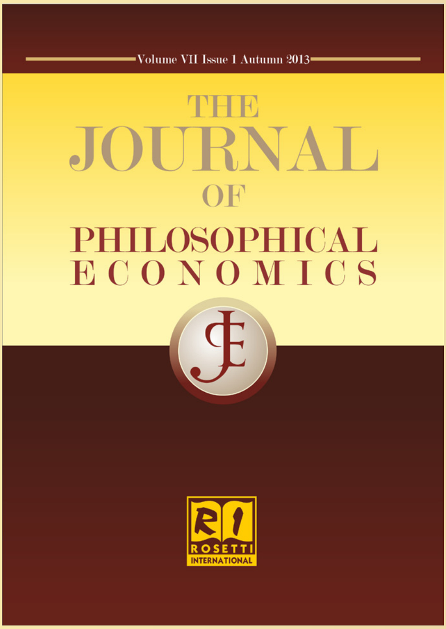
THE JOURNAL OF
PHILOSOPHICAL ECONOMICS

Volume VII Issue 1 Autumn 2013

ISSN 1843-2298



Fairness through regulation? Reflections on a cosmopolitan approach to global finance

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Beroš, Marta Božina, Beroš, Marin (2013) 'Fairness through regulation? Reflections on a cosmopolitan approach to global finance', *The Journal of Philosophical Economics*, VII:1

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Abstract: In the aftermath of the last financial crisis a strong message prevails that 'something' has to be changed in the manner global finance is governed. What exactly this 'something' entails and what could constitute the 'common ground' of anticipated change is more difficult to determine. Many envisage future improvements of global financial governance by evoking deliberative democracy, political equality and cosmopolitanism. As financial regulation is the main instrument through which global finance is shaped and governed nowadays, these principles should then be transmitted to regulatory arrangements. This paper focuses on a new conceptual approach to regulatory and governance issues in global finance, by employing the philosophical idea of cosmopolitanism. It argues that although as a concept, cosmopolitanism cannot mitigate all the flaws attributed to contemporary finance, its development and extension to international financial regulation that is promulgated by institutions of the global financial system, would represent a worthwhile endeavour in making global finance more accountable and just in the eyes of many.

Keywords: global financial system, financial governance, cosmopolitanism, financial regulation

Introduction

Every financial crisis transforms the manner in which the public perceives global finance, its governance and institutional organization. In this respect, the last financial turmoil was no exception, as it made policymakers and academics aware of

Received : 15 December 2012

the fact that the global financial system was flawed at many levels: the institutional, political and unfortunately ethical. In addition, the crisis did not result from a specific exogenous failure, but rather it was a product of the system itself. Namely, the experienced turmoil resulted from the selection, implementation and assessment of poorly structured policy and regulatory decisions, taken because of policymakers' nearsighted judgements (Barth, Caprio and Levine 2012, p. 5). Consequently, in a post-crisis environment the global financial system is once again under scrutiny, with many questioning its policy background, institutional set up and regulatory governance.

Global finance today resembles the football game at the beginning of the 19th century. Before clear rules were stipulated, establishing the division between football and its harsher counterpart – rugby, there were no predetermined limits to participants' behaviour in the sports' field – they could kick the ball (and sometimes their opponents) any way they liked, causing major injury at times. Probably this game was enjoyable even then, but in the end, would we rather participate in that kind of competition or in its modern day version? It is evident that what transformed the game of football substantially were two simple things: commonly agreed rules and judges who enforced them. Let's return this analogy to the world of global finance: if the financial system has to become 'more fair', or function at the benefit of the larger part of the world's population (as opposed of today's negligible few) where can we find the foundation for such substantial change? Could it be that, akin to a football game, rules are all it would take to make global finance more accountable and just? And if we agree that rules are fundamental instruments that drive global finance toward socially desirable ends, how to compromise on global obligatory rules? Finally, who should be the judges competent to supervise the enforcement of such rules? At present, there is no independent and accountable institution that would evaluate global financial governance from the public's perspective, and the possibility of agreeing on one remains a contested issue in global politics.

