Orchestration by design: the G20 in international financial regulation

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In *International Organizations as Orchestrators*, Edited by Kenneth Abbott. Cambridge University Press, 88-113. https://doi.org/10.1017/cbo9781139979696.006.

ABSTRACT

The G20 has emerged as a central player in global financial regulation, but it does not easily fit existing governance models. What kind of governance power can the G20, an informal institution with no legal personality, no inherent technical expertise or infrastructure and no resources, exert? Moreover, faced with a global economic crisis, why did states work primarily through the institutionally weak G20 rather than through a stronger international financial institution? I argue that the concept of orchestration captures a good deal of how the G20 exercises governance and why it is attractive to states. Although it has no capacity of its own, the G20 is an increasingly focal actor within a large regime complex, with the power to convene and enlist intermediary bodies to carry out common regulatory goals. At the same time, only moderate convergence of state interests on regulatory goals helps explain why states pursue orchestration within the institutionally weak G20. Its design allows states to engage in regulation softly and indirectly, while avoiding sovereignty costs associated with more formal institutions. This chapter analyzes three cases of the G20 at work as orchestrator, in the areas of economic surveillance, banking regulation and accounting standards. The conclusion considers the implications of orchestration for the effectiveness of global financial regulation.

Introduction

The near-collapse of the global economic system after 2008 led to virtually universal calls for greater regulation of international markets; what remained unclear was what form these regulations should take and who should be responsible for them. In this context, President George W. Bush called the leaders of the G20 to Washington in late 2008 for the first G20 leaders' summit. The G20 emerged to take the lead in providing a global response to the crisis and has since established itself as the pivotal forum for coordinating national fiscal policy and finance-regulating measures. It has won praise for taking rapid and forceful steps that prevented a deepening of the crisis; some observers even hail it as the best hope for global financial regulation (Cooper and Helleiner 2010; Heinbecker 2011; Smith 2011; Carin et al. 2010). Others dismiss the G20 as a "profound and complete disappointment" (Johnson 2010, 2009), ineffective in bringing about deep regulatory reform (Vestergaard and Wade 2012). All agree, however, that the G20 has become a potentially powerful actor in global economic governance. This has intensified debate about its governance role.

For valuable comments and suggestions, I thank Xinyuan Dai, two anonymous reviewers, fellow participants at the "International Organizations as Orchestrators" workshops and especially the editors, Kenneth W. Abbott, Philipp Genschel, Duncan Snidal and Bernhard Zangl.

The rise in importance of the G20 and its leading role in response to the crisis are surprising. The G20 was conceived as an informal institution where economically powerful states could meet to discuss issues of common concern including, but not limited to, economic and financial issues. Beyond facilitating discussion, however, the governance modes available to the G20 are limited, since it has no formal decision-making procedures, cannot formally delegate tasks and has no institutional means to coerce or otherwise enforce compliance. The G20 is not a formal intergovernmental organization like the IMF or the World Bank. Unlike these organizations, it was not founded by a treaty, but was called into being by another informal group, the G-7. It is not a representative body, but is composed of a limited and exclusive number of states. It lacks a secretariat and has no permanent headquarters; it has no formalized operating procedures and its decisions are not legally binding. Given the extent of the global financial crisis, one might have expected states to pursue more centralized and harder regulation, possibly through a new IGO strongly empowered to create and enforce financial regulations, similar to the role the WTO plays for international trade. Or states could have responded to the crisis by more intensively using and enhancing existing institutions already equipped with expertise in managing economic crises and authorized to engage in hard and direct governance, such as the IMF. Instead, states turned to the G20, raising a set of questions this chapter addresses.

How can an institution with so little institutional capacity, no official empowerment and no inherent technical expertise play any kind of governance role? What governance modes are available to it and by what means can it exercise influence? Moreover, faced with the most dire global economic predicament since the Great Depression, why did states turn to the institutionally weak G20 rather than working through and enhancing existing IGOs, which were already equipped with experience and authority in managing financial crises?

I argue that while the financial crisis, along with significant problems in the existing financial regulation regime, did create a demand for better financial regulation, distributional concerns ultimately shaped the mode of its supply. In particular, the G20 is an attractive forum for states because they can use it to organize and coordinate policy without incurring the costs of delegation usually associated with IGOs. They can do so because the G20 exercises governance power by relying on orchestration, a mode of governance that is characterized by indirect and soft governance instruments.

Orchestration captures a good deal of how the G20 exercises governance. Without capacity of its own, the G20 has been increasingly enlisting, supporting, endorsing and coordinating the work of other regulatory bodies such as the IMF, Bank for International Settlements (BIS) and FSB. These international financial institutions (IFIs) serve as intermediaries that have the regulatory capacity (e.g. expertise, information and access to targets) to carry out the G20 governance agenda targeted at states and financial market actors. The G20 does not control or coerce its intermediaries, but rather works through them to achieve shared regulatory objectives. The intermediaries report to the G20, but do so on a voluntary basis. The role of the G20 is to serve as a focal institution with the legitimacy and power to convene and coordinate relevant IGOs, influence the regulatory agenda, offer regulatory bodies resources to carry out their tasks and promote target compliance.

Understanding orchestration allows us to see why states would pursue financial regulation through the G20. Through the governance mode of orchestration, the G20 allows member states to gain some control over the entire regime complex responsible for financial regulation, without having to create a supranationally empowered institution that would entail sovereignty and control costs, and without having to significantly strengthen existing IGOs. Thus, the institutional structure of the G20, especially in the form of a leaders' summit, gives member states flexibility and freedom to influence financial regulation, while avoiding the sovereignty costs and principal–agent problems associated with hierarchy or delegation. Orchestration of other IGOs allows the G20 to compensate for its institutional weaknesses, including lack of organizational infrastructure and lack of direct access to targets. Moreover, by enlisting the support of IGOs with universal membership, the G20 can affect states beyond its own membership without including them in its deliberations (Viola 2004). Finally, orchestration does not enable hard and direct governance, which may result in less effective or less deep reform, but this suits the G20 members well, given their divergent preferences for regulation. This chapter proceeds as follows.

The first part shows how the G20 fits the orchestrator–intermediary–target (O-I-T) model, and how this model better captures G20 governance activity than alternatives such as hierarchy and delegation. The second section uses the orchestration hypotheses developed in the introductory chapter to explain why the G20 is a likely orchestrator. It largely confirms that the conditions hypothesized to lead to orchestration are indeed present in the G20 case, but also highlights some interesting variations. The G20 was designed to orchestrate a burgeoning field of regulatory organizations and has itself become a focal institution. Meanwhile, the divergence of regulatory interests among member states helps to explain why states pursue orchestration within the institutionally weak G20 rather than delegation or hierarchy within a more strongly institutionalized body. The third section analyzes three cases of the G20 acting as orchestrator in three areas of financial governance: economic surveillance, banking regulation and accounting standards. These cases highlight the G20's orchestration relationship with three of its major intermediaries – the IMF, the FSB and the IASB. Finally, the conclusion considers some implications of orchestration for the effectiveness of global financial regulation.

