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The Political Geography of World Financial Reform: Who Wants What and Why?

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Since the devastating East Asian financial crisis of 1997–1999, we have seen many headlines and the formation of numerous blue ribbon and multinational commissions asserting the need to "reform" the world's "financial architecture," the latter phrase having replaced the more mundane "monetary and exchange rate arrangements." The purpose of this article is to demystify some of the major reform proposals and to understand which countries and interests back them. I suggest that the reforms proposed by a loose coalition of "financial stabilizers" make the most sense on economic efficiency grounds, but that the bargaining structure of the issue arena is such that the reforms most likely to be implemented are those of the "transparency advocates."

The current debate results from a series of high-profile financial crises in the 1990s. In 1992–1993, troubles in Western Europe's exchange rate mechanism (ERM) cost the German government at least $1 billion and the Swedish government as much as $26 billion and brought fame and wealth to financier George Soros, who correctly bet against the British pound sterling. In 1994–1995 the Mexican peso crisis and subsequent "tequila effect" devastated emerging markets throughout Latin America and other countries as far flung as Canada and the Philippines. And in 1997–1999, the East Asian financial crisis brought down Indonesia's Suharto after thirty years in power and rocked the economies of several of the much-admired Asian tigers. Less noticed outside financial circles was the eleventh-hour weekend rescue of Long Term Capital Management, a little known U.S. hedge fund, in fall 1998, just after the Russian financial crisis and just prior to the Brazilian one. The rescue relied on "voluntary contributions" of funds from major private U.S. banks but was urgently coordinated by Gerald Corrigan, president of the New York Federal Reserve Bank. These events spawned a flurry of commissions and studies.

What Is Financial Architecture?

Not unexpectedly, the definition of the beast is elastic. To multinational bankers and institutional investors, reform of the financial architecture means consensual global implementation of best-practice standards of accounting and reporting of national and corporate financial information in developing countries. To many members of the U.S. Congress, it means that the International Monetary Fund (IMF) and World Bank should slim down and stop wasting taxpayers' money. To Japan and many Western European governments, it means that the U.S. government should cease acting like a one-man band in responding to global financial crises. To finance ministers in very poor countries, as well as to many middle-class activists in the advanced industrial democracies, global financial reform means debt forgiveness for the set of highly indebted poor countries (HIPCs). And to incumbent policymakers in the so-called emerging market countries (EMCs) that have received the bulk of the expanded private capital flows of the 1990s and early twenty-first century, reform of the world's financial architecture usually implies creation of a global lender of last resort (LLR)—a lender with deeper pockets than the present IMF, able to assist fundamentally sound economies threatened with external financial contagion. These are very different conceptions of the basic issue arena.

For purposes of this essay, the global financial architecture is an "international regime," designating a set of "principles, norms, rules, and procedures" in an international issue arena.[1] The international financial architecture consists of a loose set of multilateral agreements and understandings, both written and implicit, among a core group of powerful capitalist states, about the rules and norms that govern, and/or should govern, cross-border money and credit transactions of all kinds. The international financial regime includes but is not limited to norms and institutions governing exchange rate practices, regulation of all private cross-border financial flows, and management of the international financial institutions (IFIs), including the World Bank, IMF, and the regional development banks.

Over the past century and a half, the world has had four major financial architectures.[2] The classical gold standard (approximately 1870 to World War I) was based, at least in principle, on national monies convertible at a fixed rate into gold, unregulated private capital movements, and national macroeconomic management committed to maintaining the external value of the currency. This was done even at the expense of provoking domestic recession (or inflation). Interwar attempts to reestablish the gold standard aspired to these same rules, though in practice countries experimented with floating exchange rates, capital controls, and national macroeconomic policymaking to suit domestic needs. The Bretton Woods financial and monetary regime (1944 through the early 1970s) resulted from an explicit acknowledgment of the primacy of domestic macroeconomic management over exchange rate targeting in the major Western capitalist democracies. Its major pillars included fixed (though "adjustable") exchange rates, use of the gold-backed U.S. dollar as the major reserve currency, and a commitment in principle to free currency convertibility for trade (but not capital account) transactions, combined with extended leniency toward noncompliant countries in practice.[3] In addition, the Bretton Woods regime created two new multilateral institutions: the IMF to help manage national liquidity and currency crises, and the World Bank to promote long-term capital and investment transfers for reconstruction and development.

In 1971, the United States unilaterally repudiated the fixed exchange rate regime as well as the dollar's link with gold; subsequent multilateral repair efforts were unsuccessful. The post–Bretton Woods regime (mid-1970s to the present) has been distinguished by floating exchange rates for the major powers and progressively fewer controls on international private capital movements. This was accompanied by limited moves toward multilateral reregulation, such as the 1987 Basel agreement on bank capital adequacy ratios and the OECD decision in 2000 to impose new penalties on countries it branded as tax havens.[4] Like the Bretton Woods regime, its successor has had partially institutionalized system management, with regular consultations among the major economic powers through the Group of Seven major industrial countries (G-7) and expert implementation by the IMF. It is the post–Bretton Woods monetary regime that is the subject of debate today.