This is why during the acute phase of the crisis many urged global policymakers to make significant changes in the institutional structure of global financial governance, in view to accommodate the needs of changing economic realities. At the base of such requests was not only the economic issue of effectiveness of the regulatory framework imposed on finance globally, but also of its legitimacy in a radically transformed political and economic landscape. For decades globalization has shaped the environment in which financial markets and institutions operate, favouring their cross-border interaction and internalization at the expense of the national domain. But this has deprived the public and their national representatives of expertise and relevant information necessary to interact effectively in the global financial arena and to encourage international financial subjects to act on their behalf (Levine 2012, p. 41). Building upon this basic deficiency, it is possible to raise several points crucial for the future development of global finance (Burke and Puschra 2009, p. 3):

> 1) How to envisage a 'new morality' in finance that will allow the protection of the interest of many, as opposed to the negligible few?
> 2) Which institutional arrangements can secure a well-governed and functioning global financial system?
> 3) Can regulation, as a policy-instrument, contribute to a more just and fair global financial system?

This is where the ethical concept of cosmopolitanism emerges, formulating answers to all of these points in this paper. Namely, the global financial system already operates on the principles that can be considered cosmopolitan, but its regulatory governance (which shapes its effects and manages its externalities) remains essentially national (roughly, that of wealthy, industrialized countries) and therefore somewhat useless in the context of financial globalization. The question is how to resolve this paradox? Can cosmopolitanism, as a philosophical and ethical idea, be the 'common ground' for change? Could cosmopolitanism mitigate the instabilities of the global economy and allow a more just development of future financial arrangements? And how to change the basic global governance of finance by employing regulation centred on cosmopolitan concepts?

This paper analyzes the idea of a cosmopolitan approach to the regulatory governance of global finance. Its discussion ventures beyond purely economic reasoning in explaining the multidimensional challenges faced by global finance exacerbated by the imperative for a new ethical dimension. In this sense, perhaps political inclusion, participation and democratic standards within global governance may be secured through regulatory instruments that encourage a more cosmopolitan approach to financial governance. This is why the paper introduces readers to the nascent connection between cosmopolitanism, regulation and global financial governance, and discusses the 'added value' of a cosmopolitan approach to this subject. This 'added value' means that cosmopolitanism highlights the principles of fairness and accountability, opens the door for an ethical outlook to global finance, one that is respectful of social and economic realities.

The above noted introductory remarks, define the paper's subject area and its theoretical framework. The remainder of the paper is organized as follows: the first section discusses ethical ambiguities that affect contemporary societies, primarily the processes of 'marketization' and 'financialization' and the quest for a new morality with respect to global economic arrangements. The second section introduces and defines cosmopolitanism by tracing its historical origins. It also points to the potential nexus between this philosophical idea and contemporary global finance. The third section gives a basic overview of the global financial system, its structure and governance. It also sketches solutions to current governance challenges in light of cosmopolitan principles. The economic rationale of regulation, its potential for encouraging participation and common ethical values in policy-making, is explained in the fourth section. Finally, the concluding remarks in the fifth section reference ideas and concepts and suggest that cosmopolitanism may be formulated as a promising, albeit challenging, approach that should guide future reforms of global finance.

'A new kind of morality' for global finance

Modern global policy arrangements seem to follow Hegel's view on morality, which states that morality is not universal and does not necessarily follow laws of reason, but it is rather embodied in the customs of each particular community. Therefore there is no such thing as global, universal morality. The result of such thinking is ethical relativism: there is no right or wrong because each individual, as a member of different, separate communities, has different views on what is right or wrong. But this leads to an impassable obstacle on establishing the moral limits to global finance. The only feasible solution is that there needs to be an alternate take on this premise – a new kind of morality, one that transcends the boundaries of our communities. The same proposition is true with respect to the redesign of the global financial system and its governance, on the basis of common interests and greater public participation. However, this goal is burdened with a complex theoretical and ethical challenge: if global finance has to have moral limits how to determine a sense of morality acceptable to all communities?