The G20 and the O-I-T model

Since its creation in 1999, there has been ongoing discussion about what place the G20 has in global governance, as it does not easily fit existing governance models. What kind of governance power can the G20, an informal institution without competences and without resources, exert? Some characterize it as a "forum for dialogue," or simply a "network," while others understand it to be a "circuit breaker" or "global crisis responder," and still others see it as a "steering committee," or "global strategic directorate" (Cooper and Bradford 2010; Woods and MartinezDiaz 2009; G-20 History 2007: 51). These characterizations provide some plausible metaphors to describe what the G20 does, but in the absence of theorization they do not help us to understand what these modes of governance mean and how they differ from each other and from other modes of governance. Using the distinction between the four modes of governance – hierarchy, delegation, collaboration and orchestration – developed in the Introduction to this volume, I argue that the concept of orchestration allows us to get a better grasp on what governance role the G20 plays.

The broad mandate of the G20 is to "shape the international agenda, to discuss economic and financial issues in areas where consensus had not yet been achieved, and to 'lead by example'" (G20 History 2007: 5). The G20 does not have the authority, the capacity, or the aspiration, to directly implement or enforce its own policy recommendations. In fact, the G20 was intentionally "designed" with weak organizational structures, such as no formalized operating procedures, no permanent staff of its own, and no binding capacity. The G20 is also an organization without legal personality and thus has limited legal capacity, such as the ability to enter into contracts. This institutional structure makes it impossible for the G20 to avail itself of the "hierarchy" mode of governance, in which the governance actor has formal legal authority and coercive mechanisms to regulate targets. Moreover, the G20 is unable to obligate other institutions to carry out recommended policy. It does not possess formal mechanisms of control over other existing IGOs, such as legal contracts, nor does it have the coercive power to invest or divest potential agents with authority. As a result, the G20 is unable to rely on the "delegation" mode of governance to achieve its regulatory aims.

There are, however, two core governance modes available to the leaders' G20 that have allowed it to become a significant regulatory actor. First, G20 summits engage in "collaboration," a mode of governance that is soft because it is voluntary, but direct because it addresses the targets (in this case member states) without mediation. This mode was particularly significant in the immediate response to the 2008 global financial crisis, when the G20 facilitated the coordination of national policies. G20 leaders agreed to collectively stimulate demand and facilitated the concerted expansion of fiscal and monetary policies in member states. Members also reached consensus on the need to avoid protectionist measures and competitive currency devaluations. The initial coordination of domestic measures is generally credited with having prevented a worsening of the crisis (Cooper 2010; Cooper and Helleiner 2010; Heinbecker 2011). Since 2008, member states have continued to engage in some direct self-regulation because the G20 offers soft inducements – including ideational pressure, reputational costs and the coordination of technical support – that enable intergovernmental communication and reporting.

But beyond national policy coordination, the G20 has given high priority to international regulatory reform, articulating policy goals for prudential regulation and monitoring and enforcement mechanisms targeting public and private financial actors. In light of the last economic crisis, a central concern has been to strengthen the regulation and supervision of banks, hedge funds and derivatives. As a result, the first G20 summit in Washington at the end of 2008 developed forty-seven immediate-, medium- and long-term goals regarding transparency and accountability, coherence in regulatory regimes, financial market oversight, risk management and Bretton Woods institutions (BWI) reform (G20 2008b). This and subsequent summits have focused on the creation of a common standards regime, the extension of regulatory principles to new areas and the institutionalized monitoring of systemically important financial institutions.

For the most part, the G20 needs to enlist other actors to implement its ambitious regulatory agenda. Thus, the second way in which the G20 exercises governance power over targets is by "orchestrating" other IFIs to carry out the governance tasks agreed upon among states at G20 meetings and summits. The orchestration mode of governance is based on the O-I-T model, and is characterized by indirect and soft governance instruments. In this model, the orchestrating IGO has a capacity deficit that impedes it from engaging in hard or direct regulation, so it "outsources" the regulation of targets by working through other available public or private actors called "intermediaries" (Abbott et al., in this volume). Thus the first step in making the case for orchestration is to identify the orchestrator, intermediaries and targets.

The G20 as orchestrator

The G20 is an intergovernmental institution that is comprised of a select number of economically significant states that meet informally on a regular basis. Unlike most other powerful international institutions, the G20 has no charter and does not take votes; its decisions are not legally binding and it has no resources of its own. The group does not have a secretariat, but is directed by an annually rotating chair who, along with the previous and subsequent chairs, forms a management group called the Troika. The Troika, with the help of sherpas, is responsible for organizing meetings and setting the agenda.

Although the highly intergovernmental and informal nature of the G20 distinguishes it from many other IGOs, it is nevertheless capable of engaging in collective action. Most generally, at G20 meetings member states commit material and non-material resources to common efforts that would be individually unattainable. Even in the absence of formal voting, G20 meetings aggregate preferences, which get articulated as common objectives in frameworks and communiqués. G20 framework documents, for example, articulate a common consensus on policy goals that represent the group as a whole. Moreover, although the G20 has no material resources of its own to pursue these objectives, it has been able to mobilize member resources for collective purposes. In this way, the G20 resembles other IGOs with limited autonomy and a high degree of member-state oversight, such as the United Nations Security Council, which also relies on memberstate cooperation and resources to pursue collective aims. Finally, the G20 is a collective governance actor insofar as it addresses issues and makes policy recommendations that target a range of actors beyond its immediate membership, and so is not reducible to its individual members. The G20 aspires to influence the global regulatory agenda through its frameworks and decisions, even though it is itself an exclusive institution.

In the absence of hard or direct implementation mechanisms, the G20 explicitly enlists intermediaries to assist in achieving collectively agreedupon policy goals. A practice has developed within the G20 process whereby the G20 assigns "tasks to the multilateral economic institutions related to specific issues, with instructions to report back to the next meeting of G20 leaders" (Hillman 2010: 13). In the G20's own words, it "calls upon" institutions such as the IMF and the World Bank to carry out regulatory tasks, shape target preferences and increase target compliance. In November 2008, for example, the G20 requested that the IMF and the FSB take on the main role in crisis-prevention surveillance and charged these bodies with creating what has come to be known as the Early Warning Exercise (EWE). The G20 has also requested that the FSB, along with other institutions such as the IASB, coordinate and unify the work of national, international and private standard-setting bodies and then report back to the G20. This interaction is explicitly voluntary on both sides, but it also provides a mutual gain, since the G20 assists other organizations in fulfilling their mandates while extending its own reach as a central player in the global financial regulatory regime.

