The Governance of International Finance

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Abstract

Contemporary international finance raises important questions about whether, and how, it might be overseen by national governments and international institutions. Inasmuch as global financial stability is a global public good, there is a normative case for governance structures to try to achieve this goal—whether they take the form of interstate cooperation or international institutions. This, however, does not mean that national states will necessarily be willing or able to work together to provide this global public good, as the incentives to free-ride are enormous. Nonetheless, the past 25 years do indicate that there has been some movement toward the provision of such global public goods as financial harmonization and a semblance of global lender-of-last-resort facilities. The record is spotty, but the trend appears to be in the direction of more global governance of global finance.

INTRODUCTION

International finance is at the cutting edge of contemporary international economic integration. Today's global financial markets are of enormous size and can move huge quantities of money around the world with extraordinary speed and massive effect. Their impact was demonstrated with a vengeance during the Great Financial Crisis (GFC) that began at the end of 2007, during which financial markets transmitted economic impulses—many of them highly damaging—from country to country in a matter of days or weeks.

The great economic and political prominence of international financial markets has given rise to extensive discussion of the need to regulate, monitor, or otherwise control their impact on national economies and polities. Indeed, the ranks of those who believe that some form of governance of global finance is desirable are clearly growing. However, even among the more fervent believers in global financial governance, it is not clear how this might be accomplished in a world in which policies are still made almost entirely by nation-states.

In this article, I evaluate the state of attempts to provide some financial oversight at the international level that comes close to what exists at the national level. I start below with a summary of the normative argument for international financial governance. The following section provides a brief overview of what has been done to supply something approaching global public goods in this arena. Finally, I move on to analytical approaches to understanding what has been done, and might be done, in global financial governance.

NORMATIVE ARGUMENTS FOR GLOBAL FINANCIAL GOVERNANCE

Analysts and policy makers make a variety of arguments for some form of international governance of global financial affairs. In this context, governance implies the provision of government-like functions at a level above that of the nation-state. The normative basis for these arguments, then, must be analogous to the rationale for the government provision of public goods at the national level: Because of market failures, things for which there is demand are undersupplied by private actors.

One typical form of argumentation is by analogy. As financial markets grew from being local to being national, there was a need for national public goods involved in overseeing these markets. This led all governments to provide national financial regulation and supervision (discussed below). Financial markets are now global, which means that overseeing the international financial markets must require global public goods. This is the character of many arguments for global financial governance.

An argument for global governance, however, requires that such global public goods cannot adequately be supplied by national governments. In other words, to build a case for a truly global governance of international financial relations, it is not enough to show that the goods in question would be undersupplied by the private sector (a justification that would suffice at the national level). For global governance to be justifiable, national governments must be unable, or unwilling, to oversee their financial affairs on their own so as to provide the desired international outcome. In other words, the argument for global governance requires demonstration that not only private actors but also national governments are insufficiently willing or able to provide something that is globally desirable. To take an analogy, in pure welfare terms international trade liberalization does not in itself require global governance inasmuch as it is in the national interest to liberalize unilaterally: Enough of the positive effects of trade liberalization are internalized within the liberalizing country that it has an incentive to undertake the liberalization.[1]

This then means that the argument for global governance must inherently involve political economy considerations. Unlike at the national level, where government provision is justifiable because private supply is insufficient to satisfy demand, at the international level global provision would be justified only if national governments did not have incentives to supply the good—and the incentives to governments are inherently political. Therefore, a normative argument for the global governance of international finance, as of anything else, requires that supporters show that national governments are either technically unable or politically unmotivated to provide the necessary and relevant policies. In this context, we can identify the sorts of interventions that are most commonly, and justifiably, presented as the kinds of global public goods that the global governance of international finance could or should provide.

The overarching public good at stake in this realm is financial stability. Financial markets provide important benefits to society, both domestically and internationally, by moving funds from where they are less needed to where they can be used more productively. However, they are also subject to periodic crises with substantial economic costs. Domestically, national governments have long recognized that systemic stability is unlikely to be provided sufficiently by private actors, and they have intervened in a variety of ways to reduce the threat of financial instability.

A similar logic holds internationally. Financial crises that begin in one country or group of countries are often transmitted to the rest of the world, causing contagious international financial crises (Borio et al. 2014, Lorenzoni 2014). Here, the political economy argument for this sort of global public good is clear. Each national government may act to protect its own financial institutions and system, but it stops there. Measures taken to stabilize the international financial system could benefit all countries and all participants; however, no single country has an incentive to undertake the great costs of providing this stability, because no country fully internalizes the externalities. Indeed, if left to their own devices, individual governments may have incentives to encourage behavior by their own financial institutions that might give them a competitive edge but endanger international financial stability—such as engaging in risky lending or secretive banking practices. The fact that countries do not fully internalize both positive and negative externalities in this realm provides a clear and cogent argument for the global provision of global financial governance.[2]

There are many ways of attempting to provide financial stability. Below I examine those that have been most prominent in discussions of the governance of international financial markets.