Reforming the Global Financial Architecture: Where You Stand Depends on Where You Sit

We might divide those who wish to reform the international financial architecture into four broad groups: laissez-faire liberalizers, transparency advocates, financial stabilizers, and antiglobalizers. They are arrayed on a rough right-to-left political continuum, although, interestingly, the laissez-faire liberalizers share several specific policy preferences with the antiglobalizers. Table 1 summarizes my judgments.

The *laissez-faire liberalizers* are primarily conservative intellectuals, especially but not exclusively based in the United States, and members of the private multinational financial community. Prominent theorists of

Table 1 Views on Global Financial Reform

View	Who?	Identification of Problem(s)	Preferred Solution(s)
Laissez-faire liberalizers	Conservative, especially U.S., intellectuals; private financial community	Government interference in markets; moral hazard	Rapid, full global financial liberalization; many would abolish IMF, World Bank
Transparency advocates	OECD establishment (except Japan, Canada?)	Crony capitalism, opaque government accounts, inadequate bank regulation, etc., in EMCs; reluctant admission that system may tend to crisis	Increase transparency; permit EMCs longer phase into full financial liberalization
Financial stabilizers	Dissident OECD intellectuals; EMC governments and intellectuals	Existing global financial system is inherently prone to crisis	Enhanced system-level initiatives (LLR, regional currency arrangements, world bankruptcy court, Tobin tax, etc.)
Antiglobalizers	Labor, environmentalists, and populists, mainly in OECD	Global capitalism undermines national sovereignty and democracy	Reduce international trade, investment, and financial links; many would abolish IMF, World Bank

radically free capital markets at the international level include Nobel laureate Milton Friedman; former secretary of state and secretary of the treasury George Shultz; and free market economist Allan Meltzer, head of the expert committee appointed by the Republican-dominated U.S. Congress to inquire into the Asian financial crisis.[5] The Cato Institute, a libertarian think tank and sometime advocacy group, promotes rapid and thorough financial liberalization on its website and in its publications.[6] With the capture of the White House in 2000 by Republican George W. Bush, conservative think tanks such as the Hoover Institution and the American Enterprise Institute have become even more prominent in U.S. public policy circles. Their intellectual soulmates are also influential in Germany, Chile, and elsewhere. Most international bankers and financiers are also laissez-faire liberalizers. Their views can be gauged via the publications and lobbying efforts of the Institute for International Finance (IIF), the premiere research institute and advocacy group for multinational banks and financial institutions.[7]

The economic analysis of the laissez-faire liberalizers is that free global capital markets maximize efficiency. Markets are understood as free-standing and autonomous in their workings, needing very little other than reputation and good information flows to restrain criminal or unethical behavior.[8] A central tenet of this view is that regulation, including most prudential regulation that limits possibly risky behavior in advance, does more harm than good. Many laissez-faire liberalizers are particularly hostile to the notion that well-functioning financial markets require a lender of last resort in order to protect financial institutions facing temporary liquidity problems from becoming insolvent. Bank runs, capital flight, and speculative attacks on a country's currency are an unfortunate consequence of the high levels of risk inherent in financial markets. The only way to reduce risk, maximal liberalizers would argue, is to eliminate the problem of "moral hazard." Once a lender of last resort exists, even if there is no explicit commitment but merely a perception that debtors (including banks) in trouble will be rescued, all players, both creditors and debtors, then face a deeply deleterious incentive to engage in more risky (but more profitable) behavior than they otherwise might. No player would then expect to bear the full cost if the risk goes bad. In the aggregate, the safest financial market is one *without* a safety net, because only then will reckless behavior effectively be deterred. A few deaths may be necessary to prove the point, but casualties will be fewer in the long run.

Laissez-faire liberalizers are not in complete agreement among themselves over the ideal exchange rate mechanism for the world economy. Some, like the editorial page staff of the *Wall Street Journal,* periodically yearn for a revived gold or gold exchange standard as a mechanism for imposing impersonal discipline on spendthrift politicians who otherwise might be tempted to use trade and capital controls to equilibrate their balance of payments. Other laissez-faire advocates prefer floating exchange rates, even seeing the possibility of overshooting and volatility as salutary curbs on domestic policy profligacy. All wholehearted liberalizers would abolish virtually all capital controls. In the interests of international financial stability, they would act boldly to eliminate moral hazard. Most also would close the World Bank and/or the International Monetary Fund, viewing official development assistance, coordination of country debt bailouts, and even limited and short-term balance-of-payments support to governments as illegitimate and counterproductive.[9] On this last point, however, the conservative intellectuals part company with the international bankers and fund managers. Private investors are understandably ambivalent about disestablishing the IMF, whose rescue and structural adjustment packages have enabled many of them to continue to receive payments from countries that otherwise would have been in default.

