

Crisis and Response. Five Regulatory Agendas in Search of an Outcome

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Introduction

Every global financial crisis generates new regulatory responses. What kinds of responses have emerged so far from the crisis that began in 2007? How are these responses similar to or different from those that followed the last major crisis, in 1997–98? Does the current crisis represent some kind of historic turning point in the evolution of international financial regulatory politics, as some are predicting?

In this brief article, I attempt to answer these questions in a preliminary way. I suggest that we can identify five main regulatory agendas at the moment, each of which advocates a distinct policy: (i) international regulatory catch-up, (ii) international regulatory reform, (iii) resisting official regulation, (iv) capital controls, and (v) regulatory decentralization. I do not attempt to evaluate these agendas; my goal is a more modest ground-clearing one of description and classification. After mapping out each agenda, I conclude by suggesting that there are reasons both to reject and to accept the argument that this crisis might mark an important turning point.

Agenda 1: International Regulatory Catch-Up

The first regulatory agenda emerging from the crisis is the most politically prominent. It starts from the premise that financial markets are inherently prone to what Kindleberger (1978) famously called »manias, panics and crashes.«

Supporters of this agenda attribute the instability of financial markets to a number of different factors, ranging from asymmetric information to human psychology. But they are united in the belief that financial markets must be regulated to some extent if crises are to be minimized. From this perspective, the recent crisis was a product of the usual market foibles

combined with a failure of regulators to keep abreast of market innovations.

This failure was particularly striking with respect to innovations associated with new models of securitization. Subprime mortgage loans were transformed into securities which were then bundled and sliced up into tradable portfolios with distinct risk profiles. Credit risk was increasingly not just transferred and traded through instruments such as collateralized debt obligations (CDOs) but also hedged via credit default swaps (CDSs) which insured holders against defaults of corporate or mortgage-backed bonds. These innovations were meant to boost systemic stability as credit risk was diffused and the liquidity of markets for risk was deepened. As a result, regulators did little to monitor or regulate them. But the subprime crisis revealed the problems with this hands-off approach.

As credit risk was transferred to parties far removed from the original source, its quality became more obscure and risk became consistently underpriced by markets and credit rating agencies. Once the crisis broke out, the far-flung diffusion of subprime mortgages also intensified the erosion of confidence because of widespread uncertainties about who actually held these products and what their levels of exposure were. The lack of transparency about the quality of risk and the location of exposure afflicted not just market participants but also regulators as the crisis unfolded. Particularly opaque was the enormous over-the-counter (OTC) derivatives market (for products such as CDSs) where market actors (predominantly highly leveraged hedge funds) engaged in private bilateral deals without a formal clearing house or exchange which could minimize counter-party risk and force margin requirements for all contracts.

Securitization trends also left existing international bank regulations out-dated. As capital requirements for banks tightened under Basel I and II, banks created off-balance-sheet structured investment vehicles (SIVs) with higher leverage to participate in securities activities. According to some estimates, this »shadow banking« sector had become over half the size of the regulated banking sector in the US just before the crisis (Tett and Guha 2008). In addition, other institutions involved in securities markets – including investment banks, bond insurers, and hedge funds – had become more systemically important but were not covered by the various kinds of prudential risk management rules. The collapse of Bear Stearns – whose rescue was justified on the grounds that it had become too systemically important to fail – highlighted the need to address this situation.

From this perspective, then, the crisis has revealed how regulators had fallen behind market innovations. Existing international regulatory arrangements designed to improve market transparency and risk management need to be strengthened and extended. These arrangements had been constructed since the 1980s and had been given a big boost by Western governments in the wake of the 1997–98 crisis. These same governments are now throwing weight behind this regulatory catch-up agenda.