Lender-of-Last-Resort Facilities

At least since the middle 1800s, it has been understood that financial markets are subject to "panics" or "bank runs," in which doubts about the solvency of financial institutions can lead market participants to withdraw funds (Diamond & Dybvig 1983). These panics can be

[1]This is not to imply that there are no potential global public goods in the international trade realm. For example, the monitoring and enforcement of agreements might require some form of global governance. Scholars have suggested other such public goods in trade (and the internalization of a terms-of-trade externality). I mean only to point out that trade liberalization does not itself require global governance inasmuch as enough benefits of the national policy are realized within the nation to make the policy nationally desirable.

[2]I should note that there is a small public choice–influenced literature that contests the normative case for international financial governance (see, e.g., Vaubel 1983, Dreher & Vaubel 2004).

self-reinforcing, causing otherwise healthy institutions to fail solely due to a potentially misplaced loss of confidence. Such bank runs can also be contagious and snowball into full-blown financial crises with serious costs to society, which means that there are strong welfare arguments for avoiding them. As a result, virtually every government has agreed, in one way or another, to act as an implicit or explicit lender of last resort. This means that it stands ready to provide liquidity to the financial market to keep otherwise solvent financial institutions from being bankrupted by a contagious loss of confidence. This is not an unproblematic policy: The line between insolvency and illiquidity can be unclear, as is the best way for the government to intervene (Grossman & Rockoff 2015). However, the basic principle is well established: Governments need to stand ready to intervene in an emergency to supply funds to financial markets to avoid a descent into panic.

International financial markets are, it turns out, exquisitely susceptible to these sorts of panics. In the international financial system, which is populated by large financial institutions rather than small depositors, panic typically takes the form of a loss of confidence in the ability of other financial institutions to fulfill contracts, even for very short-term (such as overnight) arrangements. The financial components of the crisis that began in 2007 are the modern equivalent of a bank run: With intermediation taking place in markets rather than through banks, the panic that developed was about the inability of markets to reliably allow contracts to be completed and serviced (Gorton 2009). Extraordinary levels of uncertainty made it difficult or impossible even for the largest financial institutions to borrow on the interbank market, which is necessary for them to carry on everyday business.

Today's international financial system is subject to the threat of panics, which means that lender-of-last-resort facilities are desirable. The modern system performs a function that is analogous to that of a traditional national banking system: maturity transformation with fractional reserves, underpinned by a very short-term interbank market.[3] To some extent national governments have addressed the international lender of last resort problem by working out arrangements that require home country authorities to provide these facilities to their financial institutions even when they are operating internationally. However, these arrangements have many weaknesses and vulnerabilities, such as the fact that the commitments involve many different currencies, and most observers agree that some manner of international lender-of-last-resort facilities would be desirable (Landau 2014, Obstfeld 2009).

As in the general case, the political economy case for an international lender of last resort is strong. Such facilities are complex and can be costly to provide in a credible way. Although each national government has powerful reasons to establish lender-of-last-resort facilities domestically to protect its own financial institutions and system, the benefits largely stop at the water's edge. No one government can internalize the full benefits of providing liquidity to the international financial system, which makes the normative case for global provision a powerful one.

Regulatory Harmonization

Financial regulation is a central component of national efforts to provide financial stability. In fact, it can be seen as the counterpart of policies to backstop the financial system, such as the lender of last resort: If governments are providing some sort of insurance to financial markets, they need to attempt to limit moral hazard and adverse selection. But experience has shown that

[3] "Maturity transformation" refers to the process whereby financial institutions borrow at short term (i.e., from depositors) and lend at long term (i.e., to mortgage holders). A fractional reserve system is one where banks have only a fraction of the money necessary to cover their liabilities (such as to depositors) available upon demand, on the principle that only a fraction of these liabilities are expected to be called at any given time.

a financial system with inconsistent or discordant regulatory components, whether regionally or functionally, can create serious problems. Major regulatory differences give financial institutions incentives to engage in regulatory arbitrage, designing their operations so as to find the most permissive regulations for each segment of their business.

At the international level, major regulatory differences and private-sector regulatory arbitrage can lead to an accumulation of under-regulated activities. This in turn creates the potential for very large international financial institutions to manipulate regulations so as to put many national regulators and financial systems at risk. It might also lead to regulatory competition with a harmful race to the bottom. And because financial crises in one major financial market are typically transmitted to other markets, lax regulation in one country can cause contagious crises throughout the world.