The *transparency advocates* dominate most of the study commissions and international forums that have an opportunity for actually influencing outcomes. This is partly because their recommendations involve the least change from the status quo and so are easiest to agree on. All of the consensus documents issued by members of the advanced industrial country club, the Organization for Economic Cooperation and Development (OECD), or by official study groups created by these countries—including the G-22 of 1998, the Financial Stability Forum (FSF) of early 1999, and the G-20 of a few months later—reflect these views.[10] Among the G-7, only Japan and sometimes Canada have expressed reservations about this analysis at the official level.[11] I also would include in this category, though they generally are both braver and more critical than the official consensus documents, the recommendations of most mainstream policy analysts and academics in the United States, including those produced by the study group sponsored by the Council on Foreign Relations.[12]

The essence of the transparency group's economic analysis is that it is the inadequate domestic institutions and inappropriate national policies of countries hit by currency and banking crises that have made them vulnerable to crisis. Adherents blamed the 1994–1995 Mexican peso crisis and subsequent "tequila effect" on classically poor macroeconomic fundamentals: an overvalued exchange rate, unsustainable trade and budget deficits, and the national government's unwise buildup of foreign currency–denominated debt. When East Asia suddenly was hit in 1997–1998, the updated version of the country-focused analysis shifted away from its previous emphasis on the traditional signs of a standard balance-of-payments crisis, which were notably absent in Thailand, Korea, and even Indonesia. The analysis shifted to recently discovered "structural" flaws: poorly capitalized banks with huge portfolios of questionable loans to politically well-connected businesses, opaque financial reporting of total national foreign liabilities (which thus forced private foreign capital to bolt when the truth was suddenly unveiled), and, once again, overvalued but fixed or semifixed exchange rates.[13] The problem, that is, is not contagion, an attribute of a flawed international financial system, but rather crony capitalism, whose roots and solutions lie within emerging market countries. (In fact, some transparency advocates acknowledge problems at the systemic level but take the "pragmatic" position that no serious reforms at this level can succeed. In either case, the bulk of the adjusting falls to borrowing countries.)

This group's recommendations are to improve regulation (generally by tightening international lending requirements) and transparency (by more accurate, open, and timely financial reporting by developing country governments and firms). It is sometimes suggested that advanced industrial country financial institutions (and not only hedge funds!) ought to open their books as well, though companies invariably cry foul, claiming that this is proprietary information that would undercut their competitiveness. For crisis management, the G-22 reports proposed limited IMF lending into arrears (that is, help for countries in formal default) and urged that national regulators in advanced industrial countries encourage the use of loan and bond agreements that would establish ex ante creditors' committees and majority voting rules, to be employed in the event of a threatened borrower default. However, suggestions for enforcement mechanisms for the above proposals were conspicuous by their absence. Probably the largest substantive concession that some transparency advocates have made since the Asian financial crisis is to accept the merits of a transitional tax on short-term capital inflows, such as that employed by Chile in the 1990s, for countries with underdeveloped financial markets.[14] Moreover, the IMF has admitted that it could have managed the East Asian crisis better.[15] And the G-7 governments have agreed in principle to substantial debt relief for the group of highly indebted poor countries, though—and this is important—without any admission that excessive indebtedness is in any way a problem of the system rather than merely of the debtors.[16]

The third broad group of participants in the global financial architecture debate are those whom I call *financial stabilizers*. Their distinguishing characteristic is their analytical focus on the global financial architecture (rather than national regulatory frameworks) as the principal source of, and thus solution for, today's devastating financial crises. In the 1990s, several highly respected, traditional free market economists endorsed a notion that directly contradicts the core intellectual premise of all laissez-faire liberalizers and most transparency advocates. Notable free traders such as Jagdish Bhagwati concluded that international capital markets are fundamentally dissimilar to global markets for goods and services: they are not self-equilibrating and therefore need careful oversight and regulation.[17] Washington, D.C., think tank director C. Fred Bergsten strongly suggested that the advanced countries take a more active role in managing their own exchange rate fluctuations, arguing that floating exchange rates, while perhaps inevitable, were not self-equilibrating.[18] Other prominent financial stabilizers in the industrialized countries include Nobel laureate James Tobin, proposer of the famous Tobin tax on short-term international capital flows; former World Bank chief economist Joseph Stiglitz, who publicly criticized the IMF in 1998 for its handling of the Asian financial crisis; and recently even financier George Soros.[19] The majority of national governments outside the OECD lean toward the financial stabilizers' positions, and indeed only the U.S. and U.K. governments can be counted on to reliably dismiss the stabilizers' arguments.[20] The European Economic and Monetary Union, of course, can be understood as an ambitious policy response to the concerns raised by the systemic problem of exchange rate fluctuations.[21] But the strongest support for architectural reforms that embody the stabilizers' analyses comes, not unexpectedly, from the emerging market countries and from Japan, whose policymakers have been the closest to the suffering generated by the recent East Asian crisis. Some of the analytically strongest arguments have come from institutions located in or involved with Latin America, whose peso and tequila crisis preceded the crises in East Asia and Russia. These include the United Nation's Economic Commission on Latin America and the Caribbean (ECLAC), the Division on Transnational Corporations and Investment of the UN Conference on Trade and Development (UNCTAD), and, most recently but most prominently, the Inter-American Development Bank.[22] Since the Asian crisis, even the World Bank has placed itself somewhat cautiously in the camp of financial stabilizers—unlike the IMF, which is busy trying to exercise leadership among the transparency advocates.