IGOs as intermediaries

The G20 works with three different types of intermediaries. Its primary intermediaries are the main intergovernmental IFIs, especially the IMF and the World Bank, but also the Organization for Economic Cooperation and Development (OECD), WTO, BIS and other multilateral development banks (MDBs), as well as the ILO. The second set of intermediaries is comprised of public standard-setting bodies (SSBs) or regulator groupings. These are public bodies composed of national officials with technical expertise, such as the FSB, the Basel Committee, and the International Organization of Securities Commissions (IOSCO). The third type of intermediary is composed of private regulatory bodies, mostly industry representatives such as the IASB.

In many cases, as with the IMF, the intermediary predates the G20 and has a long-established record of independent work. Established IGOs may make good intermediaries precisely because they have longstanding expertise and experience in a policy field. In other cases, the G20 works together with new institutions, as with the FSB which was created on the initiative of the G20, or a novel combination of intermediaries that provide a good fit for its policy goals. The G20's intermediaries are not directly empowered by or accountable to it, but are rather "called upon" by the G20 to carry out mutually accepted governance goals.

The G20 does not have a hierarchical governance relationship to its intermediaries because it has no direct command and-control mechanisms. It also cannot delegate to its intermediaries because it has few hard, and no legal, forms of control over its intermediaries, which tend to be independent and formally institutionalized bodies. For instance, while the G20 has been instrumental in creating consensus for IMF quota reform, it cannot directly implement or delegate its recommendations.

The lack of direct control mechanisms does not, however, mean that the orchestrator–intermediary relationship is symmetrical. By virtue of the fact that the G20 is comprised of powerful and systemically important states represented by the highest levels of decision-makers, it has agendasetting and convening powers. Moreover, the G20 is comprised of powerful state actors who sometimes, in a separate capacity, serve as partial principals for its intermediary organizations (such as on the IMF Board of Governors).

Intermediaries work together with the G20 on a voluntary basis largely because they ultimately seek similar regulatory goals and can benefit from cooperation. The G20 can provide intermediaries with ideational leadership, legitimacy, political endorsement and material resources, while the intermediaries provide the nuts and bolts required for governance. The IMF and World Bank, for example, both have a large professional staff and decades of experience in implementing policies and working with governance targets. The Basel and IOSCO committees have the technical expertise and the contacts with financial market actors required to implement reforms. The IASB has become the industry leader in setting financial reporting standards. Thus, these IGOs are far better informed and networked, making them better suited to the tasks required of regulators than the G20 itself.

States and non-state actors as targets

Although the ultimate targets of financial regulation are often private financial institutions and other market actors, the regulations themselves are often implemented and enforced by individual states. At the level of global governance, then, much of the effort to improve financial regulation is targeted at states, which in turn have the authority to implement domestic laws and programs that target market actors. In this sense, the majority of G20 governance efforts, via IGO intermediaries, are targeted at "managing" states (both G20 members and non-members) by improving the level of state preference for, consent to, and compliance with, IGO governance goals and regulations (Abbott et al., in this volume). The G20 and its intermediaries foster the adoption of, and compliance with, internationally recognized standards, but it is ultimately up to each national authority to implement the measures agreed upon within the G20. It is important to note that not only G20 member states are targets of G20 governance. Through its intermediaries, many of which – such as the IMF and FSB – have a broader membership, the G20 is able to reach targets beyond those represented in its own membership, with implications for the distributional consequences of orchestration (Mattli and Seddon, in this volume). By calling upon intermediaries directly, the G20 can potentially bypass the authorized decision-making processes of more universal organizations.

G20 governance efforts, via IGO intermediaries, that are targeted at states include the creation of national business-conduct rules and risk disclosure rules, national registration of credit-rating agencies, harmonization of definitions of capital, cooperation against illicit financial activity (including money laundering and terrorist financing) and meeting international standards of tax transparency. The G20 and its intermediaries monitor state behavior, seek compliance with governance goals and urge changes in behavior should the information collected reveal risks to global financial stability. A recent example of this is the newly developed Mutual Assessment Process (MAP), through which G20 states cooperatively identify objectives for the global economy and enlist the IMF to monitor and report on their national monetary, exchange rate, fiscal, financial and structural policies and their compliance with the agreed upon objectives.

Despite the centrality of states as targets, however, the latest financial crisis has emphasized private sector burden-sharing and has led to renewed efforts to target private actors to implement governance goals, even without explicit state support. This "bypassing" of the state occurs when IGO regulations address private actors and use industry enforcement mechanisms rather than (or in addition to) state legislation.

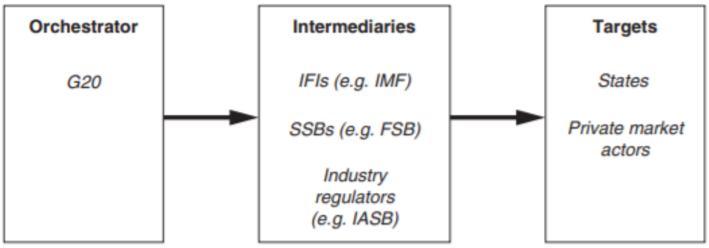

Figure 4.1 The G20 and the O-I-T model

Non-state targets include private financial institutions in the banking, securities and insurance sectors, hedge funds and credit-rating agencies. Measures targeting these actors include codes of conduct for credit-rating agencies, creation of Principles for Sound Compensation Practices for bankers and guidelines to enhance the transparency of securitization markets. Although states may choose to enforce these codes and principles with national legislation, private firms are encouraged to incorporate them into their own codes of conduct, even without state intervention. IOSCO's Objectives and Principles of Securities Regulation and the Code of Conduct Fundamentals for Credit Rating Agencies, for example, are addressed at both state regulators and credit-rating agencies directly (IOSCO Code Fundamentals 2004: 3). Figure 4.1 summarizes the actors and relationships involved in G20 orchestration.

Explaining the G20's use of orchestration

What makes the G20, despite the absence of a treaty mandate, the lack of resources and its highly informal interstate nature, a likely orchestrator? Moreover, why would states – especially when faced with a severe global financial crisis – limit the G20 to the use of orchestration rather than a more direct or harder governance method? And, relatedly, why has the G20, as opposed to a stronger and more experienced institution such as the IMF, become a leader in economic governance? The hypotheses developed in the introductory chapter, as I assess them here, combine to help explain what characteristics make the G20 a likely orchestrator, as well as why states have turned to the G20 and to orchestration instead of to more formal institutions and harder forms of governance.