Just as it is desirable for national financial systems to avoid regulatory fragmentation and contagious financial crises, there is a normative argument for regulatory harmonization at the international level. As with lender-of-last-resort facilities, the argument takes into account the political economy of the issue. Individual national governments do not fully internalize the benefits of tighter regulation, and they may even realize significant costs if business flees for looser jurisdictions. This means that national governments, like private firms, may not have sufficient incentives to provide adequate global regulatory consistency or rigor on their own. The case for some form of global governance, even if only for cooperative arrangements among national authorities, is strong.

This sort of regulatory harmonization can take different forms. Regulators can agree to impose common rules for capital adequacy, that is, how much capital banks have to hold in compared to their outstanding assets (loans and investments). This is meant to impose common standards of prudence on financial institutions. A related measure is to harmonize the treatment of shadow banking activities, that is, the activities of financial institutions that are typically outside of the normal reach of banking regulators. Harmonization can also provide common standards for how national financial authorities are expected to intervene in the case of major bank failures.

Other Sources of Financial Stability

A range of other policies may also stabilize a financial system. Especially in the aftermath of the GFC, there has been much discussion of interventions to either limit the likelihood of financial instability or reduce its effects.

One set of policies that has attracted a great deal of attention is macroprudential regulation (Engel 2015b, Schoenmaker 2014). This approach takes financial regulation to a higher level, requiring regulators to supervise financial institutions and to consider their impact on the entire financial system. This could lead regulators to influence the pace and direction of lending, focusing not simply on the solvency of individual banks but rather on the broader systemic impact of their behavior. Moreover, assessing the macroeconomic impact of individual banks' activities is a complex and potentially controversial task: No bank wants to be denied profit opportunities solely due to nebulous systemic considerations. Nonetheless, the experience of recent financial crises has led many national regulators to take systemic factors much more seriously. Again, the normative case for some form of macroprudential regulation at the global level—or at the least for coordination of national macroprudential policies—is strong. Although national regulators have incentives to take nationally systemic effects seriously, they have no strong reasons to think about the global financial system. Again, the positive externalities are not internalized, and national regulators are unlikely to pay due attention to potential internationally systemic implications of their banks' activities.

Another policy dimension that has generated much discussion recently is the control of cross-border capital flows to limit their impact on domestic, and potentially international, financial conditions. Indeed, the International Monetary Fund (IMF) has indicated that it regards the judicious use of such capital controls as a reasonable response to the threat of financial instability: National authorities might limit inflows to avoid excessive borrowing, and in time of crisis they might limit outflows to avoid currency runs or other destabilizing financial movements. Once more, inasmuch as national financial crises can be contagious, there is a normative basis for some global provision, or at least coordination, of policies to control capital movements. A national government that does not take global effects into consideration could encourage foreign borrowing even if it risks an eventual crisis, especially if many of the costs of the crisis are borne by foreigners (creditors or other countries infected by panic). In this context, policies to limit capital movements would best be designed with global factors in mind, in ways no national government would be inclined to do (Brunnermeier & Sannikov 2015).

Macroeconomic Policy Coordination

Divergences in macroeconomic policies are at the root of many financial difficulties. This is especially the case today, in a world with enormous capital markets and rapid capital flows: Minor differences in macroeconomic conditions can lead to large financial flows that increase those divergences and exacerbate boom-and-bust cycles, which carry substantial social costs. The normative case for macroeconomic policy coordination has been contested: A traditional view would be that responsible macroeconomic policies are unilaterally desirable and their positive effects are fully realized by the country that pursues them, so that the incentives for such policies would be strong enough not to require any international coordination. However, recent trends have strengthened the argument for coordination, given that uncoordinated national macroeconomic policies could lead to the sorts of regional and global crises that have beset so much of the world over the past 20 years [Engel (2015a), Frieden & Broz (2013), and Frieden et al. (2012) provide overviews; Taylor (2014) presents a mild endorsement from a skeptic]. As with the other policies discussed above, there are strong political economy grounds to justify something other than purely national action: Inasmuch as one country's macroeconomic policies can impose externalities on other countries, there is an argument for a supranational effort to internalize the externalities.

If we accept that financial stability is a public good, and further accept that policies to provide it at the national level create cross-border externalities that are not fully internalized, there is a normative case for providing the global public good of financial stability at a level above that of the nation-state. This global governance might, however, take many forms. The form most similar to national-level government is probably provision by a supranational institution, followed by closely coordinated provision by a coalition of national governments. Global governance could conceivably take the form of provision of the public good by one government, if enough of the benefits were realized by its home country—or if others could somehow compensate it for the job. The governance function could be provided by nongovernmental organizations, such as private, usually corporate, regulatory or standardization bodies.

