Global Governance 22 (2016), 99–115

Putting the Pieces Together: International and EU Institutions After the Economic Crisis

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This article examines the role of global financial institutions, the World Bank, and the International Monetary Fund, as well as the Group of 20 and the main European financial institution, the European Central Bank, in the aftermath of the 2008 financial crisis. The central question is whether these institutions are helping or hindering Europe's recovery. Looking at the activities of these institutions from 2008 to 2014, the article concludes that they have had little impact on the recovery itself. Instead, their focus has been on preventing further damage and eliminating the possibility of such a crisis in the future. ***Keywords**: 2008 financial crisis, European Union, financial governance, International Monetary Fund, World Bank.*

THE BASIC PREMISE OF INSTITUTIONALISM IS THAT INSTITUTIONS MATTER. IT seems to us, given the persistent global financial crisis and worldwide recession combined with the potential collapse of regional institutions in Europe, that it is worth examining some of the major financial institutions to see if they did and do matter—either in exacerbating the financial downturn or ameliorating its effects. Hence, in what follows, we examine two major groups of financial institutions that play key roles in managing financial issues in global and regional regimes—the international group created after Bretton Woods (1944), and those of the European Union (EU) created largely by the Maastricht Treaty (1992) and since modified—and ask the question, what effects have these institutions had and what effects are they still having on financial outcomes after 2008?

To be clear, numerous studies have dealt with the question of how the financial crisis came about. We are not adding to this literature. Instead, our focus is on the aftermath, the ongoing attempts to put the world back together—financially. It is possible that these institutions have had one or more of the following effects: (1) they might have intensified the financial crisis; (2) they might have alleviated the crisis; or (3) they might have had no discernible impact.

The consequences of the financial crisis that began with the United States' subprime mortgage crisis and the bankruptcy of Lehman Brothers persist as of this writing. Its focus has moved across the Atlantic to Europe, which remains threatened by financial contagion in a globalizing world much like that which

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swept across Asia in 1997–1998. Debt burdens, the threat of sovereign default, and recurrent liquidity issues reveal the difficulty in achieving cooperation among the loosely joined states of the EU. The world remains mesmerized by the ongoing financial problems of Europe, notably the eurozone with its single currency but lacking a unified macroeconomic vision. Bailouts have been provided for Greece, Ireland, Portugal, Spain, and, most recently, Cyprus. Achieving stability and stimulating growth in the face of austerity are difficult. Nevertheless, the impediments to interstate cooperation are not insurmountable, and "international cooperation during this sharp economic contraction has been more sustained and stable"[1] than it was during either the Great Depression or the 1981–1982 recession.[2]

Financial Governance

"Financial governance"—defined by Canadian political scientist Randall Germain as "the broad fabric of rules and procedures by which internationally active financial institutions are governed"[3]—in a globalizing world and the ways in which the "public mechanisms by which authoritative decisions about these rules and procedures are made"[4] have evolved since the global financial crisis began. We begin by briefly addressing the concept of "governance" and then describe the evolution of financial governance and the key actors involved in coordinating and regulating the contemporary global financial system both globally and within the EU. Finally, we focus attention on these actors' behavior since the crash of 2007–2008, evaluating their performance with comments on the utility of institutionalist logic.

In a globalizing world, as James N. Rosenau observes, "systems of rule can be maintained and their controls successfully and consistently exerted even in the absence of established legal or political authority."[5] Such systems—governance—entail cooperation among formal or informal institutions other than governments that are authoritative though not sovereign. "To presume the presence of governance without government," Rosenau suggests, "is to conceive of functions that have to be performed in any viable human system irrespective of whether the system has evolved organizations and institutions explicitly charged with performing them."[6]

Financial governance in contemporary global politics can encompass formal institutions (e.g., the Bank for International Settlements [BIS], which is responsible for BIS III to manage liquidity risk) or informal institutions (e.g., the World Economic Forum, a Swiss-based nonprofit organization that meets annually in Davos). More importantly from the perspective of what follows is that governance can involve institutions at several levels—substate, state, regional, and international—and so requires us to rethink the growing complexity of political space. Thus, Rosenau describes a world in which governments have "transferred their authority downward to subnational levels or upward to supranational levels."[7]