The financial stabilizers thus include a number of prominent defectors from the transparency advocates. They are generally individuals who have concluded that a simple shift to greater openness, combined with technical assistance to developing countries around such issues as modernizing their securities markets law and corporate governance statutes, is an insufficient response to the heightened risk of an international financial meltdown in a world of globalized capital markets. Instead, preemptive capital controls are needed, especially on inward flows.[23] Members of this group believe that global finance requires global regulation, perhaps including elements of a genuinely supranational authority.[24] Moreover, financial stabilizers are much more sensitive to the international distribution of power, both military and economic, than are members of the first two groups, and many make the unequal distribution of costs among the victims of financial crashes or associated economic slowdowns central to their analysis.[25]

Like the designers of the Bretton Woods monetary regime (and, I note, also the antiglobalizers), financial stabilizers are unwilling to force national policymakers to subordinate the maintenance of domestic macroeconomic health to the goal of external balance, especially when the causes of external imbalance are largely exogenous. Most financial stabilizers would like an actively and collaboratively managed float among the great powers. Some advocate regional currency blocs.[26] The spread of regional currency blocs would lead most of Latin America to dollarize and much of the Middle East and some of Africa to adopt the euro, although there is no such straightforward choice for Asia.[27]

Many or most financial stabilizers think the global financial architecture should intentionally promote medium- and long-term private investment in developing countries as a positive good, for which there is both an efficiency and a fairness rationale. Consequently, many would prefer more cooperative, and even explicitly representative, management of global money supply growth, as well as more transparent rules for allocating credits from the international financial institutions such as the IMF or World Bank.[28] At the same time, most would prefer to limit very short-term capital flows, arguing that they typically do not reflect underlying economic fundamentals such as a country's trade position or the quality of its investment opportunities. Knowing that countries pay a price for unilaterally imposing capital controls or any other significant new financial regulation, stabilizers would prefer joint regulatory action, presumably with the great powers taking the lead.[29] Similarly, analysts and advocates in this group would like to see the lender of last resort function and other crisis prevention and management measures be collective and more representative. Innovations that have been suggested include a global bankruptcy court, making the IMF into a formal lender of last resort and a global credit rating agency.[30] Devesh Kapur recently observed that a good place to start in making the international financial institutions, along with other international organizations, more representative and responsible would be to formalize the present clientelistic and ad hoc selection process for their leaders![31]

The final group, the *antiglobalizers,* includes intellectuals, politicians, and members of social strata discomfited by globalization, particularly organized labor (in the United States) and farmers (in Western Europe). Unlike the other three influential currents of opinion on reform of the international financial architecture, all of which are overwhelmingly elitist coalitions of technocrats, intellectuals, business leaders, and responsive politicians, the antiglobalization alliance has significant popular support in national legislatures, in church and religious groups, and among community organizers. Most of the political clout of the position comes from activists residing in advanced industrial countries, though left antiglobalizers in the advanced industrial countries have forged important links with groups, often minorities or the relatively disadvantaged, in developing countries. For example, through the alliances of nongovernmental organizations (NGOs) opposed to the North American Free Trade Association (NAFTA) and the World Trade Organization (WTO), the Jubilee 2000 movement for international debt forgiveness for very poor countries, and the International Forum on Globalization, some of their affiliates include the Friends of the Earth, the Third World Network, the Institute for Policy Studies, and Public Citizen.[32] Leaders of the left antiglobalizers in the United States include Ralph Nader, the Green Party candidate for president in 2000; the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), the United States' most influential labor confederation; and the Reverend Jesse Jackson, African-American activist and sometime presidential candidate.

Right antiglobalizers tend toward nativism and chauvinism, either of which render international links, even in the Internet age, more difficult. But they have wide popular appeal in countries experiencing strains from trade and financial opening—from Australia, to Central and Eastern Europe, to India and Indonesia. They frequently elect politicians and control sizable blocs in national legislatures. In the United States, for example, 1992 Reform Party presidential candidate Ross Perot, Christian conservative and sometime presidential candidate Pat Buchanan, and numerous members of Congress—from former House majority leader Dick Armey to chairman of the Senate Foreign Relations Committee Jesse Helms—have all opposed inward and/or outward foreign investment, U.S. contributions to the international financial institutions and the early 1995 financial rescue package for Mexico, and other core elements of contemporary financial internationalism.

