GR:EEN
Global Re-ordering:
Evolution through European Networks

Workshop – Financial Stability and Energy Security in the Americas and Europe: The Role of Transnational Policy Networks

BU, Boston, 14th and 15th February 2013

Workshop Report

Introduction: Global Public Policy, Transnational Policy Communities and Their Networks

Vivien Schmidt (Boston University) introduced the workshop while *Stephen Kingah* (UNU-CRIS) explained the GR:EEN research project to the public that is not familiar with the project. Finally, *Cornelius Hurley* (Boston University Center of Finance, Law & Policy) emphasized the importance of studying finance.

Financial stability and energy security are two major issues confronting the world. Which transnational policy networks are actually making the difference? They can be empowered social actors, social movements, state actors, etc. Key question to discuss during this workshop is: who is talking to whom and why?

Panel I: Private Networks and Public Authorities in Financial (In)Stability

Cornel Ban (Boston University) was the chair of this interdisciplinary panel on financial (in)stability.

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Martin Carstensen (Copenhagen Business School) presented his paper on 'Institutionalising bailouts? Special bank resolution regimes in post-crisis financial regulation'. The too big to fail-problem (TBTF) involves three major issues: (i) large systemic risks; (ii) distortion of competition; (iii) undermines legitimacy of the financial system. Three categories of solutions have been offered: (i) structural reform (caps on size, break up big banks, ring-fencing, etc.); (ii) tougher capital requirements (e.g. Basel III); (iii) special bank resolution regimes (SRRs). SRRs are linked to corporate bankruptcy law. The aim of these regimes is to prevent bankruptcy and bailout. But also to protect financial stability and to avoid that taxpayers foot the bill. Concerning the Dodd-Frank act, he says that one of the basic ideas was to put an end to taxpayer funded bailouts. The act generally bypasses structural reform or taxing – instead it puts its faith in a new SRR (which is part of the act). These are the main ingredients: (i) covers all institutions that authorities believe pose a threat to financial stability; (ii) resolution started in agreement between Treasury, and two-thirds of Fed and FDIC boards; (iii) within 24 hours after petitioning the courts a secret hearing is held; (iv) FDIC is appointed receiver. Carstensen argues that Dodd-Frank act is not necessarily a goodbye to bailouts because the FDIC can choose to bailout certain creditors if it is decided it would be good for 'the receivership estate'. He concludes by saying that without changes in size and complexity, SRRs are not credible as a measure to avoid TBTF. Also, SSRs are a resource for the state to systematize future bailouts. The SSRs can be viewed as a way to contain the contradictions between big finance and financial stability.

Secondly, *Aitor Erce Domínguez* (Bank of Spain) talked about 'Cross-Border Banking, Externalities & Sovereign Distress: Does the Euro need a Common Banking Authority?' (for all clarity, this is his opinion and not the Spanish opinion). Many policy actions have been taken which give cross-border banks' balance sheet management a central role. But…what was the role of Euro Area (EA) cross-border banks on the crisis? Core cross-border banks set up large financial links intra-EA. During the crisis, the Euro-system's infrastructure and national resolution policies facilitated the undoing on these positions. This smoothed the adjustment but led to private liabilities turning public generating the perverse fiscal-financial link: (i) externality; (ii) Banking Union may limit the externality but create moral hazard; (iii) Pigovian tax on cross-border bank flows would be a solution according to him.