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Post–World War II International Financial Governance

Following World War II, it became apparent that it was necessary to establish international economic institutions to prevent states from adopting the beggar-thy-neighbor politics by which they had sought to extricate themselves unilaterally from the Great Depression at one another's expense. At Bretton Woods, representatives of key states designed a new monetary order based on the newly created International Monetary Fund (IMF). Together with its sister organization, the World Bank, the IMF sought to regularize international financial transactions and provide insurance and assistance for national economies heading for trouble.

The IMF did not, however, take steps to improve coordination of national macroeconomic policies or reduce the potential volatility of flexible exchange rates even as transnational financial flows accelerated dramatically. Perhaps the most important international regulatory institution in this regard was the Basel Committee on Banking Supervision located at the BIS, which provides an adhesive for a network of central bankers.

As the magnitude of the 2007–2008 crisis became apparent, the BIS revived the Financial Stability Forum established by the Group of 7 (G7) in 1999 to facilitate interstate coordination.[8] It was renamed the Financial Stability Board (FSB) by the Group of 20 (G-20) in 2009, "with the aim of strengthening financial supervision and regulation through a broadened mandate, a stronger institutional basis and enhanced capacity."[9] FSB membership, previously consisting of the world's wealthiest states, was enlarged to include major emerging economies.

The post–Cold War globalized world featured a dramatic expansion in private financial flows to emerging economies, which heightened the probability of financial crises and "moral hazard in devising measures to stem financial crises"[10] such as those afflicting Mexico in 1982, East Asia in 1997–1998, and Greece after 2012. Financial contagion has produced imaginative attempts at simplification, notably that of Moíses Naím, who argues that the contemporary international financial system "offers sweeping new opportunities but also inflicts immediate, lethal punishments on those who make the wrong calls."[11]

The result is a "neighborhood effect" in which "financial markets tend to cluster those countries perceived to be in the same 'neighborhood' and to treat them roughly along the same lines. This time, however, the neighborhood is no longer defined solely in terms of geography. The main defining criterion is the potential volatility of the countries; the contagion spread inside risk-clusters, or volatility neighborhoods."[12] The entire global economic system may be at risk when a volatility neighborhood is extensive, as it was in 2008 when it became evident that governance lagged behind market integration and was continuing to rely heavily on self-regulation. Thus, Miles Kahler and David A. Lake conclude that, "even in the arenas of international finance and monetary affairs, where globalization has extended furthest, no clear trend toward supranational (regional or global) governance is apparent."[13]

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The Evolution of the EU's System of Financial Governance

For the global system, Bretton Woods proved pivotal for the creation of a global financial system, although weak and imperfect, which is still in place today. For the European Union (then the European Community), the movement toward financial governance was a slow step-by-step process that continues today.

The European Monetary Union (EMU) was not a part of the Treaty of Rome signed on 25 March 1957, which began evolution to the EU. Ironically, it was the demise of the Bretton Woods agreement in 1971 and the end of fixed exchange rates that led to the creation of the European Monetary System (EMS). When Bretton Woods failed, Europe resorted to "the snake," which proved unsatisfactory. A series of meetings and agreements punctuated by calls for a more systematic effort at monetary and financial governance occurred between 1979 and 1990,[14] leading to the Maastricht conference and resulting 1992 treaty, which laid the foundations for financial governance in the EU. According to Leif Johan Eliasson,

> A lengthy, contested and sometimes acrimonious process unraveled in the 1990's before agreement on the structure of the European Central Bank System and the launch of the euro, but the external pressure (recession in the early 1990's), along with the treaty provisions on EMU, existing norms, and some skillful leadership by key actors meant that most states who wanted to join the final stages of EMU, the euros, undertook enough reforms and practiced sufficient budget discipline to meet the self-established "Maastricht criteria" on maximum deficits.[15]

The Maastricht outcomes led to the European Central Bank (ECB), which has become the central governing body of the EMS, adding additional tasks with the crisis responses of 2009–2014. The ECB developed a network of national central banks, which meet regularly and discuss fiscal policies. Germany, with its strong currency and dominant central bank, was able to structure the eurozone as it preferred without allowing interference in national macroeconomic policy.[16] Maastricht also provided for a fixed exchange rate and a single monetary unit, the euro. Accomplished in several stages, 2002 saw the euro introduced as the basic currency throughout the twelve initial member countries, expanded today to eighteen.