The economic arguments of the antiglobalizers often are fuzzy, as befits the group's status as genuine popular movements, as contrasted to the other three analytical positions in the financial architecture debate, whose advocates are almost entirely policy influential elites (politicians, lobbyists and business leaders, or pundits). Left antiglobalists oppose "capitalism" or multinational corporations, while those on the right share a deep, often religiously based, suspicion of "one world-ism" with the libertarian intellectuals among the laissez-faire liberalizers. All antiglobalizers are suspicious of free trade, multinational corporations, and international financial flows, though the latter probably are least likely to come to mind. To this group, the East Asian financial crisis was but further demonstration of the corrupting power of global capital—never mind exactly how. Antiglobalizers fear international organizations, which they perceive as distant, secretive, and profoundly undemocratic.[33] On matters of specific policy, the right antiglobalizers, and sometimes also left antiglobalizers, often are willing to unite with the radical free marketeers. Their common cause is to bash the established organizations of the post–Bretton Woods international financial architecture—the IMF and World Bank—and to oppose their governments' involvement in international financial rescue packages.

Why We Should Believe the Financial Stabilizers

This is not the venue for a detailed discussion of the economic issues of reform of the global financial architecture, for which the reader is referred to the differing but excellent surveys by Barry Eichengreen and Robert Blecker.[34] However, there are at least two compelling reasons to believe the claims of the financial stabilizers.

The first argument makes an analogy with national financial regulation. It is almost universally accepted, even among some laissez-faire liberalizers, that domestic financial markets perform significantly better when regulated. Prudential regulations, for example, require that banks hold cash and liquid assets equivalent to a certain percentage of their deposits. Banks in the United States are required to pass periodic detailed inspections if they wish their depositors to be federally insured against losses. Most national regulators prohibit a wide range of transactions that they fear might lead to criminal activity (such as accounts held anonymously) or endanger the health of the nonfinancial economy (such as allowing pension funds to invest heavily in high-risk corporate bonds). A simple, even simplistic, analogy illustrates the qualitative difference of the financial sector from the remainder of the economy. If a steel firm, or a grocery store chain, or a toy manufacturer faces falling profits and even the threat of bankruptcy, its competitors typically rejoice at the prospect of new business. On the other hand, if a bank fails, its fellow banks almost always will experience troubles, due to interconnected deposits and/or panicked depositors. Even healthy banks can be brought low by domestic financial contagion. By what logic are international financial markets different? If the twenty-first-century financial markets are truly global, or are becoming so, then it follows that effective prudential regulation ought to be global and international as well. Of the four significant viewpoints profiled above, only the financial stabilizers have fully internalized this basic fact.

A second reason to believe the financial stabilizers' arguments is that only their analysis incorporates the goal of maximizing world allocative efficiency. Global efficiency and growth is enhanced when capital can flow to projects with the highest potential rate of return, many of which are in poor, labor-rich countries. Were other dimensions—such as legal and physical infrastructure and the quality of available human capital resources—equal, then capital always would flow from labor-poor to labor-rich venues. Obviously, the ceteris paribus assumption is invalid, which is why the majority of foreign direct investment still flows within the set of advanced capitalist democracies. Yet not all of the inequality in national levels of investment-supporting conditions results from policy choices within emerging market countries.

Mainstream transparency advocates propose new rules that would result in rich country financial institutions taking fewer risks (that is, making fewer investments in and loans to emerging market countries). This would be done for the sake of protecting wealthy-country taxpayers from having to bail out their financial institutions should the borrowing countries run into trouble.[35] This would be fine if prudential regulations to protect taxpayers, workers, and businesses in developing countries from utterly unanticipated financial crises of external origin—such as multilateral controls on very short-term capital flows—also were being discussed in mainstream global forums. However, since only prudential regulations of interest to the advanced industrial countries are on the negotiating table, the result is to throw up further new barriers to the worldwide equalization of capital-labor ratios—surely a blow for overall global efficiency.

