intended to signal to the markets that certain risks and problems are being addressed. Both targets seem questionable: So far at least, markets have not responded sufficiently to these signals and trust in the financial sector has not been restored by mere non-binding code of conducts. And hopefully, regulators will not rely on voluntary standards – on standards similar to those that have been in place before the crisis, such as the IOSCO Code of Conduct (2004) for Credit Rating Agencies or the Hedge Fund Code of Conducts (2007).

Lobbying the G20 summit in Washington

Four months later, after the bankruptcy of the investment bank Lehman Brothers had severely fuelled the crisis and many financial institutions had been bailed out by states, the IIF was still singing the same gospel of free and unfettered markets. Right before the G20 summit, the IIF had organized its Economic Advisory Committee meeting in Washington D.C., at which it lobbied for its market-liberal and business friendly approaches before world economic leaders and managers of IMF and World Bank.⁵² The opinion of the private financial sector on financial market reforms is explicitly formulated in a letter sent by the IIF to President George Bush before the G20 summit in November 2008.⁵³ After having commended Bush and his colleagues for the bailing out the financial sector, the IIF states bluntly, that in terms of architectural reform the “overriding objective ought to be to preserve, reinforce and

⁵¹ The “Final Report of the Committee on Market Best Practices: Principles of Conduct and Best Practice Recommendations – Financial Services Industry Response to the Market Turmoil of 2007-2008”, published in July 2008, set out Proposed Principles of Conduct, Best Practice Recommendations, and Considerations for the Official Sector in the areas of risk management, compensation, liquidity risk, valuation, securitization and transparency and disclosure issues.

⁵² The Institute held its fall EAC meeting in Washington, DC, on November 13 and 14, 2008. Graeme Wheeler, Managing Director of Operations at the World Bank and Reza Moghadam, Director of Strategy, Policy and Review Department at the IMF attended the meeting and gave presentations. See <http://www.iif.com/about/article+189.php>.

⁵³ The letter, written on November 7, 2008, is signed by Joseph Ackermann (Deutsche Bank), Charles Dallara (IIF), William Rhodes (Citicorp), Francisco González (BBVA) and Roberto Setúbal (Banco Itau S. A.), cf. <http://www.iif.com/download.php?id=0DkLOqGnjTw=>

strengthen the open, market-based framework for trade, investment and capital flows that has contributed so much to the world's prosperity in the past 60 years." Without batting an eye, the IIF argues, we should believe in the benefits of free markets and not let ourselves be distracted by reality. *"The weaknesses in the system demonstrated powerfully in recent months should not deflect us from the realization that the benefits of an international system based on open market principles and close multilateral cooperation have been crucial to both the continued revitalization of the developed world and to the lifting of hundreds of millions out of poverty in recent decades."* The IIF thus proposes six principles that should guide the G20's reform initiatives – six principles reflecting general attitudes towards financial market reforms in the private sector.

The IIF insists, in agreement with the recommendations set out in its report, on private sector initiatives to "strengthen business practices and restore sound and responsible banking", initiatives that are considered necessary, but should be taken in self-regulatory framework (strengthen risk management, align compensation with long-term shareholder interests).

While the state is pleaded to bail out banks, since these "extraordinary measures were necessary to avoid systemic failure", the IIF calls for restoring the financial system "to a private sector footing, to operate on a competitive market basis, as soon as circumstances allow." In plain language, the private financial community asks the state to bail out all the accumulated toxic assets and bankrupt institutions, but as soon as the system functions smoothly, states should retreat from the banking sector following "well-defined exit strategies".

Similar to international organizations, NGOs or governments, the IIF demands the globalization of regulation: "Recognizing the new realities of globalization, regulatory reform should be guided by the principles of greater coordination, consistency and efficiency." In particular, the IIF proposes to set up a global governance structure called "Global Financial Regulatory Coordinating Council". This Council should represent the G20 countries and should be organized under the umbrella of the FSF, and encompass the Basel Committee, IOSCO, IAIS (International Association of Insurance Supervisors) and leading central banks.

Interestingly, the IIF also calls for changes in the global governance bodies and the democratization of its institutional frameworks. Recognizing "the substantial shifts in the global balance of economic power", emerging markets should "no longer be underrepresented in key global financial policy-making fora." Accordingly, the IIF calls for an expansion of the G7 and recommends the "greater use of the G20 on key issues of global economic policy." Also regarding international organizations such as the IMF and the World Bank, the IIF argues it is "imperative (...) to ensure meaningful voice and proportional representation of member countries."

The IIF clearly favours a strengthening of a reformed IMF in governing the global financial architecture – it calls for redefining the IMF's mission and states, "all multilateral institutions require reform and reinvigoration." The IMF should take on responsibility for financial stability, coordination of economic policies in systemically important countries (one could think of trade imbalances between China and the U.S.), and increase its resources and lending facilities.

Lastly, the IIF argues that "new forms of dialogue and cooperation are essential between the public and private sectors if the reinforced global financial system is to work."

General assessment

These statements well summarize the private industries views on financial market reform.⁵⁴ The private sector puts forth a totally inadequate analysis of the causes of the crisis and its recommendations are trapped in neoliberal frameworks of thought and first of all reveal the profit interests of its authors. They still promote self-regulation for most of the problems – even though the last decade has proven beyond any doubt, that self-regulation does not work and leads to crisis. In terms of immediate crisis management the private sector demands socialization of all losses and, once stability is restored, business as usual and thus privatization of profits. The global regulatory governance structure proposed by the IIF to oversee and coordinate the national efforts at regulating financial markets is in itself a good, although unrealistic, idea. But the problems are in the proposed details: instead of it being a democratically controlled and transparent institution, it is exclusive to the G20 countries and composed of undemocratic or only marginally democratically controlled institutions. A global regulatory institution that is not legitimized by democratic decision-making processes and excludes most countries is not only prone to be influenced by financial lobbyists, but does not give society the control it needs to make finance work for the people and the planet. Interestingly, on the question of democratic representation at international organizations, the IIF is more progressive than some of the international organizations themselves: the democratization of international organizations as well as increasing the power of the G20 are seen by private global financial actors as necessary because of „the increased role emerging markets have to play in the maintenance of open global economic systems.“ And lastly, the institutionalization of dialogues between the public and private sectors should be observed with suspicion: In plain language, the IIF tries to recommend the institutionalization of high-level lobbying activities, which could be used by the private sector to influence major regulatory bodies such as the IMF's International Monetary and Financial Committee (IMFC).