The G20 is a likely orchestrator because it articulates a regulatory agenda but has limited institutional capacity to implement this agenda on its own. Its powerful membership, however, gives it access to soft resources that can be deployed to support other regulatory bodies with more direct access to targets. The field of financial governance includes a relatively large array of actors that could serve as potential intermediaries. In fact, the proliferation of only loosely interconnected institutions comprising the international financial regulation regime provided one of the motivations for the creation of the G20 in 1999. However, while the G20 always engaged in some degree of orchestration, it only became a significant orchestrator after being upgraded to a leaders' group in 2008, at which time it became a focal actor.

Consensus among states regarding the need for some action in the wake of the financial crisis combined with divergent state interests regarding the details of financial regulation help to explain why we get orchestration rather than delegation, hierarchy or collaboration. The divergence of regulatory goals given disparate state interests helps to explain why states have focused on acting through an institution, such as the G20, which is itself relatively weak but in which member states exercise strong oversight. Orchestration via the G20 allows states to engage in regulation softly and indirectly while avoiding sovereignty costs associated with more formal intergovernmental or supranational institutions.

Orchestrator capabilities hypothesis – the G20's capacity deficit

The G20 was created in 1999 by the G-7 as an intentionally informal institution, deficient of capacities to directly carry out regulation. It was initially meant to be a forum for finance ministers and central bank governors from G-7 and several systemically significant emerging economies to discuss cooperation on economic and financial policies. In 2008, in the wake of the global financial crisis, the G20 became a forum for state leaders to meet and discuss policy responses to the crisis. Without a rule-making mandate and lacking a bureaucratic apparatus of its own, the G20 depends on formal organizations such as the IMF and World Bank, as well as other institutions such as the FSB and Basel committees, to follow through and implement its recommendations. These IFIs provide the G20 with expertise – often highly technical – as well as organizational capacity and issue-area experience. They also enhance the G20's access to targets since established IFIs, such as the IMF, have a long-cultivated relationship with both member- and nonmember-state targets.

While the G20's overall capacity deficit means that it is incapable of direct and hard governance, it does have ideational and material resources that are valuable to intermediaries and that allow it to act as an orchestrator. These resources come primarily from the fact that the G20 is composed directly of state leaders and finance ministers with decision-making authority. The G20 primarily "encourages the implementation of concrete policy measures" (G-20 2000) by creating action plans, convening and facilitating the coordination of IFIs, and providing a venue for states to agree on both funding and endorsement for the implementation of policy measures by intermediaries.

Perhaps the most important capacity of the G20 has been to set the agenda with respect to international financial regulation by issuing "action plans," prioritizing reforms and assigning deadlines for national officials, international institutions and international standard-setting bodies to follow (Cooper and Helleiner 2010: 5). By virtue of its composition, including not only economically significant states but also central IFIs, the G20 is in a position to influence the salience of topics on the regulatory agenda of states and institutions. Moreover, the G20 is able to promote its agenda through its ability to convene and coordinate (although not centrally manage) the large number of dispersed regulatory agencies (Cooper and Bradford 2010: 4). By virtue of the power of its member states, the G20 is able to convene the major regulatory IFIs as well as regulator groupings and private actors. In addition to national finance ministers and central bank governors, the G20 invites the Managing Director of the IMF, the President of the World Bank and the chairs of the International Monetary and Financial Committee (IMFC) and Development Committee to participate in meetings. The G20 also promotes coordination among IFIs, especially with a view to reducing regulatory overlaps and gaps.

The G20 also provides IGOs with assistance to implement their regulations. In 2009, fearing the continued spread and deepening of the financial crisis, especially instability in emerging markets, leaders at the second G20 summit in London agreed to increase the resources available to IFIs to ensure that these can address the crisis “in a coordinated and comprehensive manner” (G-20 2009a). This meant injecting money into the IFIs, including bilateral financing for the IMF of $250 billion, to be followed by another $250 billion; an increase of $250 billion in the availability of global liquidity through the IMF’s “special drawing rights,” $100 billion of which was to go directly to emerging markets and developing countries; and the sale of IMF gold to fund concessional lending to the poorest countries. Following summits have continued to pledge funding for its intermediaries, especially the MDBs and IMF.

The G20 also uses its resources to provide political endorsement of IGO actors and actions, thus facilitating enforcement. At the very first meeting of the G20 in Berlin in 1999, the group identified its “comparative advantage” in “encouraging the implementation of measures, which had been developed by other international bodies, such as the IMF, the World Bank, or other international forums, but had yet to be widely adopted” (G-20 1999a: Annex C, 61). At the first leaders’ summit in 2008, members explicitly declared support for the regulatory work of the IGOs and promised to promote cooperation with them. The G20 has also gotten member states to newly endorse principles and monitoring programs set out by IGOs, such as a commitment to tax transparency and to the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies, and to agree upon the development of others, such as the Principles for Sound Liquidity Risk Management and Supervision, which introduce new liquidity rules, and the Principles for Sound Compensation Practices, which specify principles for banker compensation designed to constrain excessive risk-taking. The 2009 London summit proposed that parts of the “shadowbanking system” should come under global regulatory control for the first time. A member state’s pledge at the G20 may make cooperation with regulators more likely, since noncompliance may be met with normative and political pressure within the G20. In this way, G20 endorsement "hardens" the intermediary-target relationship.

Intermediary availability hypothesis – the G20's "orchestration mandate"

Despite its balance of capabilities, the G20 could not orchestrate if there were no intermediaries available to engage. In the case of financial regulation, there are a number of suitable intermediaries available to the G20 and this enables orchestration. But beyond confirming the intermediary availability hypothesis, the G20 case shows that a proliferation of intermediaries can create an urgent need for an orchestrator.

Over the course of the last three decades, the international financialregulation regime has expanded greatly to include a large number of diverse actors and to deal with an ever-more-sophisticated international financial market (for an overview of this evolution see Davies and Green 2008; Helleiner et al. 2009). In addition to the original BWI, newer actors include the FSB, the Basel Committee on Banking Regulations and Supervisory Practices, IOSCO and IASB, along with numerous industry groups and IGO committees. Each of these institutions generates large amounts of technical data on, and analysis of, global financial markets. At least by the time of the Asian financial crisis, the G-7 concluded that, although these institutions are connected in informal ways, the lack of a systematic coordination mechanism results in new inefficiencies and unexploited advantages (Porter 2000: 9). As a result, the G-7 created the G20 as a new institutional arrangement that would maintain a comprehensive view over international financial governance while also being inclusive of important emerging economies.