They have assigned the task of developing the roadmap for this agenda to the Financial Stability Forum (FSF), which was created in 1999 to bring together the leading financial officials from advanced countries, the public international financial institutions, and international regulatory and supervisory groupings. In April 2008, the FSF (2008) issued a report – quickly endorsed by the G7 – which outlined a plan with over 60 recommendations to fill regulatory gaps. Among other things, banks were to be forced to set aside more capital against complex structured products and off-balance-sheet vehicles (the specific rules were then outlined by the Basel Committee of Banking Supervision). They were also required to follow new guidelines for liquidity management that the BCBS subsequently released in July. All institutions involved in the different stages of the securitization process would be required to provide more disclosure of risks. The FSF also recommended the creation of a »college of supervisors« from different countries to monitor the largest world financial institutions. The key elements of the FSF’s action plan were subsequently endorsed at the Washington G20 meeting in November.

The action plan also had some limitations, however, from the standpoint of many advocates of the international regulatory catch-up agenda. It did not address the question of whether capital requirements should be extended to leveraged institutions beyond banks or, alternatively, these institutions should be prohibited from engaging in some activities that are systemically important. As described later in this article, it also made a number of recommendations – relating to credit ratings and OTC derivatives – that relied more on voluntary and self-regulatory approaches than obligatory rules.

Agenda 2: International Regulatory Reform

The second agenda shares most of the views of the first, but it goes further in one important respect: It seeks to reform, rather than just update,

existing international regulations. From this perspective, the crisis was caused not just by the failure of regulators to keep up with market innovations but also by the very content of their existing regulations. It is not enough just to strengthen and extend existing regulations. Key features of those regulations also need to be changed if another major crisis is to be avoided.¹

Advocates of this position argue that the central fault of existing regulations is their pro-cyclical nature. This feature stems from the fact that the regulations rely on market-based mechanisms for valuing risk and assets. When all institutions are using risk valuation models that are based on market prices, a downturn in the market can be self-reinforcing as the models prompt further mass selling. Requirements under existing international accounting rules to use »fair value« accounting have the same effect because they force institutions to value assets by their market value at any given moment. When all firms are forced to use these market-based rules, vicious cycles result which can be stopped only by public authorities stepping in to put a floor under the market.

According to this perspective, then, the existing regulatory model has a built-in commitment to public bailouts. That commitment is seen as objectionable not just on moral hazard grounds but also for distributional reasons. As Persaud (2008b) puts it, »it is a model of the expropriation of gains by bankers and the socialization of costs by tax payers. Paying for a decade of bank bonuses can be very expensive for the tax payer and the opportunities for moral hazard are enormous.« On the flipside, the pro-cyclical character of existing regulations also encourages self-fulfilling upward cycles that can contribute to unhealthy financial bubbles such as the one we have just lived through.

What is to be done, then? To end the pro-cyclical nature of existing regulations, regulators need to reduce their reliance on market-price-based assessments of risk and value. The rationale is explained well by Goodhart and Persaud (2008): »Regulators have used market prices to build their defences against market failure. Unsurprisingly, this has proved as much help as the Maginot line. If market prices were good at predicting crashes, they would not happen.« Instead, regulators need to develop new kinds of regulation that will work against market price trends. One example is the Spanish system of dynamic provision which forces banks

1. For the arguments that follow, see especially Persaud (2008a, b), Eatwell and Persaud (2008a, b), and Goodhart and Persaud (2008).

in good times to build up additional loss reserves that are then available to them in bad times. Other kinds of counter-cyclical charges on financial institutions could also be explored whose value would change in relation to the growth of lending or inversely vis-à-vis the price of relevant assets. Many of these kinds of reforms, it is argued, could be implemented under Pillar 2 of Basel II.

In addition, to address the problems associated with bailouts, banks could be forced to pay insurance premiums against the risk that they will have to be bailed out. This reform would not only address the distributional consequences of bailouts but also encourage bankers to behave more prudently. It might even discourage them from wanting to become too systemically important (because that status would require that they pay higher insurance premiums).