Then *Daniela Gabor* (Bristol Business School) gave a presentation on 'Central banks in crisis'. Central banks are not as happy anymore as a decade ago, the word 'currency wars' is getting very popular. She says that there is a move from convergence (before 2008) to currency wars since 2008 with overt re-politicization and 'monetary conflicts'. She talked about the 'great moderation model' whose core idea is that central banks can manage the economy because efficient markets

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respond predictably. The central bank was supposed to be both politically neutral and market neutral. There was a sort of global diffusion of this idea, inflation targeting was embraced. Except in Japan where there was quantitative easing through 2001-2006. After Lehman everyone followed Japan and they started to intervene in financial markets (so balance sheet policies). So since 2008 the model of the great moderation has been abandoned and there has been a move towards an unconventional approach. In high-income countries, balance sheet policies are used to stimulate growth/employment/avoid deflation. While in emerging countries, there are spill-overs from high-income countries. And these spill-overs have consequences for the financial instability of other countries: it is a zero-sum game. But the central bank of Japan cannot afford to keep its balance sheet stable. As a conclusion, the best way forward would be to exit and to return to the pre-crisis situation. Central banks – and the ECB as the best example – have seen a threat to their institutional position and they try to defend that.

The last speaker, *Leonard Seabrooke* (Copenhagen Business School) presented a paper on 'Distinctions, Affiliations, and Professional Knowledge in Financial Reform Commission'. The authors have looked at different reports and the way they treat financial reform. The object of regulation can be 'unit' of 'system'. On the one side, there is a regulation of the system (IMF for instance) and on the other side, regulation of the unit (IIF for example). They have found an affiliation network of financial reform commission members. But some persons are involved in two reform commissions that show quite different ways of regulating the system, what is happening there? He argues that when you have a mandate and a defined audience, the kind of financial reform is coming from the authority. This is because you want to send a clear signal about why you are slightly different from the other groups.

Discussion

Why do SRRs win? They are popular with everyone according to Carstensen: both people who want and who don't want structural reform. So their strength is that they put people together.

Why is there not more coordination in Europe? Erce Domínguez said that there have been attempts to coordinate, but at this stage the only two countries to do something are Spain and Italy. Occasionally they have tried but this didn't work.

Concerning TBTF, could you compare it with too powerful to jail? The power to enforce rules is very big. TBTF is a debate that goes hundred years back: the advantage of large banks is that they can be controlled, or they can control us? In Europe, big banks are seen as national champions that can help competition.

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Concerning the paper of Seabrooke: does this mean what the groups are going to produce as reports once their interests are known can be predicted?

Where would the sources of influence lie for these commissions?

Who is talking to whom and to what extent does China play a role in these discussions? How much authority do they have? This is an important question to reflect on.

Panel II: Political Economy of the Latin American Debt Crisis: Lessons for Europe and the US

Kevin Gallagher (Boston University) was the chair of this panel focusing on the Latin American debt crisis.

First, *Barbara Stallings* (Brown University) argued that the Latin American debt crisis was important for many reasons: first, as a threat to the international financial system, secondly, because of its damage to LA economies, thirdly, because new market-oriented development strategies were developed. Some lessons of this crisis were used in the Mexican Crisis (1994-95) and the Asian Crisis (1997-98). She argued that crises are always a result of both external and internal factors. Externally, there were the oil price shocks in the 1970s. Petrodollar surpluses were deposited in US banks. There was a lack of regulation for these loans and there were rising international interest rates. But there were also internal factors, such as the import-substitution industrialization strategy which led to chronic trade deficits because goods generally did not get exported. Large US banks had more loans to Latin American countries than they had capital. Gradually, US government and the IMF changed policies and tried to promote growth in Latin America. According to Stallings, banks were main 'winners' overall, although they had to shoulder part of the cost of resolving the crisis. She sought to know if there could have been a better outcome under realistic assumptions. First, would a better outcome through a quicker resolution have been possible? There were no similar situations, it was trial and error and took quite a lot of time. The only way was the public money from the creditor countries and IFIs, it took time to have public support. Would there have been a better outcome via growth-oriented policies? IMF policies focused on austerity for several years. The austerity bias has continued in Asia (1990s) and in Europe (today). It clearly requires rethinking for future crisis situations!