Given the proliferation of highly specialized and technical regulatory bodies, the G20 did not need or attempt to develop this expertise itself. Rather, from the beginning, the G20's mandate was to support and engage the governance activities of institutions relevant for financial regulation and to counteract the piecemeal fashion in which they operated. In preparation for the inaugural meeting of the G20 in Berlin in 1999, the G20 agreed that it "will help co-ordinate the activities of other international groups and organizations, such as the Financial Stability Forum" (G-20 1999). At the inaugural meeting, members explicitly "welcomed the important work that has been done by the Bretton Woods institutions and other bodies toward the establishment of international codes and standards in key areas" and pledged to mobilize support for these measures (G-20 1999b). The G20's commitment to engaging and improving these institutions has been repeated in one form or another at all its major meetings.

Indeed, the formal inclusion of the IMF and the World Bank into the G20 and its close relationship to the FSB make it a natural starting point for orchestrating IFI activities. At the time of the G20's creation, there were several proposals about how to best construct the relationship between the new group and the Bretton Woods institutions (G-20 2007: 19–20). One proposal envisaged the new Group jointly presided over by the chairs of the IMFC and Development Committee, with the IMF Managing Director and the World Bank President invited to the meetings as full participants. In this option, the IGOs would have been empowered as something more than intermediaries. A second option called for the G20 to be headed by the G-7 chair, with the IMFC and Development Committee invited as observers, and the IMF Managing Director and the World Bank President invited to attend only as required. This would have emphasized the intergovernmental nature of the G20 and weakened the inclusion of the IGOs. The option actually adopted called for the chair to rotate among the G20 members, so that the leadership of the organization was firmly with states, and it included the chairs of the IMFC and Development Committee, as well as the heads of the IMF and World Bank as ex officio members. This institutional arrangement facilitates the G20's interaction, support and collaboration with its intermediaries by embedding it within the Bretton Woods framework, while at the same time clearly providing independence from those institutions.[1]

Focality hypothesis – the G20's increasing focality

The latest global financial crisis only underscored the need for a global body to support and coordinate governance activities with respect to the financial sector and has increased focus on the G20 astheforum for coordination. The upgrading of the G20 from a meeting of finance ministers to a meeting of heads of state marked an important milestone in what has been a gradual shift toward G20 focality in financial governance. At the third G20 summit in Pittsburgh in September 2009, the heads of state "designated the G20 to be the premier forum for our international economic cooperation," meaning that it would supersede the G-8.

As the G20 has become a governance leader, and with the backing of powerful states, it has been able to intensify its use and support of intermediary actors to pursue agreed-upon governance goals with respect to financial regulation and development financing. Today, the most important institutions in the field look to the G20 summits for guidance and support, turning it into the nodal actor for discussing and coordinating financial regulation. In 2011, Christine Lagarde noted that, "Only the G20 can provide the impetus to major economic restructuring, fiscal and financial discipline and sustainable and balanced growth." She called on the G20 "to implement decisions, deepen interaction between countries and institutions to create fairer and more legitimate global governance, and define new areas in which the group can make a difference" (Lagarde 2011). The upgrading of the G20, like its establishment, was in response to the absence of international institutions where coordination on a broad range of policy instruments could take place quickly (Woods and Martinez-Diaz 2009). In particular, the G20 has been supplanting the IMF as a focal actor in economic governance. With its creation in 1945, the IMF was formally charged by treaty with promoting monetary cooperation, facilitating balanced growth and providing oversight over international monetary cooperation, as well as technical and financial support

[1] This arrangement, in which the orchestrator institutionally comprises some of its intermediaries, resembles other orchestrators, such as the ILO (see Baccaro, in this volume).

for individual states. With this range of expertise, and given its universal weighted membership, the IMF was – in theory – well-positioned to become a leader in financial governance, as well.

But in the 1990s, the policies of the IMF were highly criticized for promoting a hegemonic policy of privatization, liberalization, and deregulation and for imposing punishing lending requirements, especially through the structural adjustment programs. The IMF suffered an all but deadly blow to its legitimacy and efficacy with the Asian financial crisis.[2] The failure of the IMF to adequately respond to that crisis left it severely weakened. It is just at this low point for the IMF – and partly in response to it – that the G20 gets created, and we can begin to observe a gradual shift in focus from the IMF towards the G20 (Woods and Martinez-Diaz 2009). In fact, after the 2008 crisis, the IMF was able to retain its central institutional position largely because of the G20's strong endorsement and use of it as intermediary. Indeed, the orchestration relationship strengthens both the position of the IMF and that of the G20, which entrenches its position as coordinator of other IGOs (Cooper and Bradford 2010: 4). One of the principal reasons why the G20 has been able to supersede the IMF as a focal institution is its unique membership. The G20 is only one of a few institutions that bring together advanced industrial economies, significant emerging economies and other IGOs – all represented by the highest level of leadership. The inclusion of IGOs facilitates interaction with intermediaries. The inclusion of advanced and "systemically important" emerging economies on an equal footing, as in contrast to the IMF, has been a hallmark of the G20. Arguably, even its very exclusiveness has facilitated discussion and agreement, since it moderates the problem of interest divergence found in universal membership organizations (G-20 2007: 12–20).

Orchestrator entrepreneurship hypothesis – the G20's informality as flexibility

According to the "orchestrator entrepreneurship" hypothesis, orchestration is facilitated by bureaucratic cultures that prize openness, creativity and goal orientation. At first sight, this hypothesis has little relevance for an institution, such as the G20, that has no formal structures and no bureaucracy. In fact, it is plausible to think that very intergovernmental IGOs, such as the G20, are less likely to exhibit openness and creativity and to be more hampered by bargaining and – because of the sunk costs of reaching agreement – policy legacies. In addition, the absence of a secretariat could imply less openness and higher costs in interacting with potential intermediaries. Total absence of a bureaucratic culture could make any kind of concerted action with intermediaries difficult, if not chaotic.

While the G20 cannot be said to have a strong organizational culture, or any bureaucratic structure, and so cannot be properly measured against this hypothesis, its very informality and institutional thinness do make it less constrained than more formal organizations, and possibly more entrepreneurial. On the one hand, the informal structure of the G20 allows for more flexibility in creating policy responses than

[2] The IMF was excessively optimistic about the economies of Southeast Asia and failed to prevent financial collapse. As late as April 1997, IMF Managing Director Camdessus remarked that the global economic outlook warranted "rational exuberance" (IMF 1997).

is currently possible at an organization such as the IMF. On the other hand, states might also prefer to use the G20 as orchestrator precisely because it is weaker than existing organizations such as the IMF, thus allowing them to avoid hard governance and to side-step politically contentious issues.