Michael Sandel's work shows that there truly are moral limits to the scope of markets and finance in general. Sandel begins his argumentation by referencing markets, but it is evident that the thinking and discussion he develops is relevant for financial markets as well as finance in general. He departs from the premise that markets in general (and hence, finance in specific) by their description and nature, fall outside of moral concern since they do not pass judgments on the intrinsic worth of things people buy and sell. In the context of voluntary market exchange, different people evaluate goods differently and markets leave them free to act upon their own valuations. At this point a crucial dilemma emerges: should everything be up to sale or are there still some things that money shouldn't buy in these markets? Sandel firmly believes that there are things that are not for sale, but sadly, these are becoming fewer and fewer, as everyday life gradually drifts from a market *economy* to a market *society*. The important difference between the two lies in this: a market economy is a valuable and effective tool for organizing productive activity, but a market society is a way of life in which market values seep into every aspect of human endeavour. Indeed, financial value dictates the majority of societal relations. The race for profit and financial wealth exhibited by financial actors is completely oblivious to the needs of the society. In a globalized economic world the financial sector – its markets, institutions and products, appear to have no boundaries, not only geographically but moral as well. But, as Sandel claims, this should not be the case. There are two valid reasons why markets and finance should not model everything in contemporary society. Both of this objections figure prominently in arguments concerning the moral limits of markets, but as they often go together, Sandel believes that it is important to disentangle them. One of these objections concerns inequality, the other one corruption. As for the objection on inequality, in a society where everything has its financial value and everything is for sale – goods, services, even the lives of unborn human beings – life is significantly harder for the ones with more modest means:

> 'If the only advantage of affluence were the ability to afford yachts, sports cars and fancy vacations, inequalities of income and wealth would matter less than they do today. But as money comes to buy more and more, the distribution of income and wealth looms larger.' (Sandel, 2012, p. 8)

This objection points out to the injustices that arise from coercion. Market exchanges are not as voluntary as neoliberal enthusiasts claim, people are often forced to buy and sell things under the condition of severe inequality or in case of dire economic necessity. But the solution for this problem is, at least in theory, easy. If goods were distributed according to the principles that are considered fair in general, this objection on markets would fail. How to adapt this argumentation to the issue of a more ethical or indeed cosmopolitan governance of global finance? First of all, Sandel's observations materialize in the imbalance of powers in international financial institutions, responsible for global financial governance.

In this context the prominent objections are those of 'inequality' and 'distributive justice'. If inequality within the basic structure of society is too great, it will undermine the fairness of agreements between people. As Sandel (2012) rightly observes, in a starkly unequal society, people are not truly free to choose and pursue their values and ends.

This imbalance of power is mirrored in the current global financial system (GFS), with policy decisions being made upon compromise heavily dependent from global political leverage. Until present, these compromises reflected global structural values of wealthier, industrialized countries, often leaving countries with 'modest means' (*i.e.* emerging economies, developing regions) open to economic compromise tainted with the bitter taste of (sometimes) political coercion. This is an extremely complicated issue that demands a re-examination of the current balance in global finance. Without opening the global financial governance to new types of policy thinking the global financial system will remain closed off to the views and interests of the majority. This in turn will perpetuate a strong sense of injustice with respect to the global financial system.

The second objection to the ongoing marketization concerns corruption. This objection points to the degrading effect that market valuation and exchange has on certain goods and practices. According to this objection, certain moral and civic goods are diminished or corrupted if bought and sold for money. Sandel points to examples, such as military service, voting rights and the distribution of income and wealth. While the first two are significant especially for the preservation of a democratic state, the third is important for the governance of global economic relations. Even in a perfectly fair society, without unjust differences in power and wealth, there would still be things that money should not buy. The tradition of the conception of inequality and its reflection on societal relations actually goes back to Aristotle, and teaches us that severe inequality undermines freedom by corrupting the character of both the rich and poor. In the context of global finance, the 'rich' are constituted by financial markets and the finance industry (with their overwhelming affluence and policy influence) while the 'poor' comprise the vulnerable consumers of financial products (at present – without an advocate that would review financial polices in their interest). The 'rich' are accustomed to and driven by ambition, which makes them unwilling to obey, while the 'poor' pressed by life's necessities are ill suited to rule. Based on such observations Aristotle concluded that persons of moderate means make the best citizens. But the increasing gap between the 'rich' and the 'poor' leads to the situation that rich and poor live separate ways of life. Separate ways of life mean separate values and interests. And if that poses a problem of governance on the national level, on the international one, the governance issue becomes insurmountable. While it is true that the consensus for a liberal market economy has somehow survived the financial meltdown, injustices or externalities created by markets remain. These externalities have especially devastating effects in the area of finance: by corrupting the possibility of a 'disciplined pluralism' markets thrive through experimentation with the profit motive encouraging them to take risks and 'do things differently' (Saggar, 2012). This, in turn, does not produce the type of financial system that promotes competition, economic growth and improvements in human welfare (Barth, Caprio and Levine, 2012). The implication is then that public policies should strive to maximize market experimentation and challenge distortive usage of market powers. Adam Smith comes to mind with his balanced view of the relationship between governments and markets.