Finally, Persaud (2008a, b) argues that regulators should move away from efforts to force all institutions to embrace a uniform set of regulations. Instead of encouraging homogeneity in the markets, they should cultivate diversity which would help to ensure that there are institutions to play the stabilizing role of stepping up to buy during crises. Regulatory burdens could be differentiated according to the risk capacity of different institutions. If, for example, an institution has little leverage or few maturity mismatches, or it relies primarily on long-term funding, it should not be bound in the same way by regulations forcing such things as fair value accounting or risk sensitivity models.

To what extent are these kinds of reforms generating political support at the official level? There is considerable acceptance now among Western financial officials that the pro-cyclical nature of regulation is an issue that needs to be addressed. At their June 2008 meeting, for example, the G8 finance ministers declared »we look forward to work on mitigating pro-cyclicality in the financial system.« The G20 leaders echoed this in November, calling on regulators to »develop recommendations to mitigate pro-cyclicality, including a review of how valuation and leverage, bank capital, executive compensation, and provisioning practices may exacerbate cyclical trends« (Leaders of G20 2008). The reference to »executive compensation« reflected the growing consensus that employees of financial institutions had been encouraged to take excessive risks in boom times because of the way that pay packages were structured.

But there is not yet clear agreement on what should be done to shift regulation in a more counter-cyclical direction. The FSF's April 2008 report, for example, suggests that regulators should look into counter-

cyclical capital standards, but not until 2009 at the earliest. The debate on reforming accounting standards has been much more immediate and intense, with a number of officials – particularly from Europe – showing interest in changing accounting rules to stop them from reinforcing contractionary pressures (for example, Giles 2008). Private sector groups have also lobbied – although with some opposition from other private sector groups – for a relaxation of the requirement to use fair value accounting vis-à-vis illiquid assets in the context of the crisis (Guerrera 2008). In the end, the FSF asked the lead accounting bodies to explore the issue further.

Agenda 3: Resisting Official Regulation

A third, quite different, agenda seeks to resist the push for the re-regulation of financial markets by governments. From this perspective, government regulators can never know enough to prevent the next crisis and are always simply fighting the last war. Alan Greenspan (2008) was initially among the most prominent proponents of this line of argument (although he has subsequently backed away from it somewhat):

»Aside from far greater efforts to ferret out fraud (a long-time concern of mine), would a material tightening of regulation improve financial performance? I doubt it. The problem is not the lack of regulation but unrealistic expectations about what regulators are able to prevent. (...) Even with full authority to intervene, it is not credible that regulators would have been able to prevent the subprime debacle. (...) We have tried regulation ranging from heavy to central planning. None meaningfully worked. Do we wish to retest the evidence?»

Another defense of this position is that the crisis was caused largely by government policy rather than market failure. From this perspective, the official rush to re-regulate stems from a misinterpretation of the lessons of the crisis. One widely cited government policy mistake was the pursuit of overly loose monetary policy since the early 2000s which encouraged an asset bubble in the US and elsewhere. As Münchau (2008) puts it, »this [crisis] is not primarily a crisis of financial speculation, but one of economic policy. Its principal villains are therefore not bankers, but economists – not in their role as teachers and researchers, but as policy advisers and policymakers.« The central lesson from the crisis should thus be not to re-regulate but to improve the quality of monetary policymaking.

Münchau is particularly critical of Alan Greenspan's belief that monetary policy should not take into account asset bubbles. Others argue that the asset bubble should not be blamed just on Western central bankers but also on China and other emerging-market and oil-producing countries whose high savings and accumulation of massive dollar reserves drove down US real interest rates (for example, Wolf 2008c).

Leading representatives of the private international financial community have also resisted official re-regulatory agendas on more self-interested grounds. Taking a lead role has been the Institute of International Finance (IIF) which has often been quite successful over the past decade in preempting – or at least diluting – official international regulatory efforts by organizing various voluntary codes of conduct and other self-regulatory initiatives within the financial industry (for example, Porter 2005; Helleiner forthcoming).