From the beginning, the EMS members hewed more tightly to established policy than the IMF membership group. Criteria set up for public debt, public expenditures, and domestic fiscal policies strictly governed members, which were no longer free to devalue currency or print money to avoid financial crisis. Under the IMF, there are observation and recommendations, which are strongly advised and usually adopted. In the EMS, there are penalties for failure to comply. Unlike the IMF and World Bank, which have remained largely unchanged in basic framework since their establishment, the EMU has evolved since 1999, and the global financial crisis led to major changes and developments in how the EU manages money. These will be elaborated below.

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The IMF: A Critique Within the Global Crisis

There are two major sets of criticism of the IMF. Both stem from the fact that most IMF institutions have remained unchanged since their creation at Bretton Woods. First, the IMF has in the main retained its original structure and hierarchy of authority. A second criticism is that while the global economy has grown, world trade has quadrupled, and inflation has increased costs, contributions to the Fund have remained relatively static, leaving it undercapitalized and thus weaker when major crises occur. Such criticisms have produced dissatisfaction, especially in the developing world, about the IMF's governing body and philosophy of doing business, both of which emphasize the power of Europe and the United States.

Let us examine these criticisms. Owing to the system of national quotas and voting based on economic size, the IMF has historically been dominated by a few developed Western states and Japan.[17] Since World War II, the United States as the world's financial hegemon has been a major "winner" from financial governance and pro-US governments are more likely to obtain IMF loans, such loans are likely to be larger than those of other governments, and the conditions of such loans are likely to be less stringent.[18]

As of 2012, the wealthy members of the G7 still enjoyed 43.09 percent of votes in the IMF. By contrast, rapidly growing Brazil, Russia, India, and China (BRICs) collectively accounted for only 10.26 percent.[19] And "the 24-country African group which collectively wields 1.42% of total voting power cannot rely on voting power and so must fall back on attempting to influence colleagues on the Board through persuasion."[20]

The composition of the IMF Executive Board, chaired by a managing director with twenty-four directors, also reflects Western dominance. Write Ngaire Woods and Domenico Lombardi: "Each of the five largest members of the IMF appoint their own Director. This means the US, Japan, Germany, France, and the UK each have their own representative on the Board. A further three members also enjoy their own seat."[21] Within the organization, countries have formed groups that coordinate and present the policy preferences of their members. The IMF

> Articles of Agreement provide for the election of 15 Directors by all those countries without the right to appoint their own Director. Within this provision for open elections a constituency system has evolved whereby states have come voluntarily together into groups of anything between four and 24 countries to elect an Executive Director who votes for the group as a whole.[22]

Historically, the IMF managing director has always been European and the president of the World Bank has always been American. The voting formula within the IMF assured that the wealthy G7 could dominate the organization and exploit their influence to advance their own interests.

The IMF and its sister institutions are only a few of the diverse formal and informal international, transnational, and private institutions and networks that

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have the authority to perform tasks that states once performed for themselves. For example, the World Trade Forum, the Bilderberg Group, the Trilateral Commission, and the Indus Enterprise are "clubs" at which elites gather to discuss global economic and other relevant issues. Think tanks and institutes such as the Brookings Institution, the Hoover Institution, the Carnegie Foundation, and the Heritage Foundation mobilize expertise and coordinate epistemic communities to influence global policies.