The ethical complications associated with markets and finance in general, demand a new effort in determining social and economic values that will guide the processes of economic life in a globalized community. This is not a search for perfect morality; instead we could begin by requiring that actors of different background (private or public) and geo-political positions meet each other within an (in)formal forum and negotiate the common good that finance should generate to the society. Today there is a place for greater public participation, and even 'public activism', in financial governance if we wish to tame the externalities of global finance. For now, the global finance and its constituents: markets and institutions, serve mainly the interest of the few, whereas in the future global finance should serve the interest of the many. As there is a deep interest clash between these two groups, a genuinely global world can develop only on the condition of the universal consensus between their interests (Post-crisis World Institute 2009, p. 16) or a new kind of morality linked to the manner in which specific financial actors or global finance in general, function. Held (2010, p. 301) sums this as an ethical consensus of 'social democratic globalization': what global governance of finance needs is a more 'social' and 'democratic' agenda that will support the still prevalent notion of free markets, but within a policy framework of shared values and commonly agreed institutional processes.

An ethical approach to global finance: the cosmopolitan idea

That there truly is a need for a new ethical outlook on the concept of value, not just on the value of the goods on the markets, but especially on the value of human life, is a valid proposition. It is also being loudly advocated by the majority of recent protests in the Western world. The departing premise is simple: as opposed to neoliberal claims, not everything should be up to sale. Or, in the context of global financial governance, in a post crisis environment global financial arrangements have come to a turning point: moving away from their purely instrumental and technocratic foundations towards a more ethical context that should level out negative externalities of financial interdependence. By incorporating its principles into various regulatory policies and instruments that now steer the direction of global finance, cosmopolitanism may offer a new and acceptable ethical approach to global financial arrangements in general, and their institutional governance in particular. Cosmopolitanism offers a fertile ground for developing a nuanced regulatory approach in finance, respectful of contemporary social realities. Its *added value* as a philosophical idea lies in the fact that it highlights the principles of fairness and accountability in societal relations, which can then be reflected in the relations between actors in the global financial sphere. The historical origin of the cosmopolitan paradigm explains why, so it deserves a closer examination.

A 'new ethical outlook' actually means that there is a need for a fresh outlook, one that is not prevalent nowadays. Cosmopolitanism, as an ethical, philosophical doctrine exists for over two millennia and in this sense it cannot be considered as brand new. Its beginnings can be found in ancient Greece, and indeed, the term 'cosmopolitanism' derives from the Greek word '*kozmopolites*', which means 'citizen of the universe'. *Kozmopolites* is a layered concept that refers to two other concepts particularly important for the Hellenic cultural horizon - the *cosmos* (κόσμος, as the universe or the world in its broadest sense) and the *polis* (πόλις, as the city, that is also a basic political unity). The *kozmos* represents a complex order, characterized by harmony and governed by natural law. The *polis*, on the other hand, represents a bordered space in which inhabitants that share certain traditions constitute the political community and its laws. Taken together, *kozmopolis* is an ideal society, in which there are no foreigners nor strangers, and therefore no enemies. Modern and contemporary forms of cosmopolitanism follow some of these basic features of Hellenic cosmopolitanism, mostly in the claim that human beings belong to the same human community by virtue of their equal nature and their common rationality.

This is just one aspect of the cosmopolitan thinking, one that we can name ethical cosmopolitanism. There are several others, as cosmopolitanism is a very broad idea with many of its advocates focusing on its different aspects (*e.g.* citizenship, liberty, human rights norms). This plurality of cosmopolitanism makes it an 'ethical paradigm' (Brasset, 2010) with its agenda sometimes difficult to apply to economic or financial matters. However, the departing premise of cosmopolitanism – that justice has to transcend national boundaries, and apply equally to all individuals – offers new ethical possibilities for economic relations, as part of social realities. This aspect of cosmopolitanism promotes the development of a single global economic market. As such, philosophers show it less support than economists and politicians, who are the most notable advocates of globalized economics. After the first Hellenic impulse, cosmopolitanism as a comprehensive doctrine has been in a state of prolonged 'oblivion'. Its revival started with the 'Age of Reason' from the end of 17th century, until the beginning of the 19th century. Economic cosmopolitanism surfaced during this revival, hence its origins can be found in the teachings of authors such as François Quesnay or Adam Smith. Although there are important differences in their work, both authors have developed their economic teachings as an opposition to mercantilism, an economic doctrine that claimed that a nation's wealth depended on the accumulation of gold and silver, and on stringent state regulation, imposing protective tariffs on foreign manufactured goods. Smith's work, especially the 'Wealth of the Nations', claimed that rational self-interest and competition can lead to economic prosperity, and therefore there should be no boundaries to the reach of markets. In essence, Smith was a predecessor to the modern academic discipline of economics. With his claims on the 'invisible hand' that operates in the promotion of the good to the general society, when individuals pursue their own interests, he became – unintentionally, one of the patrons of the contemporary belief in free markets. Eventually, free trade has triumphed over mercantilism as a paradigm of world economics.