Moreover, only the financial stabilizers consistently highlight the need for a well-funded international lender of last resort. Many transparency advocates would like to see such an institution but simply find it impractical. Barry Eichengreen, for example, writes that "capital markets are characterized by information asymmetries that can give rise to overshooting, sharp corrections, and, in the extreme, financial crises." He continues, "This instability provides a compelling argument for erecting a financial safety net [i.e., a lender of last resort] despite the moral hazard that may result."[36] He follows with a compelling logical argument for an international bankruptcy court, but concludes that the only politically feasible measures are to make financial intermediaries themselves bear more of the costs of loans gone sour and for the IMF to be "a more active proponent of capital-inflow taxes and flexible exchange rates."[37] In the absence of a strong push for a global lender of last resort and/or a global bankruptcy court, the losses to overall global economic efficiency from emerging market crises of liquidity quickly becoming crises of solvency (resulting in unnecessarily destroyed domestic economies) are likely to mount.[38]

The Political Economy of Global Financial Reform

Sadly, the contemporary political economy of global financial reform works against the concerns of the financial stabilizers ever being openly debated in the arenas where it counts. The losses to emerging market economies from the recent East Asian crisis were enormous—for example, in 1998, Malaysia, Korea, Indonesia, and Thailand each saw its GDP shrink between 5.7 and 13.7 percent, and in these four countries plus the Philippines, an additional 10 million people dropped below the poverty line in 1996–1998![39] Yet the reforms most likely to be implemented are the modest recommendations of the transparency advocates. It is no coincidence that these likely changes respond much more directly to the concerns of taxpayers in advanced industrial countries than those of citizens of emerging market countries. Two characteristics of the issue arena support this outcome.

First, global governance in the arena of international monetary and financial relations is significantly less representative than in other arenas of international intercourse, including the trade arena. Many of the problems the advanced industrial countries are having with the World Trade Organization, for example, result from the fact that the WTO operates on the one nation–one vote principle—unlike the UN Security Council, the IMF, the World Bank, or almost any other international organization with a significant, independent budget and a broad mandate. Thus, the developing countries, if they remain united, can challenge the status quo.[40] By contrast, the serious multilateral discussions over financial architecture all have taken place in committees set up and dominated by one or more members of the G-7. In early 1998, the Clinton administration organized the G-22, a group with significant representation from emerging markets but whose recommendations clearly reflected the preferences of the United States—which had earlier and quite decisively undercut the efforts of the Japanese to have a say in global rescue efforts.[41] European discontent at U.S. dominance led to the early 1999 creation of the Financial Stability Forum, with no developing country representation initially and very token representation (Hong Kong, Singapore, and Australia) thereafter, which replaced the G-22 for all intents and purposes.[42] Emerging market countries, naturally outraged at being so baldly excluded, were slightly mollified when many of their numbers were included in the G-20, formed as a consultative adjunct to the FSF, and ostensible counterpart to the G-7 (whose members also sit in the G-20), later in the year. Although some analysts have seen the formation of the G-20 as a significant advance in representativeness in global monetary and financial policymaking,[43] I remain skeptical. The brief of the G-20 is undefined, as is the frequency of its meetings. More important, membership is controlled by the G-7, whose leaders made it clear that they were intentionally snubbing both Malaysia (for its ruler's treatment of his former economic adviser, Anwar Ibrahim—or was it for Mahathir's unrepentant use of capital controls?) and Indonesia (later invited to join after its democratic election). Can the G-7 also remove countries that currently sit in the G-20? In any case, the rich countries hold significant control over the G-20's agenda. Thus, for example, new multilateral regulations on private cross-border capital flows that primarily shield the economies of advanced industrial countries are termed "prudential regulation," while those that might be of most use to emerging markets are branded "capital controls."

There is a second reason that reforms of the international financial architecture probably will be modest to illusory. The United States continues to dominate both global finance and discussions about international financial architecture. The U.S. dollar continues to provide two-thirds of global foreign exchange reserves (66.2 percent in 1999).[44] Moreover, in all of the international financial crises of the 1980s and 1990s except those within the European Exchange Rate Mechanism, the U.S. treasury secretary has, like it or not, been the essential actor.[45] Any national incumbent plays two simultaneous games in her or his international negotiations, one at home and one abroad. Given U.S. global dominance of the financial regime, the game within the United States shapes the outcomes in global financial reform. As of the very early twenty-first century, the battle within the United States is being waged between laissez-faire liberalizers and transparency advocates, the latter group currently dominant but clearly on the defensive. On several specific policy issues, notably support for the international financial institutions and for U.S. leadership in staunching financial hemorrhages abroad, the antiglobalizers and the laissez-faire liberalizers share common policy preferences, if not really a common analysis, thus forcing the transparency advocates to take ever more cautious positions. Within the United States, at least for the moment, the financial stabilizers have been decisively marginalized.[46]

Conclusion

The political geography of global financial reform thus reduces to the hegemony of the United States, which perhaps will not last but is not to be gainsaid at the present. Global economic efficiency—and thus world economic growth—would be enhanced by such bold reforms as creating and funding a true international lender of last resort or a world bankruptcy court. However, the current likely reforms represent only limited tinkering and have the primary goal of protecting industrial country taxpayers by reducing moral hazard. These probable reforms do not really acknowledge the existence of increasingly *global* financial markets by providing equally *global* financial regulation. When international financial crises occur, they will continue to require very quick thinking and dramatic ad hoc responses by the sitting leaders of the advanced industrial countries. We should hope that these leaders will be up to the task. ⊕