From G7 to G-20[23]

As we have seen, until recently the G7 wielded dominant influence in shaping IMF policies, and G7 ministers, central bank governors, and IMF deputies routinely coordinated policy positions.[24] The financial crisis greatly accelerated the process of restructuring global financial governance in part because emerging economies such as China, India, and Brazil proved more resilient to the financial storm than members of the G7. Thus, in a major shift in global financial governance, it was agreed in September 2009 that the G7 would cede authority to the G-20 to bring together the emerging economies and the countries of the developed world.[25] In addition, developing countries were assured that they would enjoy at least 5 percent more of IMF voting rights by 2011.

The G-20, consisting of the members of the G7; BRICS (now including South Africa); and other emerging economies, including Argentina, Australia, Indonesia, Mexico, South Korea, Turkey, and Saudi Arabia (as well as the EU as a unit), recognizes the growing economic role of Asia and Latin America and the demands of major emerging economies for greater political influence[26] as well as the US desire to dilute "the force of the European lobby."[27] Some observers have even predicted "the G-20 of finance ministers could become a potential source of competition for the IMF's International Monetary and Finance Committee in dealing with international financial crises."[28] Although the World Bank president selected in 2012 is an American, able candidates from Africa and Latin America contested his selection for the first time, and it is likely that future leaders of the IMF and World Bank will emerge from regions other than Europe and North America.

G-20 members have begun to peer review one another's economic policies. In addition, the IMF is assuming the role of providing the newly energized G-20 with staff support[29] and, on behalf of that group, has evaluated how a global tax on financial institutions might be levied.[30] The IMF also has increased its funding, has begun to overcome its reputation for ideological neoliberalism, and, for the first time, has successfully issued bonds. For its part, the G-20 must deal with the questions of whether the US dollar should remain the world's major reserve currency, of how to slow the influx of foreign exchange into emerging economies, and of how to manage the volatility of capital flows.[31] Although the additional influence of emerging economies is

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increasing the number of states able to influence governance of the global financial system, Barry Gills is largely correct in concluding that "it is still the most powerful governments of the world that determine the primary course of action and define the parameters of mainstream discussion whenever there is a crisis."[32]

Financial Governance in Europe: The European Central Bank and Other EU Financial Institutions

When examining the IMF as well as the World Bank, we are looking at a set of institutions that have remained relatively unchanged since their inception. Europe presents a very different picture. When it comes to regional financial governance, there are several different institutions, each of which has the ability to become involved in financial governance. And there is considerable overlap in functions among these institutions.

At the heart of Europe's regional financial governance is the European Central Bank. Located in Frankfurt, the ECB "monitors the money supply in the Eurozone (countries that use the euro) and sets interest rates, which affect the supply of money available in the Eurozone countries."[33] The ECB is largely independent of the EU's political institutions but, as noted below, it has received considerable new powers since the onset of the global financial crisis and has become more closely tied to the EU Commission, which is an enforcer of financial decisions.

In Brussels, there are at least three other loci of financial policy and monitoring of the ECB. The first is the European Commission, which acts as executive for the EU. There is a commissioner for economic and monetary affairs and the euro, who initiates and oversees legislation relevant to financial and monetary issues and monitors and issues detailed reports concerning the eurozone's financial system. The Commission thus oversees implementation of financial regulations and reports on the levels of observance/nonobservance of such regulations by member states. The Commission, for example, is responsible for gathering data on Greece's compliance with the terms of its bailout.

The second locus, the EU Council of Ministers, is also involved in managing Europe's financial system. The European Council, consisting of the heads of governments of member states, becomes active in this area only after a crisis erupts. Through its Economic and Financial Council (ECOFIN), which consists of the economic and financial ministers of member states, the Council of Ministers is mandated both to monitor and to regulate the financial system. ECOFIN oversees the operation of the Stability and Growth Pact (SGP) and examines the budgetary policies of the member states, their public finance, as well as legal and international implications of financial policies. All member states must submit yearly reports on budgetary objectives, which form the basis for both Commission and ECOFIN actions.