They have attempted this strategy again as the crisis has unfolded. In early April, they released an interim report (discussed at the highest levels of the world's major banks) which included a wide ranging acknowledgment of mistakes bankers had made and suggested various self-regulatory initiatives in areas such as risk management, liquidity, off-balance-sheet vehicles, valuation, underwriting, credit rating, compensation, and transparency and disclosure. As the chair of the IIF and head of Deutsche Bank Joseph Ackermann argued, »We are resolved to do our utmost to clean our houses first and not leave it to the regulators to do that for us« (quoted in Giles, Atkins, and Wilson 2008). The bankers' pitch for tightened self-regulation has been echoed in other parts of the financial sector as well.

But with costly bailouts fresh in their minds and the severity of the crisis clear for all to see, official reaction has been less sympathetic than it was over much of the previous decade. When top bankers pressed their case at a private dinner with G7 ministers and central bankers shortly after the IIF report was released, the exchange between the bankers and officials was described as a »testy affair,« and one G7 official described the bankers' requests as »extraordinary.« As Jean-Claude Trichet, President of the European Central Bank, put it, self-regulation was no longer adequate: »We all have to take our responsibilities very seriously and displease the private sector, where necessary« (all quotes from Giles and Guha 2008). French President Nicolas Sarkozy has gone further, declaring: »Self-regulation is finished. Laissez faire is finished. The all-powerful market that is always right is finished« (quoted in Thornhill 2008).

Financial journalists have been just as critical. After reading the bankers' »devastating self-criticism,« Martin Wolf (2008b) of the Financial Times asked »would you buy a voluntary code from people who describe their own mistakes in this brutal manner?« He also noted that the case for self-regulation had been dealt a severe blow by the Bear Stearns bailout: »If we accept that we are going to bail out the financial system when it gets into trouble, regulation is inevitable« (Wolf 2008a). Summing up his reaction to the report, Wolf quipped »nice try, no cigar« (Wolf 2008b).

Despite the stiffened resolve of many regulators, the FSF did back the use of a number of voluntary or self-regulatory initiatives in its April report. With respect to OTC derivatives, the FSF urged the private sector to create a more robust infrastructure for the market rather than forcing this outcome. And with respect to credit rating agencies, the FSF deferred to a relatively toothless revised IOSCO code of conduct (which was subsequently released in late May). By the time of the G20 meeting in November, the official language had become tougher vis-à-vis OTC derivatives and credit rating agencies, but G20 governments still chose to endorse private sector self-regulation for hedge funds (a sector whose regulation was largely neglected in the April FSF report).

Agenda 4: Capital Controls

At the other end of the spectrum is a regulatory agenda pressing for greater controls on the cross-border movement of capital. One of the rationales offered for capital controls is that the crisis was caused at least partly by excessive capital mobility. This perspective argues that enormous capital inflows to the US exacerbated the financial bubble it experienced. In this respect, it is suggested, the crisis was similar to the 1997–98 crises in emerging markets, which were preceded by massive inflows of capital which generated bubbles within various countries. Parallels have also been drawn with the debt crisis of the 1980s which was preceded by the large and sudden recycling of surplus petrodollars.² These experiences have led some to conclude that one key lesson of the crisis is that capital mobility needs to be constrained. As Rodrik and Subramanian (2008) put it:

»First large downhill flows of capital – from rich countries to poor countries – led to the Latin American debt crisis of the early 1980s. In the

2. See also Reinhart and Rogoff (2008: 344), although they are not advocates of the regulatory agenda being described.

1990s similar flows begat the Asian financial crisis. Since 2002 the flows have been uphill, from emerging markets and oil-exporting countries to the developed world, especially the US. But the outcome has not been very different. So, it does not seem to matter how capital flows. That it flows in sufficiently large quantities across borders – the celebrated phenomenon of financial globalisation – seems to spell trouble. (...) Even though the roots of the subprime crisis lie in domestic finance, international capital flows magnified its scale.«