Notes

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1. The essential classics on international regimes include Stephen D. Krasner, ed., *International Regimes* (Ithaca: Cornell University Press, 1983); Robert O. Keohane, "International Institutions: Two Approaches," *International Studies Quarterly* 32 (1988): 379–396; Andreas Hasenclever, Peter Mayer, and Volker Rittberger, *Theories of International Regimes* (Cambridge: Cambridge University Press, 1997); and Peter J. Katzenstein, Robert O. Keohane, and Stephen D. Krasner, eds., *Exploration and Contestation in the Study of World Politics* (Cambridge: MIT Press, 1999).

2. For more details, see Leslie Elliott Armijo, ed., *Debating the Global Financial Architecture* (Albany, N.Y.: SUNY Press, forthcoming).

3. Most of Western Europe did not establish free currency convertibility on current account until 1959, fifteen years after their governments signed the Bretton Woods agreement!

4. On tax havens, see Robert T. Kudrle and Lorraine Eden, "The New Attack on Tax Havens: Understanding Politics and Policy," paper presented at the annual meeting of the International Studies Association, Chicago, 21–24 February 2001.

5. For examples of this thinking, see Milton Friedman, *Money Mischief: Episodes in Monetary History* (New York: Harcourt, Brace, Jovanovitch, 1992); George Shultz, William E. Simon, and Walter B. Wriston, "Who Needs the IMF?" *Wall Street Journal,* 3 February 1998, p. A22; Karl and Allan H. Meltzer, *Money and the Economy: Issues in Monetary Analysis* (Cambridge: Cambridge University Press, 1993). For a critique, see C. Fred Bergsten, "Reforming the International Financial Institutions: Dueling Experts in the United States," in Armijo, *Debating.*

6. For example, James A. Dorn, "Introduction," Special Issue on the Global Financial Architecture, *Cato Journal* 18, no. 3 (winter 1999).

7. For example, Institute of International Finance, "Involving the Private Sector in the Resolution of Financial Crises in Emerging Markets," report of the Steering Committee on Emerging Markets Finance (Washington, D.C.: IIF, April 1999).

8. Thus, U.S. treasury secretary Paul O'Neill moved rapidly in early 2001 to distance the United States from the OECD's initiative on money laundering in tax haven countries, citing the George W. Bush administration's unwillingness

to be associated with the possibility of higher taxes on international financial flows.

9. See Sebastian Edwards, "Abolish the IMF," *Financial Times,* 13 November 1998.

10. See Group of Twenty-two (G-22), "Report of the Working Group on Transparency and Accountability," "Report of the Working Group on Strengthening Financial Systems," and "Report of the Working Group on Financial Crises," all 1998, and available at www.oecd.org. For a summary, see Barry Eichengreen, *Toward a New International Financial Architecture* (Washington, D.C.: Institute for International Economics, 1999), pp. 130–132.

11. On Japanese views, see Henry Laurence, "Japan and the New Financial Order in East Asia: From Competition to Cooperation," in Armijo, *Debating.* For Canada, see Paul Martin, "Speech to the House of Commons Standing Committee on Foreign Affairs and International Trade," and committee responses, Parliament of Canada, 18 May 2000, and Martin, "The International Financial Architecture: The Rule of Law," remarks before the Conference of the Canadian Institute of Advanced Legal Studies, Cambridge, United Kingdom, 12 July 2001, both as cited by Tony Porter and Duncan Wood, "Reform Without Representation: The International and Transnational Dialogue on the Global Financial Architecture," in Armijo, *Debating.*

12. See Council on Foreign Relations (CFR), *Safeguarding Prosperity in a Global Financial System: The Future International Financial Architecture,* report of an independent task force sponsored by the Council on Foreign Relations (Washington, D.C.: Institute for International Economics, 1999); and Bergsten, "Reforming."

13. Roberto Chang and Andrés Velasco show that the East Asian financial crisis hit countries that displayed few of the traditional danger signs. See "The 1997–1998 Financial Crisis: Why in Asia? Why Not in Latin America?" paper presented at the Twenty-first International Congress of the Latin American Studies Association, Chicago, 24–26 September 1998.

14. For example, Eichengreen, *Financial Architecture,* pp. 51–55.

15. See "IMF to East Asia: Oops!" *Business Week,* 29 May 2000.

16. Actual progress on debt forgiveness has been agonizingly slow. See Adam Lerrick, "The Initiative Is Lacking," *Euromoney* (September 2000).