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It is noteworthy that members of the eurozone meet as a group in advance of ECOFIN council meetings to discuss issues relating specifically to the euro. And when ECOFIN votes on matters relating exclusively to the euro, non-eurozone countries do not vote. ECOFIN normally meets twice yearly, but during the height of the crisis in 2009 it held frequent meetings. More recently, ECOFIN abandoned its usual Brussels gathering in favor of meeting in the capitals of countries that have been bailed out (most recently, Athens) to assess how well these countries are progressing in their financial reform and recovery.

In some respects, ECOFIN is a European parallel to the G-20 international group. Initiative and reform come from ECOFIN just as the G-20 takes steps to manage global monetary and financial problems. However, ECOFIN has significantly more authority to see that its policy preferences are implemented through regulation and enforcement mechanisms than the G-20, which can only call for countries to adopt the measures it puts forward.

The European Parliament and, in particular, its Financial Committee form a third locus of policy development in financial affairs. The Parliament has long been important in budgetary matters. The 2007 Lisbon Treaty gave the Parliament codecision powers in a number of key policy areas, including finance. The Financial Committee may hold hearings, require reports, and consider legislation relevant to the region's financial system. Generally, the Parliament acts on measures, which come from the Commission or Council, rather than initiating action, but it has the authority to defeat or modify measures put forth for its consideration.

Other comparisons to the IMF are also appropriate. As in the IMF, economically powerful states enjoy a greater ability to influence decisions. Thus, as the United States enjoys a uniquely influential position in the global financial system, Germany dominates European monetary issues. It is virtually impossible to accomplish any alteration in Europe's financial system without the approval of Germany and France, and it is common to read news stories with titles such as "Germany Accused of Dominating EU at Expense of Smaller States."[34]

Measures Taken by Global Governance Institutions in Response to the Financial Crisis

When the bubble burst in the United States, no one realized the breadth and depth of the financial crisis that would ensue. Both the IMF and European institutions were forced to respond. The IMF planned emergency financing under a new Short Term Liquidity Facility (SLF). There was discussion about the need for IMF consultation, advice, and planning for countries affected. The IMF message was the same as usual—curb spending, reduce debt, and introduce austerity measures.

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The crisis deepened. By 2009, the IMF was conducting frequent emergency meetings and coming to recognize that its normal neoliberal measures would be insufficient. Persistent financial turbulence ultimately led the IMF to address the major criticisms levied at it and to restructure itself to meet the challenging situation. In a sense, the IMF seized the opportunity to make long-needed reforms. First, the IMF increased the quota subscriptions of its 188 member states and arranged for additional borrowing if necessary.

This created a "crisis firewall," which allowed the organization to increase lending. Since the beginning of the crisis, the IMF has committed over $300 billion in loans to help its members. Notably, the amounts of each loan grew larger, and the terms of these loans became more flexible.

Perhaps more far-reaching was the overhaul of IMF governance. Fifty-four of its members received increases in their quotas, especially the BRICS. Relatively low-income countries had their voting power in the IMF increased. Thus, the United States, Europe, Japan, and other G7 states relinquished some of their overwhelming dominance while still retaining a prominent role in its management. The IMF also increasingly cooperated and coordinated its policies with the G-20. The G-20 agreed to provide an insurance policy for IMF funds, a fund that the IMF could call on when necessary, thereby expanding IMF resources at a critical time. And with the World Bank, the IMF made a considerable effort to ease the impact of the crisis on the least developed nations. Both agencies eased requirements for loans and made significantly more money available to these countries.

As the financial crisis spread, the IMF provided backing for government and central bank intervention and cooperation (e.g., coordinated cuts in interest rates) to provide liquidity, stabilize financial markets, and compensate for the decline in trade and expansionary fiscal policies (at least, until the September 2009 G-20 summit). It also began making critical loans to countries without access to capital markets as well as establishing a six-month credit line—the Precautionary and Liquidity Line (PLL)—for economically healthier countries, most of which were European.