At the same time, a somewhat similar doctrinal dispute was going on between proponents of cosmopolitanism and nationalism on the level of global political governance. The old medieval organization of Europe, with feudal lords and their subjects had already started to change in the Renaissance, when the new class of merchants-citizens staked its claim for more power in the political life. The radical change begun with the Treaty of Westphalia in 1648, however it did not destroy the old feudal order. But, with the creation of the concept of state sovereignty, it had laid the foundation for the formation of modern nation states. The final fall of the *Ancien Régime* came with the French Revolution in 1789. The Revolution was motivated by the big ideas of *'liberté, égalité, fraternité',* all present in the cosmopolitan doctrine from ancient times. Those universalistic ideas also inspired the 'Declaration of the Rights of Man and of the Citizen', along with the 'U.S. Declaration of Independence', a seminal text in the development of the individual rights of man. But eventually, the Revolution did not succeed in following those high ideals, and it ended not only in Terror, but its result was the rule of Napoleon, whose universalism had changed its nature from cosmopolitan into imperial. This in turn provoked its opponents to feel a sense of *difference*, an unknown sense of national pride, which consequently led to the forming of nation states. The process was unintentional, but it soon spread like wildfire across Europe. Nationalism took its first victory in Europe, and in just over a century, it had settled all over the world. By the end of 2nd World War, there were only few states in the world that were not constituted on some sort of nationalist foundation. By the middle of the 20th century humanity truly lived in a political world whose basic building block was the nation state and nationalism. Cosmopolitanism did not have its place here, except in the promotion of free market policies.

From this discrepancy, between states based on nationalistic principles and markets based on cosmopolitan ones, we arrive to the problems of the globalized society. Authors such as Dani Rodrik and David Held notice this discrepancy and call it a 'globalization paradox' (Rodrik 2011) or a 'paradox of our times' (Held 2010). Regardless of different terminology, the paradox is basically the same: why to rely on national systems of accountability and legitimacy, when decisions are nowadays largely being made at the global level? In the context of this discussion, the issue can be described as following: how to elaborate the cosmopolitan idea about global justice and democracy, in order to make sense of and provide critical reform agendas for the emerging practices of global financial governance (Brassett 2010)? The idea to extend the cosmopolitan approach to global financial matters indicates a feasible way of implementing questions of ethics and justice in a domain where demands for accountability and inclusion have been repeatedly articulated. In addition, cosmopolitanism offers a possibility to re-think the theoretical basis of existing global structures, placing them in a better-defined interaction with actors of the global society:

> 'While the complex and technical nature of finance may strike many ethical theorists as a strange place to begin an ethical discussion, it is clear that the dimensions and scope of contemporary global finance make in to less important in ethical terms. Global finance is a paradigm case of globalization.' (Brassett 2006, p. 8)

By respecting the principles behind the cosmopolitan idea, the global financial system can be reformed to increase its accountability, participation and the perception of fairness. In this respect cosmopolitanism can be incorporated in both the institutional redesign of the financial architecture and the departing theoretical foundations of their policy-making, largely articulated through regulation (as we have seen in previous chapters). What cosmopolitanism offers is an 'ethics of inclusion' (Bohman 1999, 2004) that responds to public demands for the 'universal morality' or better yet for a 'new kind of morality' in global financial matters. Recently suggested reforms of the global financial architecture insist on preserving bureaucratic economic agendas of improving legitimacy through a combination of 'state-centric institutions and private markets actors ' (Brassett 2006, p. 173). But this does not make finance more ethical in the public's eyes. Admittedly, cosmopolitanism is a promising but limited blueprint for institutional reform of the post-Bretton Woods financial system. But the idea of promoting 'cosmopolitan reason' to wider audiences, including global financial institutions, is indeed a valuable contribution to the debate of organizing global finance in future:

> '(...) it is a good thing that larger and more diverse audiences are involved in a conversation about the potential suffering caused by global financial crises and the apolitical nature of technocratic financial governance. (...) This is not done as an exercise in critique for its own sake, but as an opportunity to identify alternative possible futures for global finance. Working at the limit of current ethical reasoning creates the space to suggest alternatives. Such discussions can disturb the black box of global finance and open it up to the broad based democratic conversation cosmopolitans seek.' (Brasset 2006, p. 26)

Cosmopolitanism does offer a credible approach to escaping current alternative practices of global financial reform. At the same time it puts a heavy ethical burden on policy makers, namely that of caring not only for specific groups or actors within the financial community, but also for each and every person in the society on the basis of their human dignity. It is a heavy burden, but so was the forming of 'patriotic sentiment' in the 18th and 19th century, when people started to show more attention and to have more obligations towards people who up to then, were total strangers, and who afterwards have become compatriots. In the context of global finance, the circle of compatriots has to widen a little more, it has to embrace the international community and its needs as a whole. And this is a tremendous shift that will not happen overnight. Even more so, it is a change that has always been considered 'terribly utopian'. Still, a fairer global financial system, and consequently a fairer society, deserves such a change, one that the world of finance needs constant reminding of.

Cosmopolitan ethics extended to the sphere of global finance does not offer a pragmatic solution whose effectiveness can be measured against bureaucratic benchmarks something that can be proved or disproved. It does offer a new 'way of thinking' for global policymakers and their decision-making agenda (Brassett 2010). With cosmopolitanism at hand, the reform of the global financial system does not have to rely solely on market effectiveness or transaction profitability. Instead it can be envisaged on the basis of principles and instruments that would help reform financial governance in view of fairness as a global ethical demand, with a new balance attained between the interests and opportunities of all countries. Perhaps this is a somewhat 'sentimental approach' to articulating governance in global financial matters. But irrespective of their technocratic and (at least declarative) apolitical nature, global finance should serve the interests of the global society. This entity does share common values and moral boundaries in economic matters, so sentimental re-description is rather welcomed in this societal sphere. This is a significant remark to make at a time when global financial policies seem to diverge again from universal, public assumptions on global justice and participation.

New concepts in governing the global financial system

Currently, a host of regulatory reforms are underway on the global and national level, attempting to make the financial system more resilient to financial duress. Different facets of these reforms are discussed by policymakers and academics from a purely economic aspect, following a more technical delineation of the issue at hand. However, for reforms to be effective in securing sustainable global financial stability then the understanding of the concept of finance has to be broader. This is because today's global financial situation requires coordinated efforts from many different actors, with a multi-layered perspective. In this sense the experienced financial crisis was much more than an economic meltdown. This was also a social disaster with unforeseen and devastating effects that will continue to mark the lives of many for years to come (Barth, Caprio and Levine 2012). The interconnection between economic causes and social consequences derives from the fact that contemporary finance actually functions as a complex 'socio-spatial context' (Brassett 2006, p. 38) whose accountability and legitimacy is determined by its political and ethical dimensions. And in the eyes of the international community, it is precisely the political and ethical dimensions that sustain the concept of stability of global finance. Hence, the scope of recent global reforms should transcend the purely economic rationale and target the repositioning of the theoretical foundations and ethical aspects of governance policies in finance.

In a post-crisis environment many seem to agree that one of the most pressing problems of global finance is that of accountability. Accountability implies the participation in, or surveillance over, global policymakers (institutions, organization, etc.) whose policy decisions shape global finance and who are responsible to oversee its functioning. With financial internationalization and globalization, countries have delegated part of their national financial sovereignty (for instance, in the regulatory arena) to supranational authorities. These employ soft-law forms of governance, thus it is not surprising that the issue of international cooperation within these structures and of their accountability is politically and ethically sensitive. Helleiner and Porter (2009, p. 14) argue that the issue of accountability has three distinct facets: 1) uneven representation of countries and poor public participation, 2) the overtly technocratic nature of its institutions, and 3) the persistent risk of a 'policy bias' (or regulatory capture) towards the financial industry. One of the benefits of such a global financial system is that it has the potential to be managed to deepen socialization processes that nurture mutual trust, accountability and minimize concerns expressed by the public. In this respect, reforms