An agenda of reducing capital mobility, they argue, is more likely to be effective in curtailing global financial crises than efforts to strengthen prudential regulation since the latter will never be able to keep up with financial innovation. As they put it, »if the risk-taking behavior of financial intermediaries cannot be regulated perfectly, we need to find ways of reducing the volume of transactions. (...) What this means is that financial capital should be flowing across borders in smaller quantities, so that finance is ›primarily national,‹ as John Maynard Keynes advised.« To be sure, capital controls would take away some of the benefits of financial globalization. But Rodrik and Subramanian (2008) suggest that economic evidence of these benefits is in fact »hard to find.«

Specifically, these two authors call for a strengthening of capital controls in developing countries, including deposit requirements on capital inflows and financial transaction taxes. In developed countries, they call for an agenda of reducing capital flows indirectly by addressing global economic imbalances through exchange rate and macroeconomic policies. Overall, they summarize the case as follows:

»As long as the world economy remains politically divided among different sovereign and regulatory authorities, global finance is condemned to suffer deformations far worse than those of domestic finance. Depending on context, the appropriate role of policy will be as often to stem the tide of capital flows as to encourage them« (Rodrik and Subramanian 2008).

This critique of capital mobility echoes those offered at the time of the 1997–98 crisis. In that earlier crisis, support for curbs on capital flows emerged most strongly in those countries that were affected directly by the bursting of bubbles. It reflected not just a recognition that capital inflows had generated bubbles, but more importantly a backlash against the massive speculative capital outflows that accompanied the bursting of the bubbles, outflows that generated exchange rate crises and domestic financial crises. In these countries, international financial flows – rather than

domestic problems – often became the main scapegoat for the global financial crisis of 1997–98.

Is a similar criticism of capital mobility emerging in countries directly affected this time; that is, the US and other Western countries? To be sure, some politicians who have long been skeptics of financial globalization have reiterated their critiques during this crisis. In Germany, for example, Oskar Lafontaine, former finance minister and now leader of the newly created Left Party in Germany, has repeated his calls for the worldwide reintroduction of regulatory mechanisms to control capital flows. As he puts it, »we need investments in the real economy, not speculative transactions« (quoted in Godov 2008).

But the critique of capital flows has not been politically prominent in most Western countries and hardly at all in the US. An important reason is that the bursting of the US financial bubble has not yet generated the kind of capital outflow and exchange rate crisis that emerging market countries experienced in 1997–98. Borrowing in its own currency has insulated the US from currency mismatches of the kind experienced by emerging markets. Foreign central banks have also continued to support the US dollar because of its central position within the international financial system. If, however, the crisis was to spill over into a dollar crisis, political support for curbs on capital flows might find more support in the US and other Western countries. And the possibility of a dollar crisis becoming the next stage of the subprime crisis should not be dismissed (cf. for example, Soros 2008; Morris 2008; Helleiner 2008).

Interestingly, it is in developing countries that the case for capital controls is being heard more loudly in the context of the current crisis. The case is not, however, quite the same in these countries as it was in 1997–1998. Indeed, with the shoe now on the other foot, many financial officials in developing countries seem much more willing to »blame the victim« – in this case, Western countries – than they were a decade ago. Today, capital controls are seen more as a way to help limit the possible effects of contagion emerging from the turmoil in Western financial markets. The very policies used since the late 1990s to avoid being vulnerable to global financial markets ever again – such as capital controls and the building up of massive foreign exchange reserves – are now praised for insulating countries from instability emanating from the West (for example, Khor 2008).