Several other new instruments expanded the tools designed for the IMF to deal with the difficulties of long-term recession. The PLL allows the IMF to provide up-front liquidity in circumstances where countries are reeling from economic shocks. The Rapid Financing Instrument made it possible for the IMF to react swiftly to financial and other emergencies and has proved to be particularly useful when timely intervention could prevent further damage. Concerning this last measure, Christine Lagarde, managing director of the IMF, declares:

> The IMF has been asked to enhance its lending toolkit to help the membership cope with crises. We have acted quickly, and the new tools will enable us to respond more rapidly and effectively for the benefit of the whole membership. The reform enhances the Fund's ability to provide financing

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> for crisis prevention and resolution. This is another step toward creating an effective global financial safety net to deal with increased global interconnectedness.[35]

By December 2013, Poland, Mexico, and Colombia were among the countries that had taken advantage of another recent IMF crisis mitigation and prevention lending facility, the Flexible Credit Line (FCL), which "was designed to meet the increased demand for crisis-prevention and crisis-mitigation lending from countries with robust policy frameworks and very strong track records in economic performance."[36] At its 2009 meeting in Pittsburgh, the G-20 encouraged the IMF to rectify global imbalances caused by the US deficit and Asian saving rates in its "Framework for Strong, Sustainable and Balanced Growth."[37] And at its meeting the following year in Seoul, the G-20 endorsed the IMF surveillance of national economies, calling on the organization to develop "indicative guidelines composed of a range of indicators . . . to facilitate timely identification of large imbalances that require preventive and corrective actions to be taken."[38] In sum, the IMF provided insurance to indebted states, coordinated responses to the crisis, offered advice to troubled countries, and maintained surveillance over the monetary system. The question of whether IMF surveillance was sufficient remains contested, especially in light of its failure to criticize major member states' policies prior to the Great Recession.

Measures Taken by the European Governance Institutions in Light of the Financial Crisis

Like the IMF and the G-20, the EU also reacted to the financial crisis by enacting important but limited reforms. But there are two major distinctions between the global and regional institutions and their responses. The first is the euro. There is, of course, nothing like a global currency. The euro's survival and rescue of the economies of the eurozone countries became paramount throughout. The EU has faced a number of national financial debt-related crises, which threatened to bring down the euro: Greece, Ireland, Portugal, Spain, and, more recently, Cyprus. Second, while membership in each of these organizations (the IMF and the EU) is optional and a country can withdraw (as Great Britain is currently exploring with regard to the EU), there was greater urgency associated with the EU's measures. If regional financial governance fails, so too will the EU's experiment in international cooperation, and with it the significant economic benefits enjoyed by the member states, especially the smaller ones.

It is important to note that the global financial institutions, especially the IMF, acted in concert with the EU to cobble together the bailouts necessary to sustain EU member countries. The IMF and the EU Commission, together with the European Central Bank, formed the so-called troika to prevent sover-

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eign default by Cyprus, Greece, Ireland, Portugal, Spain, and Italy after 2010. In these cases, the IMF provided political cover for national authorities and EU officials by advocating austerity and provision for debt relief. However, although the IMF, the European Central Bank, and eurozone finance ministers cooperated in these instances and all contributed needed funding, the IMF recognized that unrelieved austerity could exacerbate a country's recession, reflecting a decided change from its earlier ideological bent.[39] One consequence was easing the requirements for the bailouts by extending the terms of compliance for several years, one of several issues that have strained cooperation within the troika and led a former US Treasury official to observe, "It is very difficult to have three cooks in the kitchen all the time. That is just life."[40]

Like the IMF, the initial responses of Europe utilized the tools that were available. The European Central Bank cut interest rates, enhanced liquidity, and increased access to refinancing while working with national banks on their individual problems. It was only two years after Lehman Brothers collapsed in 2008 that the EU began a reform process. Its ultimate goal, as stated in 2010, was banking union, that is, a single set of rules for banks, a single bank supervisor, coordinated deposit guarantees, and a single mechanism for resolving disputes. First, it created the European Stability Mechanism (ESM) to aid countries in the eurozone in financial distress. Then, the European Systemic Risk Board was established to mitigate risks to financial stability within the EU that spread from the global financial system. Also, it strengthened the ECB and gave it added powers, beginning November 2014, to oversee national budgets and domestic banks. Finally, ECOFIN and the European Parliament agreed in March 2014 to establish the Single Resolution Mechanism (SRM) to allow the EU to intervene in stressed economies and take necessary measures to prevent fiscal crises. This mechanism went into effect on 1 January 2015, with its application in 2016.[41]