The fact that the G20 is a relatively new institution without strict procedural rules, contributes to its flexibility and openness. The informality of the G20 appears to mitigate the problems of bargaining and posturing apparent in other IGOs. By accounts of G20 members, unscripted discussion helps to avoid intransigent bargaining and to reach agreement. One observer noted that the expanded group demonstrates “the value of fresh, practical, and less institutionally based dialogue and cooperation” (De Brouwer 2007: 82). Many credit this atmosphere for enabling the G20 to break the IMF’s deadlock on quota reform. Moreover, being free from formal rules has allowed the G20 to experiment with different formats, such as its gradual development of the MAP over various trial stages, and to assign intermediaries tasks that can be followed-up on, or dropped, without much bureaucratic effort. Informality and flexibility, however, constitute a double-edged sword. In the absence of formal rules and procedural transparency, it is difficult for outside actors to try to influence the G20, while the group’s appeal to informality gives it the freedom to set the regulatory agenda and decide which IGOs and which programs to support without being constrained by accountability mechanisms. Although probably suboptimal from the perspective of excluded actors, for member states this provides a degree of insulation from political pressure and negotiation.

In particular, the G20’s weak institutional structure allows states to deflect pressure away from calls for stronger financial governance and more equitable distribution of governance authority. For example, by moving discussions of financial governance to an informal group with ostensible institutional equality among members, the group appeared to satisfy calls for an open and fair governance discussion of issues too contentious to pursue within the IMF. But the group’s lack of authority to directly implement any changes made this a relatively cheap move, while at the same time it possibly forestalled moves by non-G-7 countries to pursue more radical regulatory reform strategies. Seen this way, it is precisely the weak structure of the G20 that enables states to pursue orchestration and to avoid harder and more direct forms of governance.

Goal divergence hypothesis – the G20 and modest international financial regulation

There is broad alignment of goals among states and between states and IFIs on financial regulation in the sense that all states and IFIs share a common interest in at least some institutionalized financial regulation, which explains why the G20 and IFIs work together to carry out governance tasks. Despite recent policy initiatives, however, international financial regulation remains institutionally weak, especially as compared to areas such as trade, where the WTO has developed significant authority. Important divergences in state interests with respect to financial regulation explain why the G20 is limited to orchestration and does not extend to more direct or hard forms of governance.

Divergent interests among states, combined with powerful domestic market actors who prefer low supranational regulation make it difficult for states to delegate direct and hard governance authority over financial sectors. A central reason for this is that financial power is concentrated in the hands of a few states, traditionally the US and Britain, that can exercise unique power through the importance of their financial markets, firms and currencies. This power has been used within institutions and in the standard-setting process to shape the nature of regulation and compliance in areas where regulatory divergence generates significant externalities, and to prevent strong regulation where it would limit profitable transactions (Simmons 2001; Drezner 2007; Wade 2008). In addition to the systemically powerful states, even small states can align with powerful market actors, to resist regulation in sectors important to them. This has been the case, for example, with tax havens and off-shore banking centers (Rixen 2011).

So while there are strong incentives for states to pursue financial regulation, especially given the large negative externalities resulting from global financial crises, there is also sufficient divergence of interests on the extent and areas of regulation to prevent harder and more direct forms of governance from developing.[3] In fact, one of the ways the G20 achieves moderate goal convergence is by restricting its membership so states that might want to see stricter regulations, less liberalization, more development aid and less conditionality are not represented in the group. Orchestration allows G20 states to pursue soft regulatory goals, while avoiding the creation of a more direct or harder institution, such as a World Financial Organization, to mirror the WTO (Eichengreen 2009). To the extent that orchestration provides a way to circumvent serious regulation, it has potentially negative consequences for effectiveness.

State oversight hypothesis – the G20 and strong oversight

According to the oversight hypothesis, IGOs are more likely to orchestrate when member states leave them sufficient leeway to engage in the necessary activities. This is plainly not the case with the G20. The G20 is identical with its member states and is composed of state decision-makers of the highest rank. In addition, the absence of a secretariat or other bureaucratic apparatus makes the oversight of member states complete. This means that the principal–agent problematic underlying many institutions, such as the IMF, is not particularly relevant; the group is essentially composed entirely of principals, and so does not face the costs of delegation. In contrast to the expectations of the hypothesis, however, strong state oversight increases the likelihood of G20 orchestration. Given that member states are disinclined to harder forms of governance, orchestrating via the G20 allows states to control the reins of policy formation and implementation without having to submit to another IGO with supranational competencies, such as the IMF, and so reduces sovereignty costs associated with cooperation. G20 states can enlist the IMF and other institutions to support their goals without actually going through those institutions' decisionmaking procedures. Because the group is informal, and because decisions are

[3] Graham and Thompson (in this volume) find a similar dynamic involved in explaining why states limited the Global Environment Facility.

arrived at on the basis of discussion and consensus, there are no formal control mechanisms or monitoring arrangements. Moreover, the presence of high-level decision-makers in the G20 has significantly increased the role of political actors in an issue area that, traditionally left to technocratic experts, had previously developed with considerable autonomy from states (Helleiner et al. 2010; Moschella and Tsingou 2013).

Assessment of hypotheses

The G20 case broadly confirms the orchestration hypotheses, with a few interesting deviations. As expected by the hypotheses, the capacity deficit of the G20, along with the availability of intermediaries and the focal position of the G20, increase the likelihood that the G20 pursues orchestration, as opposed to other modes of governance. While the case confirms the importance of a supply of available intermediaries, it also suggests that a plethora of available intermediaries might actually lead to the demand for an orchestrator. The need for a coordinating body was one of the motivations for initially creating the G20. Moreover, the G20's increase in focality after 2008 was accompanied by an increase in its use of orchestration, further confirming the importance of this hypothesis.

Because it does not have a bureaucracy or a strong organizational culture, the "orchestrator entrepreneurship hypothesis" does not have much traction in predicting the G20's use of orchestration. Nevertheless, the group's very informality opens up a degree of flexibility and enables the pursuit of innovative orchestration partnerships and programs.

Finally, although the O-I-T model expects goal divergence and low oversight to lead to more orchestration, the G20 case highlights an interesting interaction effect. In this case, strong state oversight still leads to orchestration when combined with moderate goal divergence and capacity deficit. This is because orchestration allows strong states in weak institutions to still engage in regulatory activity while avoiding sovereignty costs associated with stronger institutions.

