“The Governance Shift: From Multilateral IGOs to Orchestrated Networks”

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Introduction

The 2008 global financial crisis not only exposed the need for regulatory reform but also highlighted the decentralized and largely uncoordinated nature of financial governance institutions. Over the past several decades, the global financial regulatory regime has increased in size and sophistication (for an overview of this evolution see Davies/Greene 2008; Helleiner et al. 2010). The regime comprises a large number of diverse actors, including intergovernmental organizations (IGOs), public standard-setting bodies, and private regulatory bodies. In addition to the original Bretton Woods institutions, including the IMF and the World Bank, central actors include the Basel Committee on Banking Regulations and Supervisory Practices, the Financial Stability Forum (now the Financial Stability Board [FSB]), the International Organization of Securities Commissions (IOSCO), and the International Accounting Standards Board (IASB), along with numerous other industry groups, committees, and national bodies. The crisis made clear that the proliferation of fragmented regulatory bodies had introduced inefficiencies, the potential for regulatory arbitrage, as well as unexploited synergies in the regulation of targets. As a result, many observers have called for institutional reforms aimed at better coordinating regulatory governance efforts. According to Eichengreen (2009: 18), “[e]fforts to share information, apply peer pressure, and correct regulatory problems through the deliberations of the Financial Stability Forum, the Basel Committee on Banking Supervision and colleges of supervisors [...] have been shown by the crisis to not be up to the task.” Eichengreen is among a few analysts who have called for a new supranational IGO, something like a World Financial Organization (WFO) analogous to the World Trade Organization, to centralize financial sector governance (Eichengreen 2008, 2009; Claessens 2008; Eatwell/Taylor 2000). “The WFO would define obligations for its members; the latter would be obliged to meet international standards for supervision and regulation of their financial markets and institutions” (Eichengreen 2009: 19). Other proposals focus on increasing the capacity and competences of existing organizations, primarily the IMF. In addition to general calls for strengthening IMF surveillance activities and its ability to quickly provide large amounts of emergency liquidity, Eichengreen has proposed increasing the political independence of the IMF, removing power from the Executive Board and giving more power to managing directors, making them similar to central

bank policy committees (Eichengreen 2009).As it happens, the crisis did not give rise to anything resembling a WFO and neither was the IMF's independence and oversight capacity enhanced in a way that would make it a de facto WFO. Rather, state leaders quickly turned to the G20 format, which had hitherto existed only in the form of a finance ministers' forum, and used it as a focal institution where they could meet to discuss and coordinate national responses to the crisis. Thus it was the informal G20 leaders' summits, supported by the G20 finance minister meetings, that took the pivotal role in coordinating a global response to the crisis and the subsequent reform efforts (see Figure 1-2 of Chapter 1, this volume). Indeed, at the 2009 Pittsburgh Summit, member states declared the G20 to be the "premier forum" for economic coordination.

From a governance perspective, the turn to the G20 rather than to a WFO or enhanced IMF is puzzling. The G20 has no formal mechanisms for aggregating preferences (for example, voting procedures), it has no institutional capacity (for example, a secretariat or bureaucracy), it lacks expertise, its decisions are not legally binding, and it lacks universal membership (which may present problems of both effectiveness and legitimacy). In contrast, the IMF has both a formal mandate and decades of experience with promoting monetary cooperation, facilitating balanced growth, and guiding economic restructuring. In addition, it has a large staff of experts, formidable institutional capacity, and close contact with regulatory targets. Why, then, did the G20 summits become the nodal institution during the crisis rather than the IMF or a WFO? And, considering its weaknesses, what kind of governance could the G20 offer? The turn to the G20 at the beginning of the crisis, I argue, is symptomatic of a broader move away from governance centralization and towards a more pluralistic and fragmented institutional environment (see also Baker 2009). A number of factors, including the increasing importance of transnational and transgovernmental actors, issue complexity, and actor heterogeneity are moving governance away from traditional, formal, universal intergovernmental organizations (IGOs) towards a proliferation of less formalized, more ad hoc and specialized "clubs" of common interest. Far from being coordinated multilaterally within a centralized IGO, financial market regulation – as the contributions to this volume demonstrate – happens on multiple levels, ranging across subnational, national, regional, and international jurisdictions, and involves a number of institutions composed of public, private, and hybrid actors. This fragmented institutional field is becoming familiar terrain for a number of issue areas, including environmental and health policies, and reflects – following Slaughter – the development of a form of network governance (Slaughter 2004; Slaughter/Hale 2010; see also Alter/Meunier 2009; Woods/Martinez-Diaz

2009).[1] A crucial question, however, is what kinds of governance modes are available in a fragmented institutional environment? Given diverse specialized, exclusive, and sometimes weakly formalized institutions, traditional modes of governance, including hierarchy and delegation, can be difficult to achieve. A network of institutions, I argue, requires a nodal actor (or actors) in order to be effective at governance and regulation. This nodal actor, in turn, exercises "soft" governance through what Abbott et al. (2015) have termed "orchestration". Indeed, at the international level the G20 has taken on the quality of a nodal actor within the fragmented network of global financial institutions and, despite its weak institutionalization, has exercised governance by enlisting and endorsing the work of other bodies within the regulatory regime. As the global financial crisis recedes and the urgency of coordinating reform and responses slackens, the importance of the G20 as a nodal actor has also begun to wane.

The chapter proceeds in three parts. First, I discuss the governance shift with regard to characteristics of the global financial regulatory regime, including its actors, institutional preferences, and available modes of governance. I argue that issue complexity and increasing actor heterogeneity, including the rise of transnational actors and emerging states, have increased state preferences for less formalized, ad hoc, and more exclusive institutions. Such institutions, however, face difficulties engaging in top-down governance or even delegation. As a result, they will tend to engage in orchestration to coordinate and endorse, rather than centrally control, the fragmented institutional environment. Second, I show how the G20 format fits this development and, consequently, made it more acceptable than the IMF or a potential WFO to serve as a pivotal actor during the crisis. Third, I consider some implications of these arguments for the effectiveness of governance and regulatory reform.

The governance shift

The pluralization of governance actors

During the period of institutional creation following World War Two, states created IGOs to assist in the coordination and management of distinct policy areas. IGOs were designed with a high degree of functional differentiation from one another and were meant to concentrate competences within their individual bureaucracies. Specific policy areas were thus to be addressed within the dedicated IGO, such as health (World Health Organization), security (United Nations Security Council), nuclear energy (International Atomic Energy Agency), the international monetary and financial system (International Monetary Fund), and development (World Bank).

[1] Even the WTO, the exemplar of global supranational regulation, may be undermined by the proliferation of bilateral and plurilateral trade negotiations such as TPP and TTIP.

Over the past several decades, and especially since the end of the Cold War, however, there has been a dramatic increase in the number and type of institutions involved in any given governance issue. This has been true in the fields of global health, where the World Health Organization no longer has a monopoly on global health policy but shares the policy stage with the Bill and Melinda Gates Foundation, GAVI, many health-related NGOs, and others (Viola 2013; Hanrieder 2015). It is true of the environment, where failure to come to a global solution on climate change has spurred a number of arrangements located at various other governance levels and including a diversity of actors (Biermann/Battberg/van Asselt 2009). And it has certainly been true of financial governance where regulatory policy is developed not only by states in the traditional Bretton Woods institutions, but also within issue-specific committees, public/private standard-setting bodies, and private (industry) regulatory bodies. Overall, the increasing number and importance of these new actors has changed the international institutional environment by weakening the traditional mono-poly of field-specific IGOs and by making the institutional environment more pluralistic. This means a more crowded and fragmented governance environment, including more potential for both complementarity and competition.

In the area of financial governance, functional needs resulting from issue complexity and the policy relevance of non-state actors contribute to this change (Büthe/Mattli 2011). As the financial system has become more complex, regulatory policies have relied on increasingly complex modeling and risk management strategies. Issue complexity means that regulation relies on information and expertise that is highly specialized and distributed among a larger number of actors at multiple levels of governance.[2] It has also meant breaking down regulatory goals to specific tasks requiring a high level of knowledge and expertise – some of which may be embedded in the industry to be regulated. In complex policy areas where public regulators have difficulty establishing expertise and information on their own, they tend to be highly dependent on industry actors. This is reflected, for example, in how to measure risk for the purposes of calculating banks' capital requirements. The complexity of these calculations has led to an approach towards banking regulation that allows banks to use their own internal models to calculate regulatory capital requirements based on underlying estimates of variables, such as default probabilities. As a result, regulation depends on specialized agencies, public-private partnerships, and industry self-regulation. A second factor driving the pluralization of governance actors is a change in the number and type of state actors relevant for financial governance. A

[2] Even in those areas in which the issues per se are not changing in complexity, we see the international level becoming more engaged in the governance of complex and technical questions that were once addressed exclusively at the domestic level (Zürn 2008).

central lesson of the Asian financial crisis of 1997–1999 was that existing international financial institutions' focus on a handful of core OECD states made them ill prepared to predict or prevent the Asian crisis. Those states most important for the Asian financial crisis were underrepresented in most international financial institutions and not at all represented in the G7. The creation of the G20 in 1999 was in direct response to the need to include more "systemically significant" states in core group discussions in order to improve the effectiveness of global economic governance.

Institutional design in an age of issue complexity and actor heterogeneity

Whereas there are circumstances in which states will delegate a significant degree of sovereignty to international institutions, issue complexity and actor heterogeneity are likely to make states more wary of delegating authority to institutions. The reasons are that complexity increases uncertainty about policy outcomes and actor heterogeneity increases the likelihood of distributional conflicts. These concerns, in turn, induce states to seek institutions over which they maintain significant control and which are only loosely binding.

Complexity increases uncertainty because it makes it more difficult for actors to anticipate the outcomes of policy agreements, and therefore more difficult to choose the "best" policies. States seeking to protect themselves from possible adverse consequences of uncertainty will have incentives to protect their sovereignty while cooperating with other actors (Koremenos et al. 2001; Vabulas/Snidal 2013). These protections include creating institutions that are member-driven rather than staff- or institution-driven, thus preserving autonomy and control. States facing policy uncertainty are also likely to seek flexible arrangements that allow them to adjust to unanticipated outcomes or to default on agreements at little or no cost. Finally, states will prioritize information-sharing, negotiation, and coordination of policy positions over "hard law" instruments (Koremenos et al. 2001: 792–793; Vabulas/Snidal 2013: 209–212). The result is a tendency to prefer institutions that are not tightly binding, with no strong commitments, and with no or weak institutional autonomy.

The FSB exemplifies this type of institutional response. According to the FSB's self-description,

> [p]olicies agreed by the FSB are not legally binding, nor are they intended to replace the normal national and regional regulatory process. Instead, the FSB acts as a coordinating body, to drive forward the policy agenda to strengthen financial stability. It operates by moral suasion and peer pressure, to set internationally agreed policies and minimum standards that its members commit to implement at national level.[3]

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[3] <www.financialstabilityboard.org/what-we-do> (accessed 13 November 2014)

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 organization. Tellingly, however, a working group considered making the FSB a treaty-based organization but then decided it "not to be an appropriate legal form at this juncture", opting instead to establish the FSB as an "association" under Swiss law (International Monetary Fund 2013). The chairman of the FSB, Mark Carney, noted that "[a]s it institutionalises, the FSB intends to maintain its lean structure, its memberdriven character, and its tight connection to the G20."[4]

The second motivation to protect sovereignty stems from costs associated with increasing actor heterogeneity. Actor heterogeneity makes interest divergence more likely and, consequently, distributional problems more severe (Kahler 1992). Existing differences in, for example, resources, economic growth, economic-sector strength, population, military power, and regime type are likely to translate into different priorities across issues. When goals and interests are divergent, achieving joint decisions on policies becomes more difficult and more costly. The consequences for governance institutions include a reliance on member- driven institutions and incentives to work within institutions that are more likely to homogenize interests.

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 areas, extent, and details of regulation to prevent significant delegation of governance authority to a supranational IGO, such as a WFO. A central reason for this is that financial power is concentrated in the hands of a few states, traditionally the United States and the United Kingdom, which can exercise unique power through the importance of their financial markets, firms, and currencies. These states can act as "pacesetters" or "uploaders", trying to get their preferred policies transferred to the international level and adopted (or adapted) by other states (see Ryan and Ziegler, Chapter 4, this volume; James, Chapter 6, this volume). In this way, power has been used within institutions and in the standard-setting process to shape the nature of regulation and compliance in areas of preference divergence. For similar reasons, increasing actor heterogeneity can create powerful incentives for regulatory governance to move to institutions that preserve actor homogeneity while being inclusive enough to remain functional in the policy area. This is because in an environment of actor heterogeneity, so-called "clubs of common interest" facilitate policy coordination and consensus. As a result, we should see governance institutions form around specific issue areas and/or around actor attributes. The

[4] Financial Stability Board Press Release, 19 June 2012. Available at <www.financialstabilityboard.org/wp-content/uploads/pr_120619a.pdf?page_moved=1> (accessed 13 November 2014).

G-groupings are a prime example of this dynamic. On one hand, the G7 designed the G20 to be more inclusive and more representative of systemically important actors than previous groupings and even other international financial institutions. The economic significance of the emerging economies made their inclusion functionally necessary to any serious effort at global financial coordination. At the same time, the G20's membership is selective and significantly less diverse than the universal membership of organizations such as the IMF.[5] Indeed, when the G7 created the G20 in 1999 it was concerned that including too many new members would compromise the intimacy and effectiveness of the Group, limiting its ability to reach joint decisions (G20 2007: 12–20).

Ultimately, concerns arising from uncertainty about policy outcomes and distributional conflicts resulting from actor heterogeneity underscore state tendencies to protect their sovereignty by relying on institutions over which they have control, which are not highly institutionalized, and which maintain a degree of exclusivity rather than universality in order to increase the likelihood of interest convergence.

Network modes of governance

The complexity of issues now being addressed at the international level along with a diversification of governance actors is shifting governance away from traditional, universal IGOs to more flexible, less formalized, ad hoc and nonuniversal institutions. The resulting institutional landscape is more fragmented and pluralist, with governance taking place in specialized institutions that are connected with one another more or less formally. A number of scholars have referred to this new configuration as "network governance" (Slaughter 2004; Slaughter/Hale 2010; Kirton 2010). Such "transgovernmental networks" "have no formal legal authority, but instead operate through exchanging and distilling information and expertise" (Slaughter/Hale 2010: 54).

A key question that arises in networks, however, is how they can be managed and by what mechanisms such a diffuse form can result in regulatory governance in practice. Traditional IGOs typically govern through hierarchy or, more commonly, delegation. Hierarchy relies on the ability of institutions to coerce governance targets into compliance through, for instance, sanctions or penalties (Abbott et al. 2015). Delegation relies on a principal investing an agent with authority for the purpose of implementing a policy, where the agent has a contractual obligation to the principal and is subject to some control mechanisms (Nielson/Tierney 2003). But

[5] While the G20 argues that its members must be "systemically important", there are no explicit criteria for assessing this status.

if regulatory institutions are highly fragmented, and individual institutions have limited capacity, no universal mandate, and relatively informal structures, hierarchy and delegation become problematic. While hierarchy relies on instruments of coercion, and delegation relies on a certain authority of the principal over its agents, network governance would seem to be open, fluid, and self-organizing.

Drawing on business literature, however, several authors have pointed to the importance of "orchestrating networks" (Slaughter/Hale 2010: 57; Abbott et al. 2015). The idea is that, in order to collaborate and control governance, a network requires a leader or nodal actor who is in a position to support, empower, and coordinate other actors in the network. Nodal or focal institutions are those institutions that are perceived as naturally relevant or salient, usually because they have special authority, legitimacy, or capacity. According to the orchestration model developed by Abbott et al. (2015), focal actors that are unable to engage in hard or direct regulation can work through other public or private actors called "intermediaries". Orchestration is distinct from delegation because the orchestrator cannot invest intermediaries with authority vis-à-vis targets nor does it have the power or resources to sanction or rescind the intermediaries' authority. Intermediaries are other available institutions present in the network that may accept or decline to carry out a request by the orchestrator, as this is a voluntary interaction.

The G20 as a nodal actor

If we consider the global financial regulatory regime to be a network of interconnected but not hierarchically organized institutions, we can characterize the role of the G20 during the crisis as a focal institution or nodal actor. Before the global financial crisis, the G20 existed as a relatively low-key and technical finance ministers' forum. At the onset of the crisis, heads of state quickly identified the G20 format as a focal point where they could meet to discuss possible reforms to global financial institutions and specific reactions to the crisis. In 2008, President George W. Bush invited leaders from the G20 member states to Washington to create a plan for restoring financial stability and preventing a worsening of the crisis and so transformed the G20 into a leaders' summit. The institutionalization of the Leaders' G20, now held in addition to the Finance

G20, shifted decision-making and policy coordination efforts to the highest levels of leadership and lent the forum increased authority and political (rather than simply technocratic) clout (Helleiner/Pagliari 2010; Moschella/Tsingou 2014). The G20 took on a widely recognized but informal leadership or steering committee role during the crisis. This new role and the high expectations accompanying it were articulated by Christine Lagarde, who commented that "[o]nly

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).

Why the G20?

The G20 was able to function as a nodal actor first because there were essentially no other immediately available institutions capable of playing this role. The IMF, with its expertise and universal weighted membership, was – in theory – best positioned to become a leader in financial governance. At its creation in 1945, the IMF was formally charged by treaty with promoting monetary cooperation, facilitating balanced growth, providing oversight over international monetary cooperation, as well as technical and financial support for individual states. However, before the crisis the IMF had been experiencing a period of decline, especially since the shock of the Asian crisis, and the failure of the IMF to adequately respond had left it severely weakened, with both its legitimacy and efficacy in doubt. 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 (Cooper/Bradford 2010: 4).

In addition to the absence of rivals, the G20 had specific characteristics that made it suitable to function as a nodal actor. One notable attribute is its membership composition. Unlike the IMF, the G20 is homogenous enough to avoid some of the more severe conflicts of interest that are present in universal membership institutions while still being sufficiently inclusive of significant economies as to remain functionally relevant. Its limited membership facilitates discussion and joint recommendations. Moreover, being comprised of powerful state leaders gives the G20 unprecedented visibility and decision-making power and is the main reason why its weak institutional structure does not unduly hinder its ability to be a governance actor. The leadership composition of the G20 has significantly increased the role of political actors in global financial governance and the group discussions and recommendations succeeded, at least initially, in articulating a common agenda, establishing issue salience, and prioritizing attention to specific regulatory areas.

Another important attribute of the original G20 that the leaders' summit capitalizes on is its close connections to finance ministers and other international financial institutions. The dual nature of the G20 – meeting at both the level of finance ministers and at the level of leaders – allows it to combine detailed policy knowledge with high-level negotiations because minister meetings provide a strong basis for preparing the leaders' agenda (see Mayntz Chapter 3, this

volume). Moreover, the G20 is one of only a few institutions that bring together advanced industrial economies, emerging economies, and representatives from the Bretton Woods institutions (it includes the chairs of the IMFC and Development Committee as well as the heads of the IMF and the World Bank as ex officio members).[6] The G20's close working relationship with the international financial institutions, especially the FSF/FSB, the IMF, and the World Bank, also facilitate its role as coordinator and orchestrator, enabling it to both endorse and influence regulatory policies that are developed within other institutions. When the G20 leaders "call upon" other international financial institutions, such as the FSB or the IMF to enact items on its agenda, the G20 performs and confirms its role as the nodal actor, convening and coordinating other institutions within the network (Cooper/Bradford 2010: 4).

Finally, during the crisis leaders turned to the G20 format instead of working within the IMF because of its relatively informal structure, which reduces sovereignty costs for states while conferring a certain flexibility and autonomy. The absence of a secretariat or other bureaucratic apparatus allows members institutional control and flexibility and avoids the costs associated with supranational delegation. The costs associated with delegation to agents, faced within most other institutions, are not relevant. In addition, because decisions are arrived at on a consensus basis and there are no formal control mechanisms or monitoring arrangements, negotiations can happen more quickly as states are unencumbered by procedures and less concerned that their commitment will be strongly binding. States concerned with uncertainty – either regarding policy outcomes, the behavior of others, or even their own preferences – have some flexibility to revisit, adapt, or ignore policy recommendations. The IMF, in contrast, has formalized procedures and is legally binding, and has layers of rules and procedures that make it difficult to adopt substantial departures from past policies. It has a deeply embedded organizational culture and requires the involvement and approval of many mid-level bureaucrats as well as a large and heterogeneous Executive Board, making quick, flexible, and innovative policies difficult to achieve. By virtue of its informal institutional attributes, the G20 summit is a semipermanent institution, meeting regularly only for as long as leaders agree. It can be discarded or left to peter out when no longer needed, or it can be transformed to focus on a new set of issues with a new agenda. By the same token, the G20's role as nodal actor depends on the extent to which its members actively use it as a coordinating platform. Whereas during the first few years of the crisis all eyes were on the G20, there is evidence that financial sector reform has slowly taken

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[6] This is generally true of both the finance ministers' meetings and the leaders' summits. The first summit included the 19 G20 states, leaders from the European Union (as the twentieth member), representatives of the IMF, the World Bank, and the FSF, as well as the Netherlands and Spain as guest countries. Subsequent summits have extended guest invitations to various non-member countries and institutions

a back seat at the G20 summits, with the Group claiming to have met its core commitments. In its Brisbane communiqué, the G20 announced that "the task now is to finalise remaining elements of our policy framework and fully implement agreed financial regulatory reforms while remaining alert to new risks" (G20 2014). Indeed, as shown in Chapter 3, recent summits have turned to more generic goals, such as "balanced growth" and "job creation", while at the same time expanding to new issues, such as infrastructure investment and climate change. Overall, a dilution of its focus, together with flagging attention on the part of leaders, may weaken the nodal role of the G20 in global financial governance.

The G20 as a governance actor

Without a bureaucratic apparatus of its own, without formal procedures and legally binding relationships, the G20 cannot directly implement or even authoritatively delegate policy regulations.[7] Indeed, its informal and member-driven nature means that the G20 acts as a collective body and exercises governance functions in a way different to most traditional IGOs. During the financial crisis, the G20 summits did not act as a quasi-supranational authority, a top-down directorate, or even as a collective principal. Rather, the G20 uses soft and indirect government techniques to articulate and endorse a common regulatory agenda, to convene and coordinate pertinent international financial institutions, and to offer political endorsement and material assistance to other institutions during the governance cycle.

The G20 is an aggregate or composite actor because it brings together multiple individual actors to achieve a common purpose. When the G20 summit issues a communiqué, for instance, it is a joint statement and clearly different from a statement issued in the name of an individual state. But what kind of composite actor is it? Using a distinction made by Fritz W. Scharpf (1997: 54–57) we can distinguish between two types of composite actors: collective and corporate. Whereas IGOs are corporate actors, the G20 is best understood as a collective actor. Corporate actors are typically "top-down", hierarchical organizations that "have a high degree of autonomy from the ultimate beneficiaries of their action and whose activities are carried out by staff members" (Scharpf 1997: 54). "Corporate actors may thus achieve identities, purposes, and capabilities that are autonomous from the interests and preferences of the populations they affect and are supposed to serve" (Scharpf 1997: 57). Collective actors, in contrast, "are dependent on and guided by the preferences of their members" (Scharpf 1997: 54). Actors in this arrangement, however, do pursue largely convergent or compatible purposes by using separate

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resources in coordination. Concerted action is actively sought, even if the utility of strategies or policies is evaluated based on individual interests. Such groups may exist to facilitate agreement on policies that look individually unattractive. Indeed, one of the purposes of the G20 is to help build coalitions and shape preferences.

Collective actors can be more or less "collectivized" in terms of how they manage resources and the extent of responsibility invested in a staff. In Scharpf 's terms, the G20 mostly resembles a coalition of actors, where individual actors negotiate, build coalitions, and strive toward joint outcomes without relying on collectivized resources. In the immediate response to the 2008 global financial crisis, the G20 provided a format for leaders of a limited group of "systemically relevant" states to coordinate national responses to the crisis and to build coalitions for regulatory reform. Early on, facilitated by the urgency of the crisis, G20 leaders were able to reach consensus on the importance of avoiding protectionist measures and stimulating their domestic economies. After the crisis lost urgency, the G20 provided a place for leaders to negotiate over policy differences.

A central role of the G20 during the crisis was to articulate and endorse a regulatory agenda. Beginning with the first G20 summit in Washington at the end of 2008, leaders have issued joint communiqués articulating a set of common goals, as well as action plans that outline steps to be taken toward those goals. The regulatory agenda itself is developed as a result of ongoing meetings of national ministers and relevant international financial institutions, especially the FSB, but these points are discussed at summits and informally "ratified" by the explicit endorsement of powerful leaders. Summit documents also serve to signal the policy priorities of leading states. In the first few years of the crisis, the G20 emphasized the need for international prudential regulation and monitoring mechanisms for public and private financial actors. The first G20 summit

in Washington in November 2008 articulated a range of immediate, medium, and long-term goals regarding transparency and accountability, coherence in regulatory regimes, financial market oversight, risk management, and reform of the Bretton Woods institutions (G20 2008). These goals both endorsed existing regulatory regimes, such as the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies, and endorsed recommendations to extend regulatory principles to new areas, such as with the Principles for Sound Liquidity Risk Management and Supervision and the Principles for Sound Compensation Practices. Subsequent summits have emphasized the creation of a single standards regime, the extension of regulatory principles to the shadow banking system, and the institutionalized monitoring of systemically important financial institutions (see Mayntz, Chapter 3, this volume). For example, leaders have used the

G20 summits to endorse their commitment to the Key Attributes of Effective Resolution Regimes and to Basel III (for example, G20 2013: § 67–70). More recent summit documents, however, indicate that the G20's emphasis is moving away from financial market governance and turning to questions of economic growth and employment (G20 2014: § 1–8).

Another important way in which the G20 has served as a central governance actor is by providing material assistance to existing international financial institution programs. In 2009, for example, leaders at the second G20 summit in London agreed to substantially increase the resources available to international financial institutions to ensure that they can address the crisis "in a coordinated and comprehensive manner", and they also agreed on a capital increase for the

Multilateral Development Banks (G20 2009). G20 support helped the IMF to realize its longstanding plans to create crisis prevention facilities, such as the Flexible Credit Line and then the Precautionary and Liquidity Line (G20 2011: § 15). In this context, in 2011 the G20 leaders stated, "[w]e will ensure the IMF continues to have resources to play its systemic role to the benefit of its whole membership, building on the substantial resources we have already mobilized since London in 2009. We stand ready to ensure additional resources," including bilateral contributions and voluntary contributions to a special administered account (G20 2011: § 16). In 2012, G20 leaders committed $450 billion to increase the temporary resources available to the IMF for enhancing global safety nets (G20 2012: § 32).

While it can articulate and endorse a common regulatory agenda, the nature of the G20's institutional structure means that it cannot coerce other actors or legally delegate to potential agents in order to implement its joint policy recommendations. In the absence of these governance mechanisms, a practice of "orchestration" 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 its own words, the G20 "calls upon" institutions such as the FSB, the IMF, and the World Bank to carry out specific regulatory tasks. This process began with the Washington Action Plan which, for example, "called on" the IMF, with its emphasis on surveillance, and the FSB, with its emphasis on standard-setting, to

strengthen their collaboration; to work together with the BIS to develop recommendations to mitigate procyclicality; for the IMF and FSB to work together to monitor asset prices; and for the IMF and FSB to work together to analyze the causes of the crisis (G20 2008). Subsequent summits have continued to orchestrate other institutions in this way, by calling on them to carry

out specific tasks and to then report back to the G20 with progress reports. In 2013 at the St. Petersburg Summit, for example, leaders also called

> on the FSB, in consultation with standard setting bodies, to assess and develop proposals by end-2014 on the adequacy of global systemically important financial institutions' loss absorbing capacity when they fail. We recognize that structural banking reforms can facilitate resolvability and call on the FSB, in collaboration with the IMF and the OECD, to assess cross-border consistencies and global financial stability implications, taking into account country-specific circumstances, and report to our next Summit. (G20 2013: § 68)

In its interactions with the international financial institutions, the G20 does not merely confirm but also initiates programs that are implemented with the assistance of the international financial institutions. The Pittsburgh Framework for Strong, Sustainable and Balanced Growth (FSSBG), for example, was designed by the G20 and announced at the Pittsburgh Summit with the aim of promoting cooperation on policy planning, assessment, and implementation. The FSSBG depends, however, on the IMF for implementation. G20 tasks to the IMF are not authorized under Article IV, and the G20 has no legal standing or authority as a principal over the IMF. Rather, the IMF acts as an advisor to the G20 based on a request for assistance from members (Cooper/Bradford 2010: 6; International Monetary Fund 2009: 6). This is the essence of network governance: relationships are informal, horizontal, and largely voluntary, but still involve governance.

Implications for governance

A loosening of governance from the traditional post-World War Two institutions opens up new flexibilities and possibilities for governance. The proliferation of new actors and new institutions has allowed for the inclusion of some relevant players who have been marginalized by the traditional Bretton Woods institutions. On a functional level, the proliferation of institutions may be a pragmatic approach to managing issue complexity. Cooperation within various selective and specialized institutions, rather than within a large inclusive bureaucracy, may create an effective division of labor. Finally, institutional fragmentation and network governance may inject necessary flexibility and speed into rather lethargic and cumbersome traditional IGOs, such as the IMF. Governance fragmentation, however, also raises a number of potential challenges for governance effectiveness and legitimacy.

First, rather than leading to a smooth division of labor, institutional fragmentation may lead to institutional competition and conflict, exacerbating overlap and coordination problems (Cooley/Ron 2002; Drezner 2009). Thus far, the international financial institutions have been cooperating with the G20. Over time, however, disagreements and turf-battles are bound to appear.

The G20's relationship to the UN General Assembly, for example, is already marked by tension directly related to the question of which body has governance authority. The G20 has avoided cooperating with the UN General Assembly and thus has been able to circumvent or only selectively address the concerns of non-G20 states (Heinbecker 2011a: 11, 2011b: 236–246). Moreover, as the urgency of the financial crisis recedes, conflicts of interests within the Group and across institutions, initially suppressed in the face of a greater challenge, may re-emerge. A related concern here is that the G20 and its orchestration techniques are too weak to effectively coordinate financial governance once the immediate post-crisis goals have been reached. While G20 summits refer to and build on the work of previous meetings, each new summit generates its own set of policy recommendations and new action plans. These plans show a tendency to expand the G20 agenda away from financial regulatory reform. Most recently in Brisbane 2014, the G20 addressed broad economic issues, energy policy, climate change, and food security in addition to financial market governance (G20 2014). Without greater institutionalization and centralization this may lead to a more chaotic and less binding governance regime. A second problem is that informal and selective institutions such as the G20 have low transparency and few accountability mechanisms (Baker 2009). At the G20, for example, there are no reporting requirements to domestic governments or external monitors, and there is a limited paper trail and little official documentation of meetings. Furthermore, there are no formal mechanisms for

the G20 to consult with or report to non-member countries affected by its policies. The G20's selective membership means that a handful of self-appointed states have a disproportionate say in matters of global governance – in this case, financial governance – that can have substantial implications for all actors in the system, including non-members. Among non-member states, such as many Latin American countries, there is concern that the G20 can use its influence within international financial institutions to dictate new rules to outsiders, especially with regard to financial market regulation and international development. Finally, informality, selectivity, and orchestration may enable powerful states to avoid deeper reforms. While it seems to have been effective at handling the immediate aftermath of the crisis (Cooper 2010; Cooper/Helleiner 2010; Heinbecker 2011; Drezner 2014), the G20 does not have the mandate, enforcement mechanisms, or political independence to impose reforms that prudential regulation might require but that states resist. The regulatory reform agenda of the G20 has been motivated by the need to put out fires and to adapt and respond to crisis, rather than the pursuit of a "grand design" approach to preventing crises. Especially as compared with areas such as trade, in which the World Trade Organization (WTO) has developed significant authority,

international financial regulation remains institutionally weak. By showing leadership and results on some issues in moments of crisis, the G20 is able to deflect calls for a more centralized and authorized institution, such as a WFO. However, as crises dissipate, there is no permanent institution charged with maintaining the momentum on global financial governance.

Conclusion

The global financial crisis was an occasion to rethink not only financial regulation, but also the institutional architecture charged with developing, implementing, and monitoring those regulations. Indeed, while there has been much debate about the extent and success of regulatory reform efforts (see, among others, Drezner 2014; Moschella/Tsingou 2013), less attention has been paid to organizational developments. It has long been clear that early calls for a World Financial Organization were never going to be realistic. The prominence of the G20 during the crisis, in contrast, has led to expectations that it would take on a new and important leadership role in financial governance. This chapter has sought to put these developments in the context of larger shifts in global governance. It has argued that the significance of the G20 is symptomatic of a move away from universal multilateral IGOs toward a more pluralistic and fragmented governance landscape. Issue complexity, actor heterogeneity, and resulting state concern over sovereignty costs are factors driving the proliferation of less formal, more specialized, and more selective governance institutions. If the governance environment is no longer organized by a central IGO, as was attempted after World War Two, but resembles more of a network of ac tors,questions about the effectiveness and quality of governance arise. I have argued that during the global financial crisis, the G20 emerged as a nodal actor to "orchestrate" the diffuse network of financial governance institutions. The G20 has institutional characteristics that make it suited to such a role. On one hand, an orchestrated network imbues governance efforts with speed, flexibility, and a division of labor. On the other hand, however, it also raises several concerns for governance. In the absence of a supranational institution with enforcement mechanisms, a clear mandate, and authority, networked governance may lead to more fragmentation and coordination problems, exacerbate accountability concerns, and may be used by states to avoid deeper and more far-reaching reforms.

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