The form taken by global governance is likely to depend both on the issue area and on the agents involved. One perspective, familiar from the literature on federalism (including the European literature on subsidiarity), emphasizes that the governance structure should reflect the distribution of externalities. So if most of the positive, or negative, effects are realized by one, or a few, nations, they are more likely both to provide the governance and to benefit disproportionately from it. A similar consideration could explain why a highly motivated NGO, or a group of corporations, might have powerful enough incentives to undertake the difficult task of creating a global institution to provide some of these government-like functions. Büthe & Mattli (2011), Koppell (2010), and Pauly & Coleman (2008) all look at this set of issues.

It should be noted that even if analysis provides criteria within which some form of international financial governance constitutes a global public good, it does not necessarily follow that this governance is distributionally neutral. Because the definition of global public goods refers largely to nations and governments, it is perfectly conceivable that some such governance policies and structures could impose net costs on groups or individuals within countries. Moreover, there are many different and distributionally varied ways in which public goods can be supplied. I return to this in much more detail when discussing positive analyses of global governance.

Despite the strong normative argument for international financial governance, we might still doubt that national governments will agree on whether or how to work together to provide global public goods. In a world of independent nation-states, cooperation to provide public goods may be the exception rather than the rule. However, the past 25 years or so provide some surprising evidence of an increasing tendency toward the provision of such global public goods in the financial realm. In the next section, I summarize some of these developments; in the following section, I turn to how we might explain them.

DEVELOPMENTS IN GLOBAL FINANCIAL GOVERNANCE

The international financial system was hit by a series of financial crises in the 1990s, the most prominent of which were the Mexican crisis of 1994 and the East Asian crisis of 1997–1998. In each case, there was substantial contagion within the respective region, and even outside it. Again in each case, there was enough serious concern about the implications for the international financial system that the IMF and the national governments of the major financial centers stepped in to provide hundreds of billions of dollars to bail out the troubled debtor nations and supervise the restructuring of hundreds of billions of dollars in private credit. The Mexican and East Asian events were followed in short order by similar, if more isolated, crises in Russia, Turkey, and Argentina.

In the aftermath of these crises, policy makers and observers began serious discussions of what was at the time usually called the international financial architecture. They increasingly shared the belief that financial instability in one country or region could cause serious global problems and required a more explicitly cooperative global response. Depending on the forum and the protagonists, discussions included financial regulation, macroeconomic policies, and adjustment measures.

Several institutional developments reflected the expressed desire for more international consultation and cooperation on financial issues. One was the broadening of the Group of Seven (G7) industrial countries with the creation of the Group of Twenty (G20), which includes some of the largest developing nations. A second was the extension of the mandate of the IMF to include monitoring member states' financial stability and its international implications. This included asking the IMF to issue an annual Global Financial Stability Report and later to focus its surveillance obligations on what was called a Multilateral Consultation on Global Imbalances. Finally, member states expanded the role of the Bank for International Settlements (BIS, of which more below) and established a new Financial Stability Forum to bring together central bankers, finance ministers, and other international financial policy makers to discuss common problems (for summaries of these issues, see Eichengreen 1999, Goldstein 2005).

Despite these innovations, the most significant progress toward global financial governance came under the auspices of the BIS and its Basel Committee on Banking Supervision. This committee was originally made up of regulatory and monetary authorities from 13 principal industrial countries (the G7 plus Belgium, Luxembourg, the Netherlands, Spain, Sweden, and Switzerland).

The committee began meeting in the aftermath of the first modern panic-like event, when in 1974 the failure of two mid-sized banks, one German and one American, practically froze the international interbank market (Spero 1980). After a series of agreements to avoid a recurrence of the problem, eventually in 1988 the committee adopted a formal set of harmonized regulatory principles, which came to be called the Basel Accord (and eventually Basel I). The principles were implemented by the committee members by 1992. This was an unprecedented step toward cooperation among national bank supervisors, and it reflected the growing belief that there were clear systemic externalities that could not be addressed without explicit collaboration—an early step toward financial governance at the international level. Over the next decade or so, many other countries claimed to have conformed to the Basel regulatory framework. Starting in the late 1990s, the committee began a substantial revision and enhancement of the standards, eventually leading to a second agreement in 2004 called Basel II. But the implementation of Basel II was interrupted by the eruption of the GFC in 2007.