Early in 2011, the EU established three new institutions to help manage the ongoing financial crisis and provide additional financial governance as well as answer the criticisms of having erected a common market without integrating national financial systems or coordinating macroeconomic policies. The European Banking Authority, located in London, became the overseer of Europe's banks. The European Securities and Markets Authority in Paris was established to regulate Europe's markets. And the European Insurance and Occupational Pensions Authority was established in Frankfurt to supervise and monitor insurance companies and pension funds.

In 2011, the Commission proposed and the Council passed what was called "the Six Pack" of five regulations and one directive, which gave the EU expanded surveillance powers over the budgets and financial planning of all its members. These included measures to prevent or correct macroeconomic imbalances, to allow surveillance of national budgets from the planning stage until expenditures, and to elaborate requirements for members' fiscal responsibility. Budget requirements were relaxed to allow members an annual budget

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deficit of 3 percent of gross domestic product (GDP) and debt ratios of up to 60 percent of GDP. On 9 December 2011, the EU passed the Treaty on Stability, Coordination and Governance, known as the fiscal compact, which pledged member states to monetary and financial integration and provided for sanctions as enforcement of the community's new fiscal rules. The most recent addition was a banking supervisory authority to be run by the ECB and to oversee the ESM, thereby allowing the ECB to finance troubled banks directly. This Single Supervisory Mechanism (SSM) for all banks cements a network of national central banks, with the ECB as the authority over all of them.[42]

It is apparent that the European response to the fiscal crisis was to foster the integration of members' financial systems and to deepen the oversight of national financial institutions. As Demosthenes Ioannou, a leading economist in the ECB, declared,

> Contrary to the globally coordinated reforms, the stricter regulatory framework at European level was complemented by the creation of new institutions. The EU member states' response to country-specific and EU-wide challenges was the establishment of new macro- and micro-prudential supervisory authorities, the tightening of rules and the introduction of new initiatives into the EU/European decision-making bodies.[43]

Comparison and Analysis of the Postcrisis Financial Institutions

As expected, there were significant similarities between the responses of global financial institutions and those of the EU to the crisis. Both grew from similar roots and had overlapping membership and similar structure. Their philosophies were also remarkably alike at least initially, especially with regard to austerity measures, budget deficits, and public debt. Nevertheless, in light of such similarities, what is remarkable is that their responses to the fiscal crisis should be so different.

The global institutions took immediate steps to change long-held policies and, ultimately, to reform the structure of the institutions themselves. The EU only reluctantly advanced in the direction of structural and ideational reform, and only incrementally made needed changes. As Eliasson suggests,

> The external shock of the 2008 financial crisis . . . resulted in an altered international environment and prompted initial action by EU institutions (the ECB on interest rates and unlimited liquidity), but no significant changes to institutions occurred as a direct and immediate result of the US financial crash. Instead, European states at first reacted timidly, engaging in heated and protracted debates, with the proposals of euro and EMI disintegration hinted at more than once by both press and policy makers; change came incrementally as existing practices proved unviable and certain ideas gained traction, promoted by key leaders.[44]

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Whereas the IMF and the G-20 revised their operating procedures to cope with financial exigencies, the EU began a lengthy process of adding regulations and responsibilities to the operation of existing institutions, especially the ECB. With each new set of responses and regulations, the EU consciously tried to avoid the appearance of limiting national sovereignty. Ironically, this meant emulating the IMF rather than reinforcing national fiscal management. Thus, two observers conclude that "at each step of the process—the first rescue package for Greece, the EFSF [European Financial Support Facility] and the ESM—the relevant actors were careful to avoid any semblance of a comprehensive fiscal empowerment of the EU. *The role model was the International Monetary Fund, not the fiscal order of a federal state*."[45]

Overall then, the global governance institutions are generally thought to have performed well, taking prudent and necessary measures to address the deepening crisis and helping countries in trouble, especially the poorest states in the developing world. In contrast, to date the EU has failed to take the bold steps to reform its public or private financial institutions and operations, lest it trigger a nationalist backlash among its members. Indeed, as noted above, partly as a result of the crisis, Great Britain will hold a referendum on exiting the EU. Other results have been persistent recession in several EU member states, the continuing possibility that Greece may still default as its financial woes continue, and the potential for bailout demands in other EU countries, notably Slovenia.