⁵⁴ For other business-friendly reports on financial market reform see Brunnenmeier et al. (2009), *The Fundamental Principles of Financial Regulation*, Geneva Reports on the World Economy 11, <http://www.voxeu.org/index.php?q=node/2796> (especially interesting, for example, the reform proposals on hedge funds, p. 24). See also the Larosiere report, <http://www.londonsummit.gov.uk/en/summit-aims/timeline-events/larosiere-report>

4. Civil Society

Similar to the official international organizations' surprise at the speed and depth of the crisis, most civil society actors were unprepared in their analysis and reform proposals as the financial crisis swept the globe and increasingly affected the real economy. Contrary to vibrant, long-lasting and diverse debates among social movements, nongovernmental organizations (NGOs) and unions on topics such as climate change, human rights or free trade, the debate on reforming the international financial architecture was comparatively undeveloped before the crisis and involved few actors. Before the dramatic collapse of Lehman Brothers had made it blatantly evident to everybody that the crisis will not fade away and will affect all other aspects of the global economy, the only comprehensive civil society statement on the crisis was a declaration published in early September 2008 by a network of Attac groups from different European countries. After the collapse of Lehman Brothers had deepened the crisis, however, a broad process of discussion within civil society circles took off, accelerated by the G20s Washington summit in November 2008. Since then, the financial crisis increasingly pervades all other discourses and contexts of discussion – the financial crisis is addressed cumulatively in documents, reform agendas and calls for action on pretty much every topic around which social movements and unions organize and work.

Since the specific reform proposals by some of the most important civil society actors have been analyzed elsewhere⁵⁵ and will be an essential part of the following chapter, the different statements will only be shortly mentioned here:

The next important document that appeared, after Attac published its reform agenda in September, is the Beijing declaration, which came out of the Asia-Europe People's Forum in October 2008. Other civil society groups like Friends of the Earth Europe (FoEE), the New Economics Foundation (NEF) and the NGO-network BankTrack have released their proposals shortly before the G20 meeting in Washington in the first half of November. Additionally, a statement by an association of global unions will be discussed, and a short call to action on financial market reforms by social movements gathered at the WSF in Brazil at the beginning of February 2009.

These civil society groups can be broadly classified according to their general focus:

Financial markets: Some of the organizations and networks have for long worked on financial markets, especially Attac, which was founded around demands for a Tobin tax but has since taken up many more issues, and BankTrack, which has particular expertise on commercial banks.

Environment: The rules governing financial markets have so far almost entirely ignored environmental issues. Although it is clear, that financial markets powerfully affect the environment and that the neoliberal regime of liberalized financial markets has had disastrous consequences for the well-being of the planet, this issue has been neglected in environmental debates. Only recently, environmental NGOs have begun to address the interconnections between financial markets and the environment. Two statements by FoEE and NEF are discussed in this report.

⁵⁵ Cf. United Nations Non-Governmental Liaison Service (UN-NGLS) (2009), *Civil Society Consultation on the Work of the President of the UN General Assembly's Commission of Experts on Reforms of the International Monetary and Financial System*, New York/Geneva: UN; Matthias Schmelzer (2009), *Closing the Casino? A synopsis of intergovernmental, private sector and civil society proposals to reform the international financial system*, Berlin: Weed, chapter 3.

Unions: The financial crisis has initiated a whole range of work on financial markets by unions – this paper focuses on one of the best reports, a Declaration by a network of global unions.⁵⁶

Civil society networks and the South: Other statements come from broad networks of civil society actors. Accordingly, the Beijing Declaration and the document of the WSF groups have the least specific focus and involve the broadest range of signatories. They are also the only statements analyzed in this paper with significant involvement of groups from the South.⁵⁷

⁵⁶ See also the London Declaration by the European Trade Union Confederation (ETUC) under <http://www.etuc.org/a/5367>. TUAC has collected other trade union reports on the financial crisis at http://www.tuac.org/en/public/e-docs/00/00/03/CF/document_doc.phtml.

⁵⁷ Another important actor from the South, the Third World Network (TWN), has published a variety of papers dealing with special issues of financial market reform, but no comprehensive report. See especially http://www.twinside.org.sg/crisis_10.htm and http://www.twinside.org.sg/fnd_f.international.htm

5. Synopsis

This chapter gives a systematic overview of specific financial markets reforms proposed by all the different reports analyzed in this paper. Along the lines set out in the analytic grid in table 1, this synopsis comprehensively analyzes, what the different institutions have said on different reform measures, instruments, and institutions. Implicitly, it also analyzes, if these documents have said anything on the specific issue: If an international organization or civil society group is not mentioned in a particular section, this is because it did not discuss this particular topic. This synopsis is necessarily very cursory and brief – the specific proposals and arguments have, however, been discussed in more detail in the respective chapters.

5.1. *Regulating Banks and other Financial Institutions*

5.1.1. Reserve Requirements

It is generally agreed, that reserve requirements should be strengthened. The main problems discussed are lack of or too little capital requirements, bank's self-regulatory risk assessments of the Basle II regime and the pro-cyclicality of existing capital requirement legislations. The main cleavages lie in scale – raising capital requirements for which products, how much and by what mechanisms.

G20 as well as FSF call for raising capital requirements only for certain products – according to the G20 Washington Declaration for structured credit and securitization activities, according to FSF for structured credit and off-balance sheet vehicles. The G20 London summit only vaguely demanded, „*regulation must prevent excessive leverage*“, and called for the implementation of capital buffers, which should be included in the Basle II capital adequacy regime by the Basle Committee on Banking Supervision.

The IMF demands generally raising capital requirements to implement a durable deleveraging and calls for forward looking capital buffers – a mechanism to counter the procyclicality of the Basle II capital requirements regime.

NGOs, if they comment on capital requirements, agree with the IMF that they should generally be raised (Beijing, NEF, Unions and WSF don't address this issue). Attac calls for upgrading and creating a Basle III, BankTrack and FoEE call for the inclusion of environmental and social issues into the risk assessment process in the Basle Capital Accord's capital ratios, and the global unions demand proper counter-cyclical asset requirements. In general, the most decisive effects of changing the rules for capital requirements would certainly be to broaden the scope of the capital requirements regime to all financial institutions, including hedge funds and other HLIs – a proposal shared by most civil society groups (although sometimes only implicitly).

5.1.2. Transparency

Probably the greatest consensus on the causes of and possible remedies for the crisis is the lack and respectively the strengthening of transparency. Transparency is so widely shared as a demand not only because it does not conflict with neoliberal orthodoxy – according to which lack of transparency causes malfunctioning of

markets –, but also because it is extremely unspecific and related reforms are hard to nail down. Important questions are, however, the following:

Transparency for what products and markets? While the G20 calls for increasing transparency only for complex financial instruments, risks and all losses, most NGOs call for full transparency (Beijing, BankTrack, and FoEE). In particular, FoEE and NEF propose full transparency of banks' risk assessment processes, decision-making procedures, clients, and transactions and FoEE furthermore proposes to require the disclosure of a fund's ethical investment policies, proxy voting policies and practices, and even portfolio holdings.

Transparency proposed and implemented by whom? While IMF and FSF call for the implementation of the improved FSF disclosure guidelines, G20 and the IIF call on the private sector to put forth proposals for increasing transparency. NGOs have not addressed this point, but the contexts make it unambiguous, that democratically controlled regulators should set guidelines for transparency rules (FoEE).