The GFC provoked a dramatic increase in international attempts to address global financial issues. The crisis graphically demonstrated the depth, breadth, and speed with which financial instability could spread around the world. As financial markets reached near-panic in October 2008, emergency plans were made for an unprecedented meeting of the leaders of the G20 countries. The G20 had been expanded in 1999 to include about a dozen emerging markets (including Brazil, Russia, India, China, South Africa, and Mexico), but its meetings had only been among finance ministers and similar policy makers. The Washington Summit of November 14–15, 2008, brought together the heads of government or state of the G20 members. Among other agreements, the summit, followed about five months later by another one in London, committed members to a coordinated macroeconomic response to the crisis. Although the principal macroeconomic coordination that ensued involved only the major central banks—especially the Federal Reserve, European Central Bank, Bank of England, Bank of Japan, and Bank of Canada—the very high level of representation at the G20 meetings and the inclusion of major emerging markets in the deliberations were significant.

The G20 has become the focus of many of the measures aiming to provide some degree of global financial governance (Véron 2014). It has expanded the Financial Stability Forum, now rebranded the Financial Stability Board (FSB), to include the major emerging markets, and it has overseen substantive discussions over regulatory harmonization as well as attempts to resolve such complex issues as the regulatory and moral hazard problems associated with systemically important financial institutions.

Closely related to the G20's efforts have been the redoubled attempts by the BIS's Basel Committee on Banking Supervision to address the flaws in Basel II that were revealed by the GFC. The committee developed a new, significantly more encompassing, Basel Accord by the end of 2010. There have been substantial revisions since then, and Basel III is unlikely to be fully implemented by major financial centers before 2020 (Basel Comm. Bank. Superv. 2014). Nonetheless, there has definitely been substantial movement toward greater coordination among national regulators and toward the harmonization of regulatory and supervisory standards among the major financial centers.

Meanwhile, central bankers have continued to cooperate at levels that had not been seen before the crisis. This cooperation has developed more or less in tandem with an expansion of the IMF's role, especially through substantial increases in the funds available for crisis lending and emergency liquidity provision. In a variety of ways, the IMF, clearly with the approval of its principal members, is moving in the direction of acting as something like an international lender of last resort. The funds it has available are insufficient to play this role fully, but it can be argued that, in concert with the involvement of national governments, the major national and supranational players in the international financial system take seriously the need for a global lender of last resort and have worked toward that goal [the IMF summarizes its response to the crisis in IMF (2015); its response is evaluated more critically in Indep. Eval. Off. (2014)].

In summary, over the past decade the G20's Financial Stability Board and related institutions, the BIS, the IMF, and the major financial centers have progressed toward providing an international financial governance infrastructure at the global level that resembles national financial management. There are the beginnings of international-lender-of-last-resort facilities, of globally harmonized financial supervision and regulation to accompany these facilities, and of systematic collaboration among national authorities and supranational institutions. Even optimists would admit that the progress has been slow, difficult, and partial, and that much remains to be done. But even pessimists would probably accept that there has been more movement in this direction than they had anticipated a decade ago. A most useful summary is in the annual reports of the organization New Rules for Global Finance (e.g., New Rules Glob. Finance 2014).

ANALYZING INTERNATIONAL FINANCIAL GOVERNANCE

We would like to understand the forces that have constrained or enabled the creation of institutions and policies associated with international financial governance. Of course, an understanding of these forces is strongly affected by the theoretical tools used by scholars to analyze the politics of international financial relations. It is to an overview of the different analytical perspectives that I now turn. These perspectives are not necessarily mutually exclusive, but they do tend to focus on different potential sources of government actions (Helleiner & Pagliari 2011 provide a useful summary).

The most simple-minded approach—which is so simple-minded as to not be represented in the scholarly literature—explains governance developments on social welfare grounds, based on the promotion of global efficiency. This is what might be called a functionalist view, in the sense that governance functions grow out of the inherent demand for them. The analytical problem, of course, is that there is no agent, public or private, with a clear incentive to intervene solely in the interests of global social welfare. However, this baseline is important, and in fact somewhat contested.

Although it is common to claim that international financial initiatives are undertaken in the interests of all, as noted above, it is perfectly plausible that such initiatives may have strong distributive effects. These may involve the uneven allocation of costs and benefits among countries: Creditor nations may be able to force debtor nations into bearing a disproportionate share of the burden of adjusting to the aftermath of irresponsible lending, or large countries may be able to constrain small countries to conform to standards that harm them and their private sectors. Even if these initiatives are arrived at voluntarily among member governments, which implies that they benefit all *governments*, there may still be domestic distributive effects within countries. For example, a government might have no compunctions about forcing taxpayers to shoulder the full expense of reckless lending by national financial institutions.