Francisco Gonzalez (Johns Hopkins University) talked about the 'Role of Transnational Policy Networks during Financial Crises: Lessons from Latin America'. Chile is an early example with its credit bubble created by a recycling of petrodollars via American and some European banks. The TPN in action was clearly led by the

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US influence: Chile received 30% of net World Bank and IDB transfers to Latin America, even though its economy represented only 3% of the region. Many of the new free market economists formed an epistemic community of scholars, policy-makers, bureaucrats, businessmen and politicians surrounding Minister Carlos Cáceres. They were all in favour of orthodox debt management. Chile suffered the worse collapse in comparison to other Southern Cone countries, but preferential external help strengthened recuperation in the second half of the 1980s. The end result was that Chilean taxpayers and IFIs incurred significant losses incurred by private foreign banks. In Mexico, the restructuring of the debt happened under the Brady Plan. By 1993-4, Mexico was a poster boy of how to turn around economic turmoil into growth potential given free market reforms. The TPNs here were again led by US influence. In spite of US Congress' refusal to commit taxpayers' money to help salvage Mexico, President Clinton and Secretary Rubin used US$20bn of the Exchange Stabilization Fund and got IFIs to add US$30bn to create a US$50bn bailout. But this help was not the result of altruism or partnership given NATA, but a self-interested decision to ensure that major Wall Street players were repaid. His conclusion is that it is important for TPNs to work in periods of financial distress to get support of dominant players in IFIs (US, big European voting block, etc.). You also need a credible provider of unlimited liquidity (Fed Reserve, ECB). Crucial is that the network has an individual or group with multi-membership credentials (i.e. private banking, IFIs, academia).

The presentation of *Angélica Guerra-Barón* (Pontificia Universidad Javeriana) dealt with 'The Brazilian and the Colombian experiences from the debt crises of the eighties as an extension of transnational network policies'. In Colombia, sub-regional integration and a mitigation of damages could be observed, but not a default. In Brazil, on the other hand, there was an external debt accumulation leading to a debt crisis in the context of military regimes. The preliminary conclusion is that in the 70s and in the 80s many Latin American countries pursued policies to liberalise as a requirement to obtain loans from international financial institutions. The Brazilian foreign economic policy was quite influenced by the military government.

Judith Teichman (University of Toronto) did research in the early 1990s on TPNs in Latin America in the wake of the debt crisis. The US administration played an important role in some countries according to the circumstances. There was not much concern about the political and social impact of the crisis. The debt crisis gave trust to Ministers of Finance with American degrees; their perspective emerged as a new consensus. In the late 1980s, it became clear that strict authority was not going to be a solution. At this point, the World Bank came on the scene. Relationships between banks and government officials were based on similar views about how to do economic policy. World Bank officials got very close to Argentine officials, the

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latter convinced trade union officials to meet World Bank officials. Lessons for Europe: Latin American TPNs were not accountable to the public of the country, this was a problem. Their secrecy and lack of accountability was a big issue. Moreover, as austerity became too rapid and too deep, the growth of the economy slowed down.

Discussion

Is it useful to make a distinction between liquidity crisis and insolvency crisis? So what about the policy lessons of the Latin American crisis: the Latin American debt crisis was rather liquidity while Greece's is rather insolvency. What is déjà vu and what is the difference? The perception plays an important role!

The short sighted approach is very similar in both LA and Europe. However, there is a change of attitude of European officials. It could be said that Latin American countries are in a better situation than Europeans are right now. A key difference is that the imbalances in Europe have to do mostly with finance and with financial flows, while this might not have been the case in Latin America.

Another interesting difference is that the IMF acts in Europe in a much softer manner than European Commission officials.

Socialization in graduate schools is driving force, but should not be exaggerated. The social position within Chilean society was also important to Chileans with American degrees. Moreover, many economists needed to have a certain attitude in order to hope for good careers in international organisations or in their own government.

Panel III: Public Authority and Transnational Policy Actors and Activists on Climate Change
Hendrik Selin (Boston University) acts as a chair of this panel.