Why this divergence in the paths taken by the two levels of fiscal governance? The explanation seems to lie in the EU's twin struggles to retain the euro and keep the institution from disintegration. Leaders, most especially Angela Merkel, have been conscious as they try to navigate the treacherous shoals of the financial crisis that like the EU itself their political future was at stake, a consideration suggesting caution and reluctance to make major changes.

The Impact of Global and Regional Financial Governance and the Fiscal Crisis

On the one hand, given institutional and national constraints, both sets of institutions—global and European—performed well. The IMF helped numerous states, and the effects of the financial crisis were mitigated by bridging loans and eased terms of financing. In Europe, the euro has not been abandoned, and Latvia has joined the eurozone while others, notably Lithuania, are planning to join the eurozone in the near future. Ireland has emerged from its bailout and is on a path to recovery. Spain and Portugal are stabilized, although economic hardship and unemployment remain widespread. Even Greece is making forward progress to resolve its financial woes, and the April 2014 meeting of ECOFIN ministers in Athens agreed to another round of bailout funding.

The emphasis of both the global and regional institutions has been to pre-

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vent future financial contagions. Both levels have introduced reforms aimed at forestalling another crisis before it gets out of hand, and the present crisis has forged a higher level of cooperation among key actors at each level. Today's international and regional fiscal institutions are closely linked with the IMF, which is a central player in both. The reforms undertaken allow a greater degree of penetration and governance of national and subnational financial institutions by EU institutions. In sum, the fiscal crisis has produced more tightly interconnected governance at all levels of financial activity.

On the other hand, there is a general feeling that the financial institutions had too little impact on the crisis. They failed to prevent the crisis from happening, did not stop it from spreading, and only slowly reduced the widespread hardship that it produced. One study even concluded that the G-20 summit meetings have had little discernable impact on financial markets.[46]

Some observers have been disappointed that the 2007–2008 financial crisis did not produce another "Bretton Woods moment" and that, at best, an incremental process will bring an end to the legitimacy crisis that both global and regional European financial systems still confront.[47] In the same vein, the South Centre, an intergovernmental policy think tank of developing countries, sharply criticizes the current "global financial architecture" and concludes that the global financial crisis "has shown how dysfunctional the current international financial architecture is to manage the global economy of today."[48] The South Centre argues that the financial regime should increase the involvement of developing countries, be reformed to regulate and increase disclosure concerning securitized debt and derivatives, create a new reserve currency that could be based on IMF Special Drawing Rights, enable coordination of global macroeconomic policies (a step that the members of the eurozone are in fact undertaking), create an international debt court, and rely more heavily on regional institutions.[49] Similar recommendations could be made for the EU, which also needs reform and transparency. It has come late to regulatory positions held internationally for years, and its currency sorely needs reformation. But the question of how to make these reforms remains.

When all is said and done, global and EU financial governance remains fragile. The institutions are working—but imperfectly. EU governance has not reached the level of either the IMF or the G-20. Yet all of these institutions continue to seek a pathway out of the 2007–2008 crisis. A number of European nations continue in recession in 2016, although the overall outlook remains positive. The IMF continues to have a record number of demands on its resources, even while the US Congress hesitated to allow changes in the quota system that reflects the growing impact of emerging economies.

The answer to our original question on the efficacy of institutions must remain unanswered because the effects of the changes and reforms put into place have yet to be realized. But this exercise has catalogued the nature of the direction chosen and put us in a good position to evaluate changes as the future unfolds. ⊕

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Notes

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