17. Jagdish Bhagwati, "The Capital Myth," *Foreign Affairs* (May–June 1998).

18. C. Fred Bergsten, "How to Target Exchange Rates," *Financial Times,* 20 November 1998.

19. See James Tobin, "A Proposal for International Monetary Reform," *Eastern Economic Journal,* no. 4 (1978); Joseph Stiglitz, "Must Financial Crises Be This Frequent and This Painful?" McKay Lecture, Pittsburgh, 23 September 1998, available at www.worldbank.org; Joseph Stiglitz, "The Insider: What I Learned at the World Economic Crisis," *National Republic,* 17 April 2000; and George Soros, *The Crisis of Global Capitalism* (New York: Public Affairs Press, 1998).

20. John Kirton, "G7 and Concert Governance in the Global Financial Crisis of 1997–1999," paper presented at the annual meeting of the International Studies Association, Los Angeles, 15–19 March 2000.

21. Erik Jones, "The European Monetary Union as a Response to Globalization," in Armijo, *Debating.*

22. On the evolution of the debate in Latin America, see José Antonio Ocampo, "Reforming the International Financial Architecture: Consensus and Divergence," *Serie temas de coyuntura 1* (Santiago, Chile: CEPAL/ECLAC, April 1999); and Eduardo Fernández-Arias and Ricardo Hausmann, "The Redesign of the International Financial Architecture from a Latin American Perspective: Who Pays the Bill?" in Armijo, *Debating*. For Asia, see Laurence, "Japan"; and Ashima Goyal, "Reform Proposals from Developing Asia: Finding a Win-Win Strategy," in Armijo, *Debating*.

23. See Benjamin J. Cohen, "Capital Controls: Why Do Governments Hesitate?" in Armijo, *Debating;* or Eric Helleiner, "Regulating Capital Flight," *Challenge* (January–February 2000): 19–34.

24. See Robert A. Blecker, *Taming Global Finance: A Better Architecture for Growth and Equity* (Washington, D.C.: Economic Policy Institute, 1999); and David Felix, "The Economic Case Against Free Capital Mobility," in Armijo, *Debating*.

25. For example, Fernández-Arias and Hausmann, "Redesign"; and Goyal, "Reform Proposals."

26. For example, Walter Russell Mead and Sherle R. Schwenninger, "A Financial Architecture for Middle-Class-Oriented Development: A Report of the Project on Development, Trade, and International Finance" (New York: Council on Foreign Relations, 2000); or Ricardo Hausmann, Michael Gavin, Carmen Pages-Serra, and Ernesto Stein, "Financial Turmoil and the Choice of Exchange Rate Regime," Working Paper No. 400 (Washington, D.C.: Inter-American Development Bank, Office of the Chief Economist, 1999).

27. See Benjamin J. Cohen, "Life at the Top: International Currencies in the 21st Century" (mimeo, June 2000); or Laurence, "Japan."

28. For example, Eduardo Mayobre, ed., *G-24: The Developing Countries in the International Financial System* (Boulder: Lynne Rienner, 1999).

29. Ocampo, "Reforming."

30. Blecker, *Taming,* pp. 85–146.

31. Devesh Kapur, "Who Gets to Run the World?" *Foreign Policy* 121 (November–December 2000): 44–53.

32. For example, see International Forum on Globalization (IFG), "The Global Financial Crisis: Information Packet" (San Francisco: IFG, 1999). For analysis of this trend, see Leslie Elliott Armijo, "Skewed Incentives to Liberalize Trade, Production, and Finance" (Mimeo, 2001); or Stephen J. Kobrin, "'Our Resistance Is as Global as Your Oppression': Globalization, the Protest Movement, and the Future of Global Oppression," paper presented at the annual meeting of the International Studies Association, Chicago, 21–24 February 2001.

33. See Kobrin, "Our Resistance"; and Peter J. Sprio, "The New Sovereigntists," *Foreign Affairs* 79, no. 6, pp. 9–15.

34. Eichengreen, *Financial Architecture;* and Blecker, *Taming*.

35. Fernández-Arias and Hausmann, "Redesign."

36. Eichengreen, *Financial Architecture,* p. 3.

37. Ibid., p. 7.

38. See Goyal, "Reform Proposals," for a game theoretic presentation of this argument.

39. Figures as cited in Jeffrey A. Stacey, "Creative Destruction? After the Crisis: Neo-Liberal 'Remodeling' in Emerging Market States," paper presented

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42. Zanny Minton Beddoes, "Survey on Global Finance: Time for a Redesign?" *The Economist,* 30 January 1999.

43. For example, Randall D. Germain, "Reforming the International Financial Architecture: The New Political Agenda," paper presented at the annual meeting of the International Studies Association, Chicago, 21–24 February 2001; or Porter and Wood, "Reform."

44. International Monetary Fund, *Annual Report* (Washington, D.C.: IMF, 2000).

45. See Mark Brawley, "Global Financial Architecture and Hegemonic Leadership in the New Millennium," in Armijo, *Debating*.

46. On the political economy of the international financial regime, see Armijo, "Skewed Incentives."