David Levy (University of Massachusetts Boston) presented a paper on 'Transnational Networks and the Cultural Political Economy of Climate Change'. His idea was that it takes networks of actors to form hegemonic ideas about what the problem is and how to move forward with solutions. First, he saw cultural political economy as the cultural constitution of markets and 'value'. The failure of clean energy to make money has made it difficult for the imaginary green market to take off. We have been in the 'Fossil Fuels Forever' imaginary, but in the period after that, we saw the emergence of the 'Techno-Market' imaginary. There is trust in innovation (smart grid, solar) which is reinforced by rapid growth of clean tech sector and investments by major energy and car firms. Then there is also a 'Climate Apocalypse' imaginary and a 'Sustainable Lifestyles' imaginary. What has happened post-2008?

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The recession has led to a fall in carbon price and the rise of the Tea Party and the resurgence of climate denial.

Matthew Hoffmann (University of Toronto) presented ‘Climate Governance Experiments: Networks and Impact’. He talked about who is talking to who in climate governance. Experimental system of governance is new governance system that entails a number of actors working a cross-borders. These actors have emerged to take responsibility of climate change themselves. Examples are Edenbee, CCX, RGGI, C40 cities, etc. The networked nature of this governance is specific and makes it different than the multilateral process. These networks are decentralized and bottom-up but still organised. This is because they seem to have a similar world view, i.e. liberal environmentalism. Key networks are the city networks such as the C40 cities. The climate group, for instance, brings leading companies and governments together on climate change. This network governance developed among experiments is shaping how the response to climate change is going on. The author did social network analysis on the people working on climate change. He observed that there is a relatively small number of people who work across these issues.

‘Transnational Governance Arrangements to Decarbonize the Energy Sector’ has been presented by *Yuliya Rashchupkina* (University of Massachusetts Boston). She argued that while actual decarbonisation of energy sector occurs within the boundaries of the states, the newly emerged modes of governance on a global level significantly influence these processes. The initiatives of non-state actors, governments and intergovernmental organizations give rise to a global governance perspective in the energy sector domain. IRENA, for instance, is an intergovernmental organisation dedicated to renewable energy. Although the organisation dates back to 2009, it has already 105 states and the EU as a member. Another example is the ‘Carbon Disclosure Project’ which provides investors with information on companies’ greenhouse gas emissions, water usage and strategies for managing climate change and water risks. Another initiative she used as an example is ‘The Carbon Monitoring for Action’ which is a program of the Centre for Global Development located in Washington, DC. There is also the EITI or Extractive Industry Transparency Initiative. It is a global standard ensuring transparency of payments from natural resources.

The final presenter of this panel was *Timothy Shaw* (University of Massachusetts, Boston). The title of his presentation was ‘Transnational private governance & African development: post-2015’. The paper dealt with topics ranging from the ‘Kimberley Process’ to the ‘Forestry/Marine Certification Schemes’. He argued that the responses of the BRICS will become more important. Transnational governance

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refers to interactions that cross national boundaries at levels other than sovereign to sovereign. This is reflective of roles of 'the rest' in a 'post-American world'. The world is increasingly represented by a South-East turn instead of a North-South axis (see Jan Nederveen Pieterse).

Discussion

What has driven the formation of these networks? The discussions show that these networks are mainly driven by profit, contestation of authority, urgency about the problem, representation and a way of private actors to escape stricter regulations from the state.

About the measuring and quantifying of the links: it is still an open question.

Panel IV: Trash, Energy and Livelihoods

This panel is led by *Ann Helwege* (Visiting Associate Professor of International Relations, Boston University).

Libby McDonald (Massachusetts Institute of Technology) works in the waste sector. She started her work in Brazil and more particularly in the waste picker movement of this country. She showed two movies about the work she has done with her team: (i) the situation in Nicaragua before she started working there with the waste pickers; it showed the tensions with the municipality workers; (ii) the women have been organised in a cooperative with a representative at the municipal meetings. McDonald said that it is very challenging to make people to work together when they have never done that before. Their team have created collection systems in partnership with the municipal government. Few of these women read or write, so they have also been creating schools. The real threats to waste pickers are incinerating companies that are to be installed in Nicaragua (10 in little Nicaragua). How do these smaller networks fit within the larger policy context? How do they fit in the regional network? How do they fit within the business community?