Agenda 5: Regulatory Decentralization

The final regulatory agenda is one that advocates a certain decentralization of international financial regulation. At the core of the first two agendas outlined above is a continuing commitment to the project of constructing internationally coordinated kinds of financial regulation. This commitment was boosted enormously in the wake of the 1997–98 crisis when G7 financial officials pressed for the implementation of a wide range of international best practice standards and codes in developing countries. But developing country governments were often quite skeptical of this initiative and such skepticism has only grown in the context of the current crisis.

In the wake of the 1997–98 crisis, this lack of enthusiasm for the standards and codes project within some developing countries stemmed not just from resentment of the underlying assumption that the crisis has been caused primarily by their inadequate domestic practices (rather than volatile capital flows). Just as important was the fact that the various standards and codes being promoted were developed in bodies where developing countries had no or little representation. Their content reflected advanced industrial country experiences – particularly US and British – that were not necessarily appropriate to the local context and often seemed to impose undue costs on developing countries (Helleiner and Pagliari forthcoming).

As Andrew Walter (2007) has noted, much of the resistance initially took the discreet form of »mock compliance.« But the subprime crisis has prompted more overt criticism of the idea that Anglo-American standards should serve as a kind of best practice model for others. Indeed, it has been tempting for analysts from developing countries to criticize the US and other Western countries for their regulatory weaknesses and failures in the same way – and often with the same phrases (for example, »crony capitalism«) – that they themselves were criticized a decade ago. The legitimacy of international regulatory projects based on Anglo-American models, in other words, is now severely undermined. As Martin Wolf (2008d) put it: »Until recently, it was possible to tell the Chinese, the Indians or those who suffered significant financial crises in the past two decades that there existed a financial system both free and robust. That is the case no longer. It will be hard, indeed, to persuade such countries that the market failures revealed in the US and other high-income countries are not a dire warning. If the US, with its vast experience and resources,

was unable to avoid these traps, why, they will ask, should we expect to do better?»

If financial regulatory initiatives of worldwide scope are to succeed in this new context, they can no longer be based simply on the models of the dominant financial powers. Instead, they will need to be constructed with more voices involved in the process. But at present, developing countries have little or no formal role in the key bodies leading the current international re-regulatory agenda (for example, the G7, the FSF, and the Basel Committee). To address this situation, the G20 meeting in November 2008 agreed to expand the FSF »to a broader membership of emerging economies« and »other major standard setting bodies« were requested to »promptly review their membership« (Leaders of the G20 2008). If these initiatives genuinely provide developing countries with more voice, these countries may be more likely to embrace the first two international re-regulatory agendas (and their participation may also transform the specific content of these agendas in various ways). If not, however, we are likely to begin to see more resistance to universalist regulatory projects and perhaps even growing interest in a more decentralized and fragmented international regulatory order.

Indeed, such interest is already visible. Interestingly, it is coming from other advanced industrial countries outside of Anglo-American policy-making circles. At the ASEAN plus 3 meetings in May 2008, Japan for the first time proposed the creation of an Asian version of the FSF. Already during the Basel II negotiations, Asian countries considered creating an alternative »Asian Basel« system because of their frustration with the lack of attention given to their concerns (Walter 2008: 181). This idea has now been given a boost by the discrediting of market-friendly Anglo-American financial models. One senior Chinese banking regulator, Liao Min, summed up the views of many in the Asian region in May 2008: »I feel the Western consensus on the relation between the market and the government should be reviewed. In practice, they tend to overestimate the power of the market and overlook the regulatory role of the government and this warped conception is at the root of the subprime crisis« (quoted in Anderlini 2008). China and South Korea have now backed the Japanese proposal, and ASEAN countries are being urged to join this initiative to create an Asian FSF (Daily Yomiuri 2008).