Transparency towards whom? This question is in statements by official organizations mostly left open, although the contexts reveal that transparency should mainly be increased for other market participants rather than for supervisors, let alone the general public. In stark contrast, the Beijing Declaration demands opening of the books to the public, to be facilitated by citizens and worker organisations.

5.1.3. Regulation and supervision

Regulation and supervision are at the heart of most reform proposals and their specifics are very important. The most crucial cleavages are:

What should be regulated and supervised? While only recently it was generally regarded as self-evident, that financial markets work perfectly without regulation, the crisis has drastically changed this situation – even the G20 Washington summit had to admit that all financial markets, products and institutions need to be regulated (or supervised) in order to prevent financial chaos and pledged to do so. This pledge – going beyond the statements by IMF, FSF and even the UN Doha Declaration – is, however, not going to be fulfilled. Already the G20 London summit restricted its scope by promising to extend regulation and oversight only “*systemically important financial institutions, instruments and markets.*” While FSF and the UN Doha Declaration only called vaguely for “strengthening” regulation and supervision, the European G20 propose regulating or supervising the entire financial sector, explicitly including hedge funds. All NGOs have called for regulating and supervising the entire financial industry. This apparent near consensus, however, covers crucial disagreements in the details.

Regulate according to which aim? While official organizations leave this point entirely open (implying that the only purpose of regulation is stability and the prevention of future crisis), many NGOs propose to include social and ecological criteria into regulation. Attac proposes to use regulation to direct all financial means and services to sustainable activities and poverty eradication; the Beijing Declaration proposes to apply social (including conditions of labour) and environmental criteria to all lending;

and BankTrack and FoEE recommend requiring banks to seek a social licence, include sustainability-oriented standards in banking supervision.⁵⁸

Regulate by which mechanism? Besides those points discussed throughout this essay (which also official organizations have discussed, see below), some NGOs propose further specific mechanisms: Attac proposes that all new financial products need to be tested by supervisors; BankTrack and FoEE propose Green Know Your Customer Guidelines that prohibit lending to corporations that do not comply with social and environmental law; and FoEE recommends that stock exchanges and securities regulators should require corporate compliance with environmental and social standards as a condition of listing on public exchanges.

Who should regulate and supervise? Again left open by official organizations (implying that established national regulatory and supervisory institutions bear this responsibility), some NGOs have proposed more fundamental changes: Attac recommends that the European Parliament becomes the prime regulator in the European Union and that EU regulation should set the criteria for financial activities within the EU; and the Beijing Declaration and WSF call for the introduction of parliamentary and citizens' oversight of the existing banking system (leaving open, how this is to be done concretely). Very interesting is also the UN Commission's proposal to create new global regulatory authorities.

5.1.4. Competition and Cartels

The financial industry is heavily concentrated and few financial institutions, banks and institutional investors control most of the financial sector. This has increased the instability of the financial system, both because large institutions can significantly influence the movements of prices and thus are able to manipulate and disturb market mechanisms and, more importantly, because some financial institutions are systemically important: if systemically important large banks or funds go bankrupt, they threaten to destroy entire sectors of the financial industry (as vividly demonstrated after the collapse of Lehman Brothers).

While official organizations – besides the UN Commission – entirely neglect changing this situation in which the destiny of individual financial institutions literally threatens entire economies and thus millions of people, Attac and NEF both propose to decentralize the financial industry: Attac proposes the prohibition of financial industry conglomerates which are too big to fail, or too interconnected to fail, and too complex to manage all potential risks; and NEF calls for demerging those banks that are too big to fail. Furthermore, Attac recommends a mechanism to achieve this decentralization: the bigger the financial conglomerate, the lesser speculative products it can sell or trade in.

5.1.5. Investment Banking

Not addressed specifically by official organizations, Attac, NEF and FoEE call for separating investment banking from other financial activities like retail and merchant

⁵⁸ NEF is silent on this point, the global unions only call for ensuring active supervision.

banking.⁵⁹ Furthermore, Attac demands to drastically shrink the investment-banking sector, to fully regulate and supervise the rest and to create criteria that ensure that all investment banking promotes the sustainable development of societies.⁶⁰

5.1.6. Accounting

Regarding the issue of accounting standards, the most important questions are who is to set these standards and what information these standards require financial corporations to disclose in their accounting.

G20, FSF and the UN Doha Declaration agree on the need to improve international accounting standards. While the UN Declaration is silent on details and the FSF only vaguely calls on international accounting standard setters to enhance their standards, the G20 calls for close cooperation between the private sector and the established standard setters to ensure consistent application and enforcement of high-quality accounting standards and, in the long-term, to create a single high-quality global accounting standard.

While G20, FSF and IMF agree on tasking the established private sector bodies IASB and FASB with setting the standards (the governance of which the G20 vaguely promises to enhance in the long run), the UN Doha Declaration recommends addressing the representation of developing countries in these institutions.

Unfortunately, the governance question regarding accounting standards is not even addressed by most NGOs or unions. Only Attac has called for accountant rule setting “to become again a(n inter)governmental matter”. Furthermore, NEF criticizes the private accountancy firms involvement in the crisis and proposes to hold accountancy firms accountable and to ultimately make them not-for-profits.

On the substance of what enhancing accounting standards means, however, official organizations are silent. NEF proposes to require corporations to report on a country-by-country basis in order to prevent or eliminate transfer mispricing and FoEE recommends disclosure laws and accounting standards for securities should require reporting of material environmental, social and other corporate responsibility data.

5.1.7. Local, Public and Cooperative Banking

While entirely neglected by all official institutions, most NGOs (all but BankTrack, FoEE and WSF) promote the strengthening of existing public and not-for-profit banks and the creation of new ones, although with varying emphasis. NEF focuses most intensely on strengthening this sector, especially highlighting the need to support local, accessible banking services and economies (for details see above). Attac additionally proposes to exempt public and cooperative banks from EU competition laws; and the global unions focus particularly on cooperative and mutual banks and targeted micro-finance schemes.⁶¹

⁵⁹ FoEE calls for the restoration of the Glass-Steagall Act. This American law was passed in the context of New Deal reforms in 1933, and officially introduced the separation of bank types according to their business (commercial and investment banking) – it was repealed in the 1980s and 1990s, especially with the Gramm-Leach-Bliley Act in 1999.

⁶⁰ Similar proposals for the entire banking sector are promoted by Beijing, BankTrack and FoEE, see above.

⁶¹ Although not specifically addressing this issue, the groups gathered at the WSF 2009 demanded something related – the implementation of „a global mechanism of state and citizen control of banks and financial institutions“ by recognizing financial

5.2. Non-bank financial institutions

5.2.1. Hedge funds and other highly leveraged institutions (HLI)

Hedge funds and other institutional investors have been fiercely critiqued as one of the main drivers of the destabilizing processes leading to the financial crisis, since their speculative and highly leveraged activities considerably contributed to the price peaks and the instability of the entire financial system. However, in the official statements on the crisis, hedge funds are only mentioned in passing. The policy responses regarding hedge funds can be ranked on a scale between the two extremes of leaving HLIs unregulated to simply prohibiting hedge funds.