In all these cases, even though there may be social benefits to the financial stability that is enhanced by the policies in question, for individual countries or individuals within countries these benefits may be outweighed by their costs. In other words, both among countries and within countries, there is no guarantee that the governance structures will deliver Pareto improvements. And even where the policies are Pareto improving, there are typically many ways in which they can be structured, with different distributional implications (Krasner 1991 is the classic statement).

Analytically, the fact that these global public goods may not be distributionally neutral—whether the distributional features are international or domestic—provides a mechanism to explain how and why they might be supplied in a world without global government. Again, there is an analogy to the provision of public goods at the national level. Leaving aside political entrepreneurship, which has only weak parallels at the international level, a common explanation for the provision of public goods is that they are promoted by concentrated groups that stand to benefit disproportionately from them. This could be because the public good in question has differential benefits, with much more significant effects on some groups than others (bankers versus farmers, for example). It could also be because the public good comes bundled with private benefits that accrue to a concentrated group (e.g., bankers who get a cartel in return for supporting an independent central bank; see Broz 1998).

At the international level, one could imagine that a global public good might have particularly significant benefits for some country or small group of countries; that it might have particularly significant benefits for concentrated groups within countries; or that it might be closely associated with private benefits to some countries or groups within countries. The existence of concentrated benefits to domestic groups could provide incentives for a government to pursue the global public good; the existence of concentrated benefits to one country or group of countries could similarly provide them with incentives to undertake the efforts necessary to supply the global public good.

For all these reasons, even scholars who accept the broad desirability of some form of international financial governance look for distributional features of their evolution that explain why such global public goods might be promoted by governments, potentially at significant national cost. One approach emphasizes the extent to which particularly large and important financial centers internalize the benefits of financial stability, which may give their governments incentives enough to play a major role in working toward global governance agreements and structures. In this picture, the disproportional size of a country can give it a disproportional interest in resolving some of the problems that arise in the absence of public goods in the international financial arena.

This approach, then, focuses on the willingness of the governments of the largest financial powers to lead the way in expanding global financial governance, and, typically, on the ability of these governments to use their power to cajole or persuade other governments to follow their lead. In somewhat different ways, for example, Drezner (2007), Kapstein (1989, 1994), Posner (2009), and Simmons (2001) ascribe financial regulatory harmonization to the willingness and ability of countries (or, in the case of the European Union, groups of countries) to use their bargaining power and influence to create a context to which smaller actors are forced to respond, usually by complying with the patterns set by the dominant actors.

The fact that dominant governments can strong-arm others into accepting their version of the public good in question—be it financial regulation, lender-of-last-resort facilities, or something else—does not rule out the possibility that the outcome actually improves the welfare of all governments that sign onto the regime. Although the point is often implicit, it is probably the case that most scholars in this tradition think of the eventual provision of some form of international financial governance as an improvement over its absence. Inasmuch as Pareto improvements come in many distributionally relevant varieties, and the bargaining power of the larger states gives them outsized influence on outcomes, the international governance structures that emerge are likely to be disproportionately favorable to the largest countries. One example is the role of the IMF in resolving debt crises: Although it is probably in the interest of debtor and creditor nations alike to have some mechanism to deal with such crises, Copelovitch (2010) argues that the IMF's behavior is powerfully affected by the influence of the largest creditor nations, and Stone (2011) is even more insistent that formal and informal rules bias international financial institutions heavily toward the interest of the largest states.

A further step away from functionalist logic is to question whether in fact the governance structures improve welfare for all. The most consistent variant of this argument is to note that the agreements to provide this sort of global public good are made by national governments, and that there is little guarantee that a government will be acting in the national interest, however defined. More specifically, national governments may be "captured" in the global financial realm by powerful domestic special interests that want to see international financial agreements bent in their favor, even if this works against the interests of their countrymen. One common argument to this effect is that the shape of global financial cooperation is strongly affected, and perhaps distorted, by the particularistic interests of powerful and internationally engaged private financial institutions. In this sense, what looks to some like global financial governance might also be described as the solidification of a global financial cartel, organized so as to extract resources from those outside the cartel: borrowers and taxpayers, in particular.