In Europe, German policymakers have also openly expressed their frustration with what they perceive to be the excesses of Anglo-American financial capitalism in the context of the subprime crisis. When their

country's banks initially became among the worst hit by the subprime crisis, they began to express a desire to challenge the dominance of international regulatory politics by Anglo-American agendas. The German President, Horst Köhler, famously described the financial markets as »a monster that must be tamed« and called for the reconstruction of a »continental European banking culture« (quoted in Benoit and Wilson 2008). While pressing for re-regulation at the international level, they have also spoken openly about alternative regional options. As early as February 2008, German officials were reportedly threatening to push for EU-wide action if regulatory initiatives at the international level were not tough enough (Benoit 2008). Similarly, in June, German Chancellor Angela Merkel indicated her desire to see the Eurozone challenge Anglo-American dominance of financial standards and even to develop its own rating agency. As she put it: »Europe has developed a certain independence thanks to the euro. But of course, in terms of the rules, the transparency guidelines and the entire standardization of financial markets, we still have a strongly Anglo-Saxon-dominated system. The robust currency system of the euro has not yet secured sufficient influence over the rules governing financial markets«. (quoted in Barber, Benoit, and Williamson 2008).

In September, after criticizing free market »Anglo-American« financial principles, German finance minister Peer Steinbrück also predicted that a more »multipolar« global financial system would emerge from the crisis. As he put it, »America will not be the only power to define which standards and which financial products will be traded all over the world« (quoted in Mangasarian 2008).

Interest in region-wide regulatory initiatives is likely to grow if Anglo-American policymakers try to impose outcomes on international regulatory politics which diverge strongly from preferences elsewhere. Competitive pressures will, of course, work against the ability of such regions to diverge too strongly from the standards set in New York and London (Singer 2007). But the reputation of those financial centers has been damaged by the crisis and the structural power of the Eurozone and Asia is growing in ways that give these regions both more clout in international regulatory politics and more ability to chart a more independent course. If they take the latter route, we will be moving towards a more decentralized regulatory order, one which is more compatible with diverse forms of capitalism but which might also sit less comfortably with an entirely liberal regime for the movement of capital and financial services.

Conclusion: An Historic Turning Point?

It has become almost a cliché to say that the current global financial crisis is one of the most severe – if not *the* most severe – since the 1930s. The crisis is widely portrayed as signaling a kind of turning point in the international financial system, one which will lead away from the market-oriented regulatory politics that have been so prevalent over the past two decades. As George Soros (2008: 99) puts it in his latest book, while previous crises reinforced what he calls »market fundamentalism,« this latest one »constitutes the end of an era.«

It is certainly true, as we have seen, that this crisis has generated a number of re-regulatory projects and that those resisting official regulation are on the defensive. But the enduring capacity of the latter to influence policy in this sector should not be discounted, particularly if the severity of the crisis passes quickly and public interest wanes. In addition, the re-regulatory projects that are most prominent so far – the regulatory catch-up and reform agendas – also represent more continuity than dramatic change in the sense that they build upon the international financial regulatory project that the G7 promoted in the wake of the 1997–98 crisis. The re-regulatory initiative that calls for a more dramatic change – the capital controls agenda – in fact appears less prominent today than it did at the time of the 1997–98 crisis (when debates about the pros and cons of capital controls and the Tobin tax had a much higher profile – see, for example, Cohen 2002).

Still, this analysis does suggest two reasons why the subprime crisis could mark an historic turning point in international regulatory politics in the financial sector. First, if it spills over into more serious balance of payments crises and perhaps even a serious dollar crisis – a development that Soros himself predicts – the crisis might give more prominence to the capital controls agenda. Second, the emergence of the new decentralist agenda is one whose consequences are hard to predict. It certainly works in a quite different direction than the post-1997/98, G7-led universalist standards and codes project. And by challenging the longstanding Anglo-American dominance of what Wade (2008) calls the »High Command« of global financial governance, it could represent the beginnings of an historic shift. If this decentralist agenda remained restricted to developing countries, it might simply co-exist with the first two re-regulatory agendas given that the latter are so focused at the moment on the OECD region. But if this agenda finds growing support in Japan and con-

tinental Europe, its consequences could be more profound for the system as a whole.

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