While absent in the FSFs statement and only discussed in the IMF's causal analysis, not in its policy reform proposals, the G20 Washington Declaration proposed to harmonize private sector best practices for hedge funds. Going somewhat further, the European G20 preparatory meeting called for regulating (or supervising) the entire financial sector, explicitly including hedge funds. Somewhat less demanding the G20 London summit states that only *systemically important* institutions should be regulated and subject to oversight, but explicitly promised that *"this will include, for the first time, systemically important hedge funds"*.

BankTrack, FoEE and the global unions demand that hedge funds be regulated, BankTrack and FoEE furthermore call for the introduction of significant new transparency, reporting, and financial requirements for hedge funds. Only Attac and the WSF groups have called for prohibiting hedge funds, since, so the argument, there is "no benefit for the economy stemming from these operations" (Attac). Furthermore, Attac proposes that all funds must publish their investment strategies and management fees and that the all profits of funds must be taxed more than labour income.

5.2.2. Private Equity Funds

Even more so than hedge funds, private equity funds – in Germany famously labelled „locusts“ by the social democrat's chair Franz Müntefering – are not discussed in official institutions' statements. The NGO response is similar to the one towards hedge funds: BankTrack, FoEE and the global unions call for strict regulation, while Attac demands that this *„untransparent business model has to be stopped“* since it serves *„as a conveyor belt of shareholder capitalism to real economy“*.

5.3. Business Models

5.3.1. Short Selling

Short selling is a practice by which the investor, often hedge funds, sells a financial instrument that he does not own at the time of the sale. The aim is to profit from an expected decline in the price of a financial instrument, which the seller intends to purchase at a later point in time, when the financial instrument has a lower price. Since the effects of short selling are highly destabilizing and have often accelerated

intermediation „as a public service that is guaranteed to all citizens in the world and should be taken out of free trade agreements.“

the price fall of certain assets, they were banned in many countries following the collapse of the US investment bank Lehman Brothers in the autumn of 2008. These bans, however, have since been lifted in most countries.

Restricting short selling is not discussed as a policy option by the official institutions (although the IMF seems somewhat sceptical in this regard⁶²), as well as by most NGOs and the global unions. Only Attac and the Beijing Declaration discuss this issue and demand entirely banning short selling.

5.3.2. Securities

Since securitized credit in the US-subprime market had triggered the current financial crisis and securitization is thus at the centre of international discourses about the crisis, it should be of no surprise that pertinent reform proposals are extremely controversial.

While the IIF demands, that „securitization has been and should remain a highly useful capital management tool“ which is generally „beneficial“ for the financial sector⁶³, even official international organizations like the G20 and the FSF call for improving the regulation and accounting of securities and demand that capital requirements for highly risky securities be raised.

Unfortunately, many civil society groups have not discussed this extremely important topic in their reform agendas – those that have done so, however, propose strictly regulating securitization activities (global unions) or demanding their disclosure of material environmental, social and other corporate responsibility data (FoEE). Attac proposes to restrict securitization to institutions under the strict control of governments and to entirely prohibit risky securities such as CDOs.

5.3.3. Off-balance Sheet Vehicles

One way of circumventing existing regulation are off-balance sheet vehicles (OBS). This form of financing allows firms to keep large capital expenditures off of a company's balance sheet through various classification methods (thus for example decreasing the leverage ratios and circumventing Basle II capital requirement restrictions). Off-balance sheet vehicles often involve futures, forwards, other derivatives or joint ventures as well as holding these assets in so called Special Purpose Vehicles (SPVs) or Special Purpose Entities (SPEs). They have been deeply involved in the financial crisis and are therefore at the centre of many critical analyses.

The IMF does not discuss off-balance sheet vehicles. The UN Commission demands to end off-balance transactions regarding derivatives. The proposals by G20 and FSF on dealing with off-balance sheet vehicles reveal their understanding of the destabilizing effects of not enforcing reporting and thus not being able to supervise all financial activities, while at the same time trying to not ban the practise of off-balance sheet transactions. G20 and FSF call on private accounting standard setters to

⁶² In discussing the U.S. temporary restrictions on short selling after the collapse of Lehman Brothers, the IMF GFSR states, these were „positive, comprehensive, and necessary“ measures. The IMF, however, does not discuss, if short selling should be restricted more generally.

⁶³ IIF 2008, 64.

address weaknesses in accounting and disclosure standards for off-balance sheet vehicles and propose that these be included in the financial statements of banks and financial institutions. The FSF furthermore proposes to strengthen capital treatment for off-balance sheet transfers.

While all NGO statements imply, that all financial activities should be regulated and supervised, only Attac and the global unions explicitly demand the prohibition of all off-balance sheet transactions. NEF supports a ban of OBS for 'exotic' financial instruments; BankTrack and FoEE propose prohibiting SPVs and Structured Investment Vehicles (SIVs).

5.3.4. Over-the-Counter (OTC)

Another way to circumvent supervision is to trade not on regulated stock exchanges or future exchanges, but directly between two parties, „over-the-counter“. Often, extremely risky financial products, especially derivatives, have been traded OTC.

The reform proposals of the official international institutions concerning this obscure business model are only slightly critical and first of all try to preserve the status quo. IMF and FSF merely recommend that authorities encourage market participants in the private sector to develop better clearing and settlement mechanisms for over-the-counter products. The Stiglitz Commission vaguely calls for discouraging OTC derivatives. And the G20, which vaguely calls for expanding OTC derivatives market transparency and for speeding efforts to reduce the systemic risks of OTC derivatives transactions, at the same time pledges to ensure that the infrastructure for OTC derivatives can support growing (!) volumes.

In the civil society spectrum, only Attac and the WSF groups demand a ban on OTCs, while BankTrack and FoEE call for derivatives to be only traded in regulated exchanges.

5.3.5. Commodity Trading

Speculation on food prices has played a decisive role in the price bubble in food commodity prices in 2007/2008, which, so the United Nations, has pushed some 120 million additional people into poverty.⁶⁴ This problem, however, is not addressed in most of the official organizations' statements. The UN Doha Declaration only vaguely recommends acknowledging the „special challenges emerging from volatility in international commodity markets, particularly the volatility of food and energy prices“. ⁶⁵ In contrast, all civil society groups including the global unions have called for banning or drastically curbing speculation in food commodities (NEF being the only exception). Some have expanded this call to radically limit speculation to all energy-related commodities (BankTrack, FoEE, global unions, WSF).

⁶⁴ See Peter Wahl, „Food Speculation – The Main Factor of the Price Bubble in 2008“, Weed Briefing Paper, December 2008, www.weed-online.org.