The O-I-T model at work in G20 financial governance

What does G20 orchestration look like "at work"? This section presents illustrative cases from three central governance areas that the G20 summits have addressed: economic surveillance, banking regulation and accounting standards. The G20 has used its action plans, frameworks and communiqués to articulate a governance agenda in these areas and it has identified and enlisted relevant intermediaries to assist it in achieving its governance goals. Each of the three cases highlights the G20's orchestration relationship with a major intermediary – the IMF, FSB and IASB, respectively. Together, these actors represent the three different types of intermediaries that the G20 engages (IFIs, public SSBs and private regulatory bodies). The cases demonstrate the importance of orchestrator–intermediary capacity complementarity, and they exemplify the G20's use of orchestration techniques, including material assistance, political endorsement and coordination of intermediaries to harmonize and enhance their regulatory activities.

Economic surveillance: the G20 and the IMF

The failure of major economic governance bodies to predict or prevent the global financial crisis has once again turned attention to the importance of economic surveillance as a means to identify and, potentially, mitigate weaknesses that could lead to economic instability. The G20 has sought to enhance surveillance by supporting the IMF in its traditional surveillance and lending tasks and by creating the MAP, with the help of the IMF.

G20 support of traditional IMF tasks

Over the past several years, the G20 has provided explicit political endorsement and financial support for the traditional surveillance and lending tasks of the IMF. In the wake of the global financial crisis, the G20 sought to revive the IMF from its position of receding relevance since the Asian crisis in the late 1990s. The G20 turned to the IMF because of its unique capacity to analyze the relationships between financial markets and the real economy on a multilateral level. G20 summit documents repeatedly endorse the IMF as the central reference point for economic forecasting, providing information necessary for states to plan their policy responses to the crisis. They also endorse the IMF's role as policy advisor to states seeking to discuss and analyze various policy options and their scenarios. In November 2008, the G20 requested that the IMF, together with the FSB, take the main role in crisis-prevention surveillance and, in this context, renew its early warning system. "The IMF, in collaboration with the expanded FSB and other bodies, should work to better identify vulnerabilities, anticipate potential stresses, and act swiftly to play a key role in crisis response" (G-20 2008a). The G20 believed that the IMF and FSB would do a better monitoring job than private-sector analysts, who were handicapped by severe conflicts of interest (Cooper and Bradford 2010: 6). In addition, the IMF already had a large and highly qualified staff with experience in economic surveillance and forecasting.[4] In response to the G20 request, the IMF and FSB created the EWE.

The G20 enlists the IMF for the MAP

At the 2009 Pittsburgh Summit, G20 leaders agreed to the "Framework for Strong, Sustainable, and Balanced Growth," in which they committed to develop a process to articulate common objectives, develop policies to meet those objectives and to assess progress towards meeting the objectives. The cornerstone of the Framework is the MAP. The process involves assessing and monitoring individual state policies for consistency with the G20's main collective objective of achieving high, sustainable

[4] Of course, it is also clear that the IMF's track record in forecasting and preventing crises is poor, but as Aiyar (2010) notes, this has much to do with the general difficulties of predicting crises, rather than with a lack of expertise.

and balanced growth (IMF 2009: 11). The MAP is essentially a tool for ensuring collective policy action by G20 members, the targets.

The Fund was "called upon" by the G20 to "assist" this process by providing technical policy monitoring and assessment for the MAP. The G20 also explicitly called on the IMF to consult with expertise located in other international institutions, such as the World Bank, ILO and WTO. After an initial stage of aggregating policy data, IMF staff identified inconsistencies and incoherence within national policies, analyzed the multilateral compatibility of state policies, assessed the aggregate impact of these policies on the global economy, developed benchmarks to identify and assess imbalances and presented specific corrective policy recommendations to help reach G20 objectives. In 2011, IMF staff reported on progress achieved toward the common objectives and reported internal and external imbalances for seven countries exceeding the IMFdeveloped benchmarks. With the MAP the G20 is clearly exercising a governance role over its members, but one that it cannot itself directly implement. Instead, it turns to an intermediary – the IMF – to engage in the actual monitoring and assessment activities. IMF and G20 documents make clear that it is the G20 and not the IMF that is initiating the governance activity. According to the IMF, "the mutual assessment process has been initiated and designed by the G20 members and will be largely controlled by them" (IMF 2009: 6). The MAP is explicitly distinct from IMF surveillance activities and not authorized under Article IV. In the words of the director of the IMF's Strategy Policy and Review Department, "We see our role as a trusted advisor, with the G20 firmly in the driver's seat" (cited in Cooper and Bradford 2010: 6). But the IMF's involvement in the MAP is also clearly not an act of delegation. The IMF makes clear that "the Fund's involvement will be based on a request for assistance from the G20 members, which the Fund may choose to accept or decline" (IMF 2009: 6). "The essential quality of such services is that they are voluntary for both the Fund and the member: the Fund does not have to perform such services and the member does not have to receive them" (IMF 2009: 6). Thus the IMF has no legal obligation to the G20. At the same time, however, the IMF is unequivocal in saying that the MAP is "fully consistent with the Fund's own economic priorities for surveillance recently approved by the Board" (IMF 2009: 11).

Banking regulation: the G20 and the FSB

In reacting to the global financial crisis, the G20 recognized the need for some regulatory measures that would make large financial institutions, including banks and non-bank financial entities, more robust and less susceptible to collapse. The G20 requested the FSB and the Basel Committee on Banking Supervision to develop policy instruments that could be used to regulate what the FSB has identified as global systemically important financial institutions (G-SIFIs). Indeed, the FSB in particular has been a significant intermediary for the G20.

G20 support of the FSB

The predecessor of the FSB, the Financial Stability Forum (FSF), was initially created in 1999, simultaneously with the G20, in order to serve as a technical complement to the G20. The purpose of the FSF was to promote financial stability by coordinating and recommending prudential oversight mechanisms. The FSF, however, was designed with a weak institutional structure and a small staff. One of the major institutional innovations of the G20 after the 2008–2009 crisis was to transform the FSF into the institutionally strengthened FSB. This is a case where the G20 recognized the FSF as an important intermediary, but needed that intermediary to be stronger and have greater institutional capacity. The FSB expanded the membership of the FSF, was given a stronger mandate to promote global financial stability and stronger institutional mechanisms to develop and encourage compliance with regulatory policies. At the 2011 Cannes summit, the G20 agreed to further strengthen the FSB's capacity, resources and governance, including its establishment as a permanent and legal (but not treaty-based) organization.