For these reasons, many scholars begin their analysis of international financial policies, cooperation, and governance with the concentrated interests of nationally based economic groups, particularly financial institutions. Then they can build up to governments that may or may not have national interests in mind, but that bias their policy orientations toward the concerns of these powerful groups (Oatley & Nabors 1998; Singer 2004, 2007). Returning to the example of the IMF in crisis resolution, Copelovitch (2010) argues that it was not just the interests of the largest countries that were most strongly reflected in IMF policies, but more specifically the interests of the large private financial institutions of these largest countries. At an even more differentiated level, Broz (2005, 2008) shows that support for the actions and institutions of global financial governance are contingent on their domestic distributional impact: The behavior of American legislators in making decisions on these matters is strongly influenced by the economic interests of their constituents.[4]

These first two modes of analysis have a lot in common and are not mutually exclusive. They both tend to assume that international financial cooperation improves global welfare, but they both temper this view with the observation that the results are likely to be strongly biased by power differentials among countries and among groups within countries. Both approaches rely primarily upon the behavior of national states, although they accept that government policy depends on domestic as well as international considerations. Both focus on the economic interests of private actors and/or their reflection in the preferences of national governments.

Many scholars deemphasize economic interests, the actions of governments, or both. "Ideational" approaches to the making of foreign policy have their reflection in the international financial realm, as elsewhere. These analyses tend to emphasize the changing nature of common understandings of the problems faced in international financial relations and of how they might be addressed (prime examples include Blyth 2002, Abdelal 2007, Chwieroth 2010). Clearly, policy makers and others are influenced by the state of knowledge, or opinion, about these issues. If ideas converge within an epistemic community of experts or technocrats, or within a community of policy makers, this convergence can lead to policy outcomes that might otherwise be unimaginable. The evolution of the views of the IMF in the aftermath of the Asian financial crisis of 1997–1998, and of the more recent GFC, leads some observers to posit that this sort of ideational change can create conditions for a higher degree of global financial governance—whether under the auspices of the IMF or otherwise.

An ideas-based explanation of the management of international financial relations has resonated with many scholars, especially those who are particularly critical of mainstream neoliberal policy prescriptions. One of the more famous variants of this view comes from Washington-based

[4]Büthe & Mattli (2011) make similar arguments but take them a step farther to explain why some financial governance is delegated directly to the private sector itself.

economist John Williamson, who dubbed the IMF–World Bank–US Treasury view of how developing countries should manage their economies the "Washington Consensus" (Williamson 1989). In Williamson's view, a nearly religious attitude toward development policy had biased the recommendations coming from the IMF and the World Bank in ways that were not warranted by theory or evidence. More recently, both scholars and observers, including many politicians, have attacked governmental responses to the GFC, especially in Europe, for an attachment to austerity that they regard as both ideologically motivated and genuinely unwarranted (Blyth 2013 is the canonical statement).

Rather than centering on national politicians who respond to political pressures, a related perspective focuses on international or domestic bureaucrats who respond both to these sorts of ideational factors and to more technocratic considerations. An emphasis on technocratic bureaucracies is especially plausible in the international financial realm, where the problems and potential solutions are technically complex and well beyond the understanding of most citizens and many politicians. This provides an opportunity for experienced and well-informed officials of national governments, international organizations, or even nongovernmental organizations to create strong networks that can affect both national and supranational policies (Bach & Newman 2010, Barnett & Finnemore 2004, Lall 2015, and Porter 2005 are disparate examples of this scholarship). These transnational networks can be particularly powerful if they are able to garner support from individual governments or groups of governments, including those not normally in the inner corridors of international financial power (Gallagher 2014).

Idea-centered and technocrat-centered approaches are often blended. Indeed, some of the influential analyses focus on how ideologically committed technocrats in international institutions guide the course of institutional engagement and policy. At the same time, it is common to suggest that many of these technocratic and ideological biases are motivated by distributionally relevant considerations, for example, in favor of the corporate sector (Blyth 2013 combines aspects of all three).

Developments in international financial politics in the aftermath of the GFC provide an opportunity to see how different perspectives might analyze the course of global financial governance. Some would emphasize the interaction of the major states, especially within the G7, each concerned with nationally specific conditions. This emphasis on interstate strategic interaction could be augmented by seeing how the management group was expanded to the G20—although the extent to which this expansion affected outcomes would be contested.

Related scholarship would emphasize how bargaining among the principal national governments over how to confront the crisis was, and is, strongly constrained by the domestic conditions faced by each of the major players. Foremost among these constraints are the interests and influence of major private financial institutions that operate internationally. The domestic politics of financial regulation and monetary policy is now tightly interwoven with international financial developments, especially in the leading financial centers. There is undoubtedly plenty of evidence for the influence of powerful private-sector players and of national policy makers over the developments in international financial governance since 2008.

Evidence for the importance of changing ideas about the appropriate policies for today's international financial system is also likely to be strong. It is not surprising that an unprecedented level of financial integration and technological change, along with the most serious financial crisis since the 1930s, should give rise to a rethinking of the precepts that have guided policy making. At this point, much of what we know—or think we know—about international finance is up for discussion, and the pathways these discussions take have had, and will have, an impact on policy makers at both the national and the international levels.