⁶⁵ UN 2008, 22. The UNs commission only demanded „addressing the challenges posed by the food and financial crises.“ (UN 2009, 1).

5.3.6. Derivatives

Derivatives are financial instruments, whose values are derived from the value of the underlying, which can be assets like equities, residential mortgages, real estate, loans and bonds or indexes like interest rates or exchange rates or pretty much anything else. The main types are forwards, futures, options, and swaps. Although they can theoretically be used to mitigate risks, their use has been heavily speculative and no account of the causes and unfolding of the financial crisis can deal without putting derivatives – and particularly those derivatives traded OTC – centre stage.

Nevertheless, official financial institutions have not put forth proposals to effectively regulate or even supervise these speculative financial instruments. As has been discussed in the section on OTCs, G20, FSF and IMF merely propose lukewarm reforms and the G20 even pledges to ensure that the infrastructure for OTC derivatives can support growing volumes.

In contrast, all civil society organizations demand far reaching reforms of derivatives trade, ranging from regulating derivatives (global unions) to prohibiting trade in derivatives altogether (Beijing). In between, BankTrack and FoEE demand prohibiting what they understand of as „unlegitimate derivatives“ and Attac calls for a ban on purely speculative derivatives and on stock options. Furthermore, according to BankTrack, FoEE and Attac, the remaining derivatives should be standardized, authorized and only traded in regulated exchanges. Similarly, NEF demands bringing onto the balance sheet, rigorously checking and officially licensing all ‘exotic’ financial instruments.

5.3.7. Leverage

In addition to all these specific business models characteristic of neoliberal finance capitalism, the most basic and wide-ranging way of increasing profits in the financial industry has been to increase the so called leverage of a financial institution, instrument or product. This means, borrowing money to supplement existing funds (often ten to fifty times the amount of the original funds) for investment with the aim of potentially magnifying and enhancing the profits, but – in the case of a negative outcome – also magnifying the loss. This has been done exponentially before in recent years and due to the highly complex and obscure nature of this leveraging processes it is still not clear, how much further financial institutions will have to deleverage, i.e. reduce borrowings.

While being a part in the causal analysis of the G20s Washington Declaration, excessive leverage is not addressed directly in the G20s reform proposals. This has changed in the six months leading to the London Summit, whose final Communiqué stresses that „*regulation must prevent excessive leverage*“, however not giving any details on how this could be achieved. The FSF promotes the strengthening of supervisors’ existing guidance on the management of exposures to leveraged counterparties. Contrary to this vague statement, the IMF’s outlook on the financial crisis focuses excessively on leverage – the crisis is described as disorderly deleveraging and the reform proposals are supposed to lead to an orderly unwinding of leverage. Most interestingly, in its 2009 update to the GFSR, the IMF has argued more generally, that a viable financial system of the future will need to be less leveraged.

Not explicitly mentioned by other civil society, only Attac and BankTrack call for limiting the leverage in the financial system. Attac proposes to put a ceiling on assets under control of financial institutions and BankTrack demands the introduction of stricter leverage ratio requirements for banks and non-bank financial institutions.

5.4. Regulatory Institutions

5.4.1. Credit Rating Agencies

Credit Rating Agencies (CRAs) were one of those institutions heavily criticized for their involvement in the crisis. While not discussed by IMF, UN and most of the civil society groups, the related reform proposals considerably diverge from each other. Both G20 summits and the FSF recommend the implementation of strengthened IOSCO standards for CRAs (G20, FSF and UN Doha), registering the most important CRAs (G20), clearly differentiating ratings for complex structured products from other ratings and addressing investors' over-reliance on CRAs (FSF).

In contrast, some NGOs have been promoting more fundamental changes of the rating process: Attac proposes publicly controlling all rating agencies; obliging CRAs to be financed through a fund to which all the users of the ratings and the issuers of financial products contribute; and making CRAs rate social and environmental risks. Going even further, the global unions have called for establishing public rating agencies, while at the same time addressing the oligopolistic structure of the credit rating agency industry – similar to Attac, they also proposed non-financial sustainability ratings.

5.4.2. Central Banks

It is not clear, if official institutions demand a changing role, mandate or structure for central banks. The G20 has only called on supervisors and central banks to develop internationally consistent approaches for “liquidity supervision of, and central bank liquidity operations for, cross-border banks.” Somewhat more to the point, the IMF has detailed a variety of areas, in which central bank work should be enhanced, particularly oversight of banks liquidity management, safeguarding the liquidity and functioning of threatened financial sectors, increased cooperation and communication between central banks, and – so the IMF stresses – the additional costs central banks face due to their liquidity operations in the crisis should be paid for by governments, in order to “reinforce its independence”.⁶⁶ Similarly, the FSF has called on central banks to enhance their operational frameworks and demands that authorities strengthen their cooperation for dealing with stress. Somewhat more critical, the UN Commission has highlighted the need for Central Banks to use their policies to support social aims and employment and not merely focus on narrow economic aspects.

In contrast to these statements, which mainly reinforce the role central banks have been playing so far only adapted to crisis circumstances, civil society groups have demanded both democratic control over central banks and a change in the operations of central banks. Attac specifically demands installing democratic control

⁶⁶ IMF 2008a, 98f.

over the European Central Bank (ECB) via national parliaments and the European Parliament and both the Beijing Declaration and the global unions demand that central banks become publicly accountable institutions. On the work of central banks, Attac proposes that their monetary policy should focus on employment and just distribution, the Beijing Declaration demands overhauling central banks in line with democratically determined social, environmental and expansionary objectives, and the global unions finally propose expanding central banks' mandate to include deterring and detecting speculative financial bubbles. Furthermore, BankTrack recommends that sustainability-oriented standards be incorporated into the extension of central bank-provided credit and insurance.

5.4.3. International Regulatory Institutions

The crisis has clearly demonstrated the need for international regulation and thus for international regulatory institutions. This is, however, probably the area in the reform debates, on which official institutions as well as civil society groups have done least work – related proposals are rare and difficult to assess. National regulatory and supervisory institutions evidently still have to take the bulk of responsibility for regulating and supervising the increasingly international financial system. Besides limited regional advances in the European Union, international regulatory institutions are widely regarded as entirely unrealistic for the near future.⁶⁷ But the crisis has initiated a variety of efforts to increase international regulatory and supervisory cooperation.

G20, IMF, FSF and UN call for enhancing and strengthening international regulatory cooperation. The G20 and the FSF furthermore have promoted setting up international colleges of supervisors for the largest financial institutions to compensate for the lack of a global supervisor. Most far-reaching is the UN Commissions ambitious proposal to set up global regulatory authorities.

Interestingly, although all civil society groups call for a global and democratic control of the financial system, tasking the UN with leading the reform process, most of them are silent on the question of setting up a global regulator or supervisor. Only Attac proposes that the UN be tasked with strictly regulating and re-orienting the financial system towards poverty reduction and specifically emphasises strengthening the regulatory powers of the European Union.