The G20 enlists the FSB for G-SIFI regulation

The FSB receives requests from the G20 and reports to the G20, but it is not legally subordinate to it, nor, strictly speaking, its agent. The G20 has called upon the FSB (along with other institutions) to coordinate the work of national, international and private standard-setting bodies and to closely monitor the national implementation of agreed G20 and FSB financial regulation reforms (Helleiner et al. 2010: 6–7). A significant part of this effort is the FSB's development of policy tools to address global systemically important financial institutions, instruments and markets. At the request of the G20, the FSB has developed and monitors a set of policy recommendations in this regard. The first of these was the "Principles for Sound Compensation Practices." These Principles are meant to reduce incentives for excessive risk-taking that arise from the structure of compensation schemes at large and systemically significant financial firms. The Principles were endorsed by the G20 at the London summit in 2009. At the request of the G20, the FSB has also developed an "Implementation Standards" report which details specific proposals on corporate governance reforms, global standards on pay structure and disclosure and transparency standards meant to help the implementation of the FSB Principles (FSB 2009). The Implementation Standards were endorsed by the G20 at the Pittsburgh summit in 2009.

In October 2011, the FSB developed a "Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms" which was subsequently endorsed by the G20 at the Cannes summit. The Framework identifies priority areas for the FSB, including enhancing state commitment to minimum bank capital and liquidity standards through implementation of Basel II, II. and III requirements, over-the-counter (OTC) derivative market reforms and the implementation of the Principles for Sound Compensation Practices. Additional priority areas include the development of international standards for resolution regimes for distressed financial institutions, more intensive and effective supervision of banks and requirements for cross-border cooperation and recovery (FSB 2011).

At the Cannes summit, the G20 called on the FSB to investigate extending these policy measures to domestic systemically important financial institutions (D-SIFIs).

Accounting standards: the G20 and the IASB/FASB

Among the first immediate actions listed in the Washington Action Plan and agreed upon at the first G20 summit were enhancement of various accounting standards (e.g., improved guidance for the valuation of securities and on the application of fair value in illiquid market conditions) and the creation of a single set of accounting standards. The targets here are firms, via state regulatory agencies. An issue of concern to the G20 is the existence of one set of international standards, worked out by the IASB, and one set of US standards, worked out by the Financial Accounting Standards Board (FASB). Coming up with a single set of standards requires, among other things, that the US Securities and Exchange Commission (SEC) decides how and when to permit US-based public companies to use International Financial Reporting Standards published by IASB, rather than the traditional US Generally Accepted Accounting Principles (GAAP), published by FASB. Revisions and proposals for such standards must be worked out and negotiated.

To achieve these aims, the G20 called on the IASB and the FASB, the United States accounting standards body, to take action. At the 2009 Pittsburgh Summit, the G20 leaders stated: “We call on our international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence project by June 2011. The International Accounting Standards Board’s (IASB) institutional framework should further enhance the involvement of various stakeholders” (G-20 2009b). At subsequent summits, the leaders reaffirmed their support for a single set of global accounting standards and repeatedly extended the deadline.

The G20 has no authority over the IASB or FASB, and they have no obligation to the G20, as they are largely private standard-setting bodies. Nevertheless, these bodies have taken the G20’s request and deadlines seriously. The IASB and FASB write joint updates to the G20 that report on their progress and underscore their commitment to the objectives determined by the G20.[5] In a joint June 2010 letter in advance of a summit, for example, the chairmen of the IASB and FASB acknowledged the support of the G20 and expressed their commitment to its objectives: “We appreciate the support of the G20 for the development of a single set of high quality global accounting standards. The two boards remain committed to achieving that objective. We will continue to provide timely updates regarding our progress.”[6]

[5] This is not to say that there are no conflicts of interest. Indeed, it is unclear that the FASB has a preference to adhere to IASB standards. But the point is that the G20, even without authority, has been able to support this project.

[6] Available at www.ifrs.org/News/Announcements+and+Speeches/updateþtoþG20þonþ modifiedþconvergenceþstrategy.htm.

Together, these examples of the G20's activities in three key regulatory areas make clear that the relationship between the G20 and its intermediaries is neither hierarchical nor captured by the principal-agent dynamic. Rather, G20 members agree to specific regulatory aims and then enlist or call upon other actors to help achieve those aims on a voluntary and collaborative basis. The G20 can make use of unexploited synergies among actors by asking them to collaborate on common projects, and it can attempt to enhance and strengthen potentially useful intermediaries. The G20 can also facilitate target compliance when member states endorse or commit to particular policy measures. Nevertheless, these measures are not legally binding on members, and their scope and depth are constrained by the fact that they are subject to the approval of member states.

Conclusion

Speculation and debate about where the G20 is going and what kind of governance role it will take on in the future have been present since its inception and have only been fueled by its apparent resurgence in the last several years. One of the puzzles concerning the G20 is how it can sustain a strong governance role given its weak institutional structure. Indeed, this has led many analysts to argue that the G20 will need to undertake institutional reforms if it is to maintain its influence. I have argued, in contrast, that the very appeal of the G20 for member states is its ability to organize and coordinate policy without incurring the costs of delegation or hierarchy. It does so by orchestrating intermediaries to develop, and, in some cases, implement, policies on targets. Orchestration allows the G20 to play a central role in shaping and controlling the entire financial regulation regime complex without having to cede power to a supranational body, strengthen existing bureaucracies or negotiate the consent of all states in the system.

Although the G20 may usefully be conceived as an orchestrator, this does not imply that orchestration is the optimal response to global financial regulation. One set of concerns here is that the G20 and its orchestration techniques are too weak to effectively coordinate financial governance. Instead, the ad hoc and institutionally undisciplined G20 might exacerbate coordination and overlap problems. While each G20 summit builds on the work of previous meetings, each new summit also generates its own set of policy recommendations and new action plans. The focality of the G20 may mean that other institutions find it necessary to wait for signals from the G20 before continuing their work. In addition, as the G20 continues to expand its agenda, it faces the danger of losing focus and undermining its ability to coordinate and support regulatory policy in any one area. Without greater institutionalization and a clearer mandate, the G20 may unintentionally undermine the work of other institutions.

A second, more malign set of concerns is that orchestration conveniently allows states to avoid the most difficult problems of financial regulation and crisis prevention. Some scholars argue that true global financial stability requires more direct and hard governance than orchestration can provide, perhaps in the form of a World Financial Organization. Indeed, there is now much speculation about whether the G20 will shift to a more formalized and direct governance model by, for example, creating a permanent and empowered secretariat. But given the divergence of member-state interests, any strengthening of the G20 may be a preemptive strategy to avoid the creation of a truly intergovernmental or supranational body with greater authority over states as governance targets. What is clear for the moment is that there seems to be more political will for a G20 that plays the role of orchestrator, supporting and coordinating other institutions in pursuing regulation, than for a more elaborate and formalized G20 approximating a global economic government.