Finally, there is little question that the GFC has highlighted the centrality of technically trained policy makers in both national and international institutions. To a great extent, the principal global response to the crisis has been managed by the world's principal central banks, and although central bankers are hardly impervious to political pressure, much of what they have done has been guided by their technocratic training and expertise. At the same time, the crisis has certainly enhanced the role of international institutions in the financial realm. The IMF and the BIS have both played major parts in discussions of how the world may move forward in the aftermath of the crisis.

In short, all of the factors identified by scholars as relevant to the making of international financial governance can be seen as having affected the course of the world's financial order since 2008. This is hardly surprising: There are good theoretical and empirical reasons for the significance of all of these factors. What remains to be argued is whether one or more of the approaches described here outperforms the others in explaining the course of international financial events.

My summary of recent experience, undoubtedly colored by my own theoretical prejudices, is that we can understand most of the policy reaction to the GFC as a combination of domestic politics and interstate bargaining. Certainly the theoretical novelty of the panic of 2008 and the unprecedented nature of the Eurozone crisis have provided some space for policy entrepreneurship among international bureaucracies and for new ideas. But one of the striking features of the political economy of the crisis is just how similar it looks to previous financial and debt crises (Chinn & Frieden 2011). There has been massive conflict over how the burden of adjustment should be distributed, both among and within countries. The intersection of intercountry bargaining and domestic political conflicts has been particularly prominent in the Eurozone crisis. Although there have been ideas in conflict, and technocrats in the mix, it is hard to escape the conclusion that the cold hard cash at stake, both domestically and internationally, has been the main determinant of the political economy of the crisis.

CONCLUSION

International financial markets today are extraordinarily large and wield enormous influence over the course of global economic and political affairs. In the wake of the most damaging financial crisis in the last 75 years, it is no wonder that everyone, from policy makers and journalists to scholars, is interested to know if a higher level of international financial governance might avoid a repetition of the past decade's disasters. In a way, current discussions are reminiscent of the debates that took place in the aftermath of previous financial crises and bank panics at the national level, most of which led to an expansion of national financial regulation and supervision.

There are in fact good normative arguments for the development of international mechanisms to limit the damage international financial markets can cause and to enhance their benefits. At the domestic level, financial markets create positive externalities when they work well and negative externalities when they do not, and this creates a demand for management that is undersupplied by the private actors themselves—hence justifying the government's provision of the public goods associated with financial stability. At the international level, no single government has sufficient incentive to supply these global public goods, so their provision would depend on the joint decisions of multiple governments. But whatever the normative and theoretical argument for global public goods, the realities of international and domestic politics make their supply in practice problematic.

Nonetheless, there has unquestionably been movement toward greater global financial governance over the past 25 years, and this movement is in the direction of providing something akin to global public goods in the financial area. This development has taken the form of greater cooperation among the major financial centers, increased harmonization of financial regulations among countries, a more significant role for international financial institutions, and other measures that supply some part of what is typically associated with financial stability at the domestic level.

Scholars have adduced several factors to help explain both progress and obstacles in the path of international financial governance. The realities of collaboration among independent, self-interested nation-states may stand in the way, although if some countries expect to benefit disproportionately from international financial stability they may be more likely to work hard to contribute to it. By the same token, inasmuch as powerful groups—especially private financial institutions—anticipate private benefits from greater international financial governance, they will be inclined to pressure their governments to work in that direction. At the same time, trends in the intellectual understanding of international financial problems and of how they might most effectively be addressed can affect the ways in which national and international policy makers confront the problems they face. This is especially true when the policy makers are united by common technical training and by long experiences of working together either at the national level or in international financial institutions.

The international financial system is likely to continue to grow and to expand its influence over both the global economy and the economies of countries. It is just as likely to continue to be subject to periodic tensions and pressures, and at times these tensions will almost certainly erupt into full-blown financial crises. Crises have always been endemic to financial markets, and we have no reason to believe that the near future will be different from the past. National governments have gradually developed ways to limit, though not eliminate, the damage caused by these financial stresses at the domestic level. The evidence of the past several decades is that the world's major governments, along with the major international financial institutions, are moving gradually and haltingly in the direction of managing international financial affairs more comprehensively at the global level. This does not necessarily mean that the results of these efforts will be some magical resolution of global problems, or even that they will make most people and most countries better off. But there are prospects for progress in addressing the potential costs of international financial integration and enhancing its positive effects. It is important to understand these prospects and the obstacles to their realization.

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