5.5. *Regulatory Instruments*

2.5.1. Financial Transaction Tax

The introduction of financial transaction taxes both as a tax on every stock, swap, derivative, or other trade on exchanges or – more importantly – as a small tax on all foreign exchange dealings, would be a simple tool to decelerate international capital flows and thereby effectively discourage speculation. No official international institution has endorsed FTTs. Only the Stiglitz Commission has recommended using innovative mechanisms to finance development, including financial services taxes.

⁶⁷ For a detailed study on financial market regulation in the EU see Miriam Vander Stichele (2008), Financial Regulation in the European Union (December 2008), http://www.eurodad.org/uploadedFiles/Whats_New/Reports/EUMapping_Financial_Regulation_FINAL.pdf

In contrast, all civil society groups including the global unions collectively demand the introduction of financial transaction taxes. Attac – a network established around the call for the introduction of the so called Tobin tax on currency transactions –, the Beijing Declaration, NEF, FoEE, the global unions and the WSF groups collectively recommend a tax on foreign exchange trade. Some civil society actors also call for taxes on dealings at national stock exchanges (Attac, FoEE, only implicitly NEF and Beijing).⁶⁸ Civil society groups only diverge on the question what to do with the proceeds of FTTs. While left open by some groups (Attac, Beijing), others propose using the proceeds to finance the bailout, to address critical social and environmental needs (FoEE), to support financial institutions that bear social objectives, such as pension funds (global unions) or to finance global public goods (WSF).

5.5.2. Capital Controls

Somewhat more radical measures than merely slowing down the speed of international financial capital flows by a small Tobin-style tax are direct controls on capital movements. This measure, particularly important for small economies to protect themselves from financial turmoil (as has been demonstrated by the Asian Crisis 1997) is not promoted by international organizations and only demanded by few civil society groups. NEF calls for improving checks and balances by introducing capital control, Attac demands placing limits on unrestricted free trade and free capital mobility worldwide, and the WSF groups (which include Attac and BankTrack) demand the establishment of international permanent and binding mechanisms of control over capital flows.

5.5.3. Offshore Financial Centres (OFCs)

The most prominent demand on financial market reforms in the civil society spectrum is the call to close all offshore financial centres and tax havens. On the other hand, official international organizations have been conspicuously silent on OFCs (IMF, FSF, and UN). The G20 Washington Declaration only promised lukewarm reforms that deflect from the main issue. In contrast, the European G20 preparation meeting in February 2009 has promised to promote at the G20 summit in London definitive actions against tax havens, including sanctions. The outcome of the London summit was the publication of OECD lists of countries not adhering to the international standards established by the OECD – standards, which are very lax and neglect legal forms of tax evasion.

All civil society groups analyzed in this paper call on states to take effective measures to end the practice of circumventing regulation and tax obligations by funnelling money through OFCs. While some simply call for closing tax havens (Beijing, global unions), others propose specific measures such as prohibiting banks' transactions with entities based in OFCs (Attac, BankTrack, FoEE), closing tax havens through international information exchanges (Attac) or deducting at source all income paid to financial institutions in tax havens (NEF).

⁶⁸ Only FoEE propose specific numbers: introduce a Tobin-style tax (for example, 0.25 percent tax on stock trading, and 0.02 percent tax on options, futures, swaps, and currency trading).

5.5.4. Counter-cyclical

One of the issues that increasingly pervade mainstream analyses of the causes of and remedies for the financial crisis is the problem of the pro-cyclical of some of the rules and practices governing financial markets. Most comprehensively, the G20 Washington summit recommended that global governance institutions propose mechanism to mitigate „pro-cyclical, including the review of how valuation and leverage, bank capital, executive compensation, and provisioning practices may exacerbate cyclical trends.“ This has been taken up at the London summit, where the G20 leaders promoted setting up capital buffers to counter the cyclical effects of capital adequacy ratios. IMF as well as FSF have specifically focused on the Basle II capital requirements regime and its pro-cyclical. Furthermore, the IMF has proposed building up a capital cushion of some 30 to 40 percent above normal levels in good times to absorb shocks. The UN Commission particularly focused on the need to implement counter-cyclical policies in developing countries as well, demanding IFI's to enable the needed policy space and the necessary financial resources to implement these.

This rather technical issue is entirely neglected by all NGOs and civil society networks – only the global unions have promoted ensuring proper counter-cyclical asset requirements. Even though several regulatory proposals put forth by civil society groups will effectively decrease the pro-cyclical of the financial system – probably more so than the recommendations by IMF, FSF and G20 –, NGOs should nevertheless focus on the problem of including counter-cyclical into regulatory reforms.

2.5.5. Financial Lobbyists

Another regulatory measure, which is structurally disregarded by official institutions besides the UN but nonetheless important and possibly highly influential, is restraining the power of financial lobbyists. Making the rules of global finance and overseeing the financial system are both highly complex processes prone to be influenced by financial lobbyists. Therefore, BankTrack and FoEE call for decreasing the political power of financial institutions and Attac demands restricting and making accountable all lobbyists and consultants of the financial industry and other large corporations.

5.5.6. Compensation and Liability of Management

What have been stirring up the strongest discontent with the financial industry in the general public were extravagantly large salaries and bonuses for the managers of large banks and funds. Particularly, the short-term orientation of bonuses and its pro-cyclical effects have been criticized for setting incentives for managers to still take higher short-term risks and increase leverage to boost quarterly reports. Reform proposals on this topic are therefore not missing in most statements on financial market reforms. The main question is, if regulations governing compensation should be set by public regulators or if the issue is to be left to the private industry itself.

In accord with the private industry's demands, IMF and FSF have been promoting a self-regulatory approach, which recommends the private sector to align its compensation schemes with a risk-adjusted and long-term orientation. Similarly, the G20 Washington summit demands taking “voluntary or regulatory action”, leaving

open the question of who should set the standards. While the European G20 preparatory meeting agreed on tasking the FSF with establishing standards for sustainable and long-term oriented compensation, the G20 London summit endorsed the then published *FSF Principles for Sound Compensation Practices*, a document full of lukewarm recommendations to be implemented mainly by the private sector.

Almost all civil society groups call for drastically limiting management compensation (except for Beijing and WSF), either by introducing a ceiling (Attac, NEF), by introducing a maximum pay differential (NEF), or by changing the role of compensation and bonus systems so as to reward long-term financial success and the implementation of environmental and social policies and programs (BankTrack, FoEE) or general welfare (Attac). The global unions simply call for curbing short-termism in compensation regimes. Additionally, FoEE have raised the issue of managers' liability and call for holding executives fully accountable, persecuting them to extend of the laws and increasing fines and penalties in the financial sector.

5.6. Governance

Most likely the crucial question in these debates is the question of governance: Who should govern the reform process itself, and who should govern a future financial system. These are also the questions where official organizations and civil society groups disagree most clearly with each other. On the one hand, G20, IMF and FSF propose a reform process and a future financial system lead by the established Bretton Woods Institutions complemented by the G20 and implemented by the established institutions of financial governance. In contrast, the United Nations together with a variety of civil society groups demand that the reform process be led by the United Nations (Attac, Beijing, and FoEE). In terms of the future financial system, the discussion is still more complex.

5.6.1. International Monetary Fund

Due to the intense criticism levelled against the IMF's failures to adequately deal with the financial crisis in emerging and developing countries in the 1990s and early 2000s, the IMF has a strong interest in becoming a central part of a future financial architecture and thus re-establish its tarnished identity and global power.

Democratizing the IFIs: It seems to be consensual that international financial institutions have to be democratized to some degree, particularly the IMF and the FSF (but also the World Bank). The statements on financial market reforms only diverge on the question of the degree of this process – while the G20 only demands the strengthening of the power of emerging countries within the IMF, the UN commission calls for making developing countries “adequately represented in the multilateral institutions” and the global unions demand generally democratizing IFIs.

The role of the IMF in a future financial architecture is strengthened by the G20, the FSF, the IIF and the global unions: The G20 has been demanding that the IMF be tasked with the surveillance of the interconnections between the financial sector and the real economy, with preventing future crisis and, most importantly, the G20 London summit strengthened the power and especially the resources of the IMF by providing additional funds and by issuing \$250 billion in Special Drawing Rights (SDR). The FSF has called for intensifying the cooperation between FSF and IMF,

“with each complementing the other’s role.” And the G20 has reproduced this in its Washington Declaration, stating “the IMF, with its focus on surveillance, and the expanded FSF, with its focus on standard setting, should strengthen their collaboration”. Also the global unions propose to further strengthen the role of the IMF in immediate crisis response – the funds of the IMF should be increased for countries facing immediate crises that are beyond their means to resolve. Importantly, however, the unions demand that this support be given without austerity conditionalities. In contrast, other civil society groups promote radically curbing the power of the Bretton Woods Institutions (Attac, FoEE) or even propose to phase out the World Bank, IMF and WTO (Beijing).

5.6.2. G20

The role of the G20 in a future global financial architecture is still open – even who actually is part of the G20 is still being negotiated. World Bank Chief Robert Zoellick for example has argued for amending the G20 group with developing countries.⁶⁹ And while developing countries were absent at the Washington summit, Gordon Brown has invited the New Partnership for Africa's Development (NEPAD), the Association of South East Asian Nations and the African Union Commission to send delegates to the G20 London summit, thereby increasing the G20s global representation considerably.

Particularly the success of the London summit – at least the publicly perceived success – is very likely to further increase the power of the G20 in crisis and financial market management and, simultaneously, to contribute to the decline in legitimacy and relevance of traditional informal fora like the G7/8. Other international governance bodies like the IMF, the World Bank, the FSF, IOSCO or the BIS are under increasing pressure to either extend their membership at least to the G20 countries or to reform their internal decision making procedures to give more weight to G20 countries.

In civil society the G20 is criticized for circumventing other more democratic institutions like the UN. However, many civil society organisations consider the G20 as a step in the right direction, while calling for enhancing the UN's role in the reform process.

5.6.3. United Nations

The United Nations is the only international institution, which has at least the potential to serve as a democratic global governance body – and accordingly, both the UN itself as some civil society groups like Attac, the Beijing Declaration, FoEE and the WSF groups call for a UN-led process. But the UN is not even mentioned in statements and reports by the G20, the IMF and the FSF.⁷⁰

⁶⁹ “Last month I called for a reform of the G7 and for a modernized multilateralism to better reflect the realities of the 21st century. It is a positive step forward that leaders of developed economies are now meeting together with leaders from the rising economic powers. But the poorest developing countries must not be left out in the cold. We will not solve this crisis, or put in place sustainable long-term solutions by accepting a two-tier world.” Statement by World Bank Group President Robert B. Zoellick on the Summit of G20 Leaders, <http://go.worldbank.org/8Z543X2A80>. See the Statement by Justin Lin, Senior Vice President and Chief Economist of the World Bank on the Doha conference: <http://go.worldbank.org/C9QJ4QFGM0>

⁷⁰ The only reference in the G20 Washington Declaration is to „reaffirm the development principles agreed at the 2002 United Nations Conference on Financing for Development in Monterrey, Mexico, which emphasized country ownership and mobilizing

The only statement, which has in some detail envisioned a role for the UN in global finance, is that by Attac. Attac demands that an appropriate institutional setting under the auspices of the UN be set up to strictly regulate and re-orient the financial system towards equity and sustainability. This institution should not only prevent financial crisis. Rather, so the Attac declaration, it should also prevent the build up of huge trade surpluses and current account surpluses and corresponding deficits and debts through international interventions and should serve as the global decision-making forum for financial liberalization.

5.6.4. FSF and others

Even more so than the IMF, the membership and power of developing and emerging countries in the FSF needs to be strengthened. At the G20 summit in Washington it was agreed that the membership of the FSF will be expanded to include emerging economies and March 2009 the FSF membership was extended to all G20 countries, Spain and the European Commission. The FSF – which was renamed Financial Stability Board (FSB) – is likely to play an increasing role in the future financial governance structure and particularly in the ongoing reform process. The FSFs specific focus will be on establishing and setting standards for the global financial system and, as the London summit declared, to „*collaborate with the IMF to provide early warning of macroeconomic and financial risks and the actions needed to address them.*“ Unfortunately, all civil society reports do not discuss the role of this newly emerging global governance body.

Beyond these institutions, there are some other proposals that will only be mentioned in passing. The IIF proposes a “*Global Financial Regulatory Coordinating Council*”, organized under the umbrella of the expanded FSF, and encompassing the Basel Committee, IOSCO, IAIS and leading central banks. While this would probably be one of the least democratically accountable governing bodies, at the other extreme, the Beijing Declaration proposes establishing a “*people’s inquiry into the mechanisms necessary for a just international monetary system*”. In general, all civil society groups promote increasing the democratic control and accountability of the financial system. For example, the global unions demand that working people have a seat at the table in the meetings and institution which will decide on the future financial architecture, BankTrack promotes democratic participation in designing a new global financial order, and FoEE recommend that all people have full and meaningful participation in national and international economic decision-making.

5.7. Short-term Crisis Management

5.7.1. Bailing out Financial Institutions

Bailing out financial institutions has become one of the most controversial aspects of the financial crisis. The G20 have promised to take „whatever further actions are necessary to stabilize the financial system“ – these measures, almost all of which demand strong state involvement in the financial sector, should, however, only be temporary, should have minimal distortions, and should be unwound in a timely, well-

all sources of financing for development.“ The UN is not mentioned in the IMF’s GFSR or in the FSFs report or the IIFs letter to Bush and the IIFs 2008 report on financial market reform.

sequenced and coordinated manner. While not focusing on this issue, IMF and FSF have also advocated the course taken so far by most economies – using tax payers' money to bail out the financial industry without making this a long-term state involvement in the financial sector.

In contrast, most civil society groups have promoted a different kind of bail-out: Attac, the Beijing Declaration and FoEE have strongly demanded full-scale socializations or nationalization of those banks, whose shareholders are unable to repay debts and interests (instead of simply nationalizing losses). Those banks which have been nationalized or have received state funding should also change their business practices. BankTrack demands that bailed-out banks play a crucial part in transforming the economy to a socially and environmentally sustainable path (as part of the Green New Deal), and FoEE highlight their responsibility to foster an environmentally sound future. On the question of who should pay for the bailouts, Attac has proposed the introduction of a crisis fund, which is financed through a special tax on financial incomes over 50.000 Euro and a 1 percent extra tax on all corporate profits in the financial sector. Somewhat differently, the Beijing Declaration demands a levy on nationalised bank profits with which to establish citizen investment funds to support poor communities.

5.7.2. Economic Recovery Programmes

Implementing economic recovery programmes – classical Keynesian demand side policies to stimulate the global economy threatened by a deep recession – is another controversial and highly complex issue. The official institutions take on recovery programmes generally favours calling for internationally coordinated stimulus programmes at a scale probably not sufficiently large to halt the recession. Even the \$5 trillion of already disbursed or promised funds of all G20 countries or the additional \$1.1 trillion negotiated in London (most of which is only added up out of already promised payments), are not enough.

Interestingly, several civil society groups have been promoting innovative ways to counter the downward spiral of economic developments – measures that would at the same time attempt to solve another problem: climate change. Civil society groups have called for launching a “Green New Deal” – a global spending and investment programme, aimed at stimulating the crisis-affected economies threatened with recession while at the same time directing financial resources and the economy towards achieving social justice and sustainable, low carbon production and consumption systems (BankTrack, NEF, global unions). This call is also increasingly taken up by official institutions and governments, first of all the new Obama administration – negotiations on a Green New Deal are likely to have a major effect on the future of the economic crisis. A Green New Deal should however be critically assessed further, in particular if taken up by governments and international organizations, for its real ecological and social impacts.

While a few civil society groups have not discussed economic recovery programmes (FoEE), others have done so indirectly. Global redistribution systems, although not framed in terms of economic recovery programmes, might achieve huge stimulus effects by strengthening the demand of poor people. For example, the WSF groups have demanded a new international system of wealth sharing by implementing a „progressive tax system at the national level and by creating global taxes (on

financial transactions, polluting activities and high income) to finance global public goods“ (similar statements in the Attac and Beijing declarations).

5.8. Epilogue

Reform proposals on the financial architecture have historically always become prominent in times of crisis. The last time these debates erupted after the Asian crisis 1997 when the Financial Stability Forum was established and a variety of reforms were initiated and implemented. These reform discussions were, however, never on a fundamental and elementary level. Neither was financial liberalization questioned, nor the extreme reduction of political space for manoeuvre through the disciplinary power of financial markets. Rather, these reform agendas aimed only at stability, the prevention of future crisis and at shaping this financial pressure to become more constant and effective.⁷¹ Although stability is of course important, these reform debates constricted the discussions to expert questions like the dispute on the Basle II accord and to informal exclusive committees. Today, after the financial crisis hit the centres of the global economic systems and is increasingly reaching more dramatic levels of severity, the debates emerged anew – this time, however, touching on more fundamental issues.

The documents analyzed in this paper highlight that the realization, that the rules and practices governing financial markets cannot stay the same as they were is spreading rapidly. This does not, however, generate a homogenous and non-conflictive discursive field. Rather, different actors with differing interests are proposing increasingly diverging reform agendas.

First of all, underlying the diverging positions, are different analysis of the *causes and character of the crisis*:

Financial and banking crisis: Official organizations, in particular, have analyzed the crisis as a crisis of the banking and financial sector with spill overs to the real economy, resulting from excessive risks, intransparent financial markets, regulatory gaps and an unordered unwinding process.

Crisis of financial capitalism: Some civil society groups have interpreted the financial turmoil as a crisis of financial capitalism, a specific regime of capitalist regulation, which governed the global economy since the 1970s.

Crisis of capitalism: More fundamentally, other civil society networks see it as a crisis of capitalism itself. Each interpretation demands its respective remedies, which thus partly accounts for the diverging aims and reform agendas.

Secondly, there is the question of the *objectives* of such reforms.

Stability: Official international organizations primarily aim at restoring stability in financial markets and at preventing future crisis. While also being emphasized by the private financial industry, their prime objective is clearly the restoration of the liberalized and deregulated financial markets that made high profits possible. Civil society groups, at last, will also aim at stability in financial markets, since stability is a global public good that potentially benefits all. It is, however, not enough. Even though, merely establishing financial stability would demand far-reaching reforms –

⁷¹ See for example Jörg Huffschild (2004), *Die Politische Ökonomie der Finanzmärkte*, VSA-Verlag.

the ones proposed by G20, IMF, FSF and UN will scarcely suffice. It also demands intermediary goals, one of which is the concession by the IMF that a viable future financial system has to be less leveraged and smaller in relation to the real economy.

Democratic control: Another important question is who should control and participate in (a) reforming the financial system and (b) regulating and supervising its functioning. While G20, FSF, IMF and the private industry have endorsed an exclusive global governance structure (although enhanced to include some emerging markets), most civil society groups have demanded more democratic processes, most of them favouring the United Nations. More fundamentally, civil society actors have argued for putting the entire financial sector under the control of democratic institutions and for making finance serve society rather than the other way round.

Ecological sustainability: The question of the ecological sustainability of a future financial system is crucially important in the face of the precarious situation of the planet. This question has been entirely neglected by official organizations and the private industry (given some unconcrete passing mentions), but is discussed in varying degrees by civil society groups, especially those with a particular focus on environmental advocacy. This has to be further explored and it should rank high on all future reform agendas.

Redistribution and poverty reduction: Since the increased bottom-up redistribution of incomes in the last decades both nationally and globally was one of the important underlying conditions for the crisis, and since insufficient demand is currently threatening the further deepening of the economic crisis, distributive questions are crucial. Official organizations have not even included distributive issues in their analysis or reform agendas – only in passing they mention that fighting global poverty and reaching the MDGs are still to be pursued. Only the UN gives more room to proposing remedies for north-south inequalities. Also in the civil society spectrum, distributive questions are only partially adequately discussed – particularly environmental groups have not endorsed measures directly aiming at redistributing wealth globally and within societies.

And thirdly, there is the question of the *means to reach the goals*. The discussions in this paper and particularly the systematic analysis in the synopsis have laid out the different positions put forth in some of the most important statements on financial market reforms.

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