Marta Marello (Boston University) talked about 'Green Grease'. The subject was on 'Catadores' whose income comes solely from the sale of recyclables to middle-men. In Brazil, the waste pickers are organised in waste collector cooperatives since the 90s. The advantages of this are: (i) better working conditions; (ii) increased income; (iii) better social status. The other component of the project in Brazil is on biodiesel: fried food in Brazil is gaining popularity but they don't know that one litre of oil can pollute many litres of water. A filtration system has been designed to filter the oil. There are a set of limitations: such as the legal requirements, political friction regarding an oil network, there is no quality control. What can be done next?

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Installing a quality control system, reducing acidity, further increase in efficiency of the filtration system and the increase of volume (so that they can bypass the middlemen).

‘European Capital Flow to Sustainable Energy Projects in The Americas Land Fill Gas to Energy Project’ was discussed by *Emilio Cano* (Mexico City’s Bordo Poniente Project). What would be the driver of this project? He thought it is profit. Bordo Poniente is the largest landfill in Mexico City but it was closed in 2011 because of ‘over capacity’. This represents about 26% of all GHG emissions of Mexico City and it will be transformed into a waste-to-energy plant. There have been many attempts by companies to do incineration but contrary to Nicaragua that is not allowed in Mexico. The plant will start operating in 2014, generating 58MW/hour and saving Mexico City 800-1000 million pesos. European economies see emerging economies like Mexico as offering attractive yields. It appeals to the European Commission. There is an unsolved social problem however: members of the informal recycling sector were not included in the decision-making process of landfill closure although there were 1500 families whose livelihood relied on trash brought to Bordo Poniente.

US-LAC Energy Cooperation was discussed by *Natasha Keith Vidangos* (US State Department). She said that the US has tremendous shale gas resources, just as Argentina. However, the country also has many Biofuels Memoranda of Understandings, for instance with Brazil. There is also trilateral cooperation: cooperation in third-party countries (Jamaica, Dominican Republic, Guatemala, El Salvador, Honduras). She underlined the importance of EITI (Extractive Industries Transparency Initiative).

Discussion

The stability in the region is very much at risk. The US wants the countries in the region to be stable, democratic process, etc. because they enhance its own security. They see energy as an enabler.

Intermezzo Panel

About Dodd Frank by *Cornelius Hurley* (Director of the Boston University Centre for Finance, Law & Policy)

We see an emergence of hyper-regulation: (i) US: Volcker Rule: Fed has rendered it hopelessly complicated; (ii) UK: Vickers Ringfence, all still in one happy family ‘electified’ ringfence; (iii) Likkanen Ringfence for the EU – banking union a long way off. He was wondering if all this hyper-regulation is credible because it doesn’t remove the threat. There are four elements: 1. Reduced borrowing costs (the notch

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effect which can make billions of dollars of difference); 2. Overnight funds because the bank is too big to fail; 3. Tied products and services; 4. Enforcement double-standard- the benefits of operating above the law (they are too-big-to jail!). We have not solved the TBTF issue!

He argued that we need a new approach, one that is: fair, comprehensible by the average person, market driven, budget neutral and yields a more dynamic and competitive financial system. He called it the subsidy reserve plan. Important is to: require each TBTF to create a balance sheet line item called “Subsidy Reserve”; add to that Subsidy Reserve line item each year the amount derived from the Fed’s formula. Subsidy reserve cannot be used for dividends, share buybacks or executive bonuses. But all of this is complicated for politics!

Panel V: Post Crisis Implications for Governance: Public and Private Transnational Networks

Kaija Schilde (Boston University) was the chair of this panel

Stephen Kingah and *Marieke Zwartjes* (UNU-CRIS) discussed ‘Cooperation of EU-US Policy Networks in Regulating Money Laundering for Terrorism Financing’. It was argued that the existence of transatlantic policy networks in terms of regulators and law makers will only make it easier and more likely for US authorities to further check European banks. Some of the actions of these banks are considered by the US government to be in breach of sanctions imposed on countries like Iran. Through increased cooperation such networks have been able to sharpen the tools used to combat the laundering of funds used for illicit ends including terrorism finance. After the attacks on September 11, 2001 rules were adopted on both sides of the Atlantic to restrict the flow of funds for terrorist purposes. In the wake of the financial crisis of 2007 generated by the excesses of financial institutions, it is expected that the manner in which transatlantic and global networks cooperate in matters of financial regulations would even be more robust than has hitherto been the case.

Josué Mathieu (Université Libre de Bruxelles) discussed the International Investment Regime. A public international law framework exists (including ICSID, New York Convention on Recognition and Enforcement of Foreign Arbitral Awards, Bilateral Investment Treaties …) to protect investors. This international investment regime now has to operate in a post crisis context. Different problems emerge with this regime: (i) fairness: protection of investors, not host states; (ii) the function of the arbitrator; (iii) the evolution of the law of international investment (has slid in favour of arbitrators); (iv) financial issues at stake; (v) secrecy. Law firms play a role in this: (i) only a few firms in business such as Freshfields (UK), White & Case (US), and King

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& Spalding (US); (ii) they are transnational corporations; (iii) they have close relations with arbitrators; (iv) they have a policy impact. What is interesting here is the blurred border between public and private.

Ed Fogarty (Colgate University) dealt with the following topic: ‘Crisis is crisis of post-crisis investment regime’. He included both credit rating agencies and the Occupy! movement in his presentation. First, Starting with agencies and failure of private governance: there is a US sanctioned oligopoly (S&P, Moody’s, Fitch have 94% of the market). The credit rating agencies act as a quasi-public good and there is a public/private interest gap (incentive problems). Consequently, there are mort-gage defaults, contagion, etc. (not clear agencies had information to give ratings – agencies supposed to be able to quantify risk – difference between risk and uncertainty). Agencies played a role in downgrading debt of a number of European countries, that has made their situation even worse. The role of TPNs is consistent with cooperative decentralization. Secondly, he compared Occupy Wall Street with the anti-globalization movement. The organizational philosophy of these two are: (i) No use of political process to effect change; (ii) New left organizational philosophy: avoid hierarchy, avoid hegemonic ideas and don't create a list of demands (creating demands legitimizes power structure).

Clifford Bob (Duquesne University) presented some ‘Hypotheses on Transnational Policy Networks’ looking at issues of gay rights and gun control. The goal of a network is to create change or stasis – by controlling or capturing ideas or institutions.

Discussion

Ideas vs. ideologies (ideologies more hardened). To what extent do civil society groups harden around ideologies?

How do networks interact? Cliff’s model one of conflict … but what about other areas that are not so defined, what are network interactions like? To what extent is this always conflict, to what extent is there more cooperation among networks?

What about Latin America? Is there data sharing with Latin America? What about Latin American arbitrators? Who gets to define regional agreements about financial coordination? Who do you allow to be your ally? What are implications of ‘global reordering’ for all of these issues?

Why was the Occupy Movement not more successful in changing policies? Strategy of not wanting to speak to policy makers is either very long term strategy or a bad strategy. In finance, powerful people are technocrats … not listening to Occupy. Maybe some policy areas are more open to change and others less so.

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Concluding Roundtable: Active Actor Networks Forging the Future by Linking Financial Stability and Energy

Vivien Schmidt wondered if we can we put finance and energy together?

In which way are the ideas flowing? Bottom-up/top-down from Latin America to Europe or the opposite direction?

Breakdown of transatlantic policy community because of new global players. This is probably not a good thing given the interdependence of the economies.

What about the role of China? The Chinese are also investing in Africa.

Financial stability and energy security, the panel suggested that we cannot put these two issues together. However, they are two areas in which you have strong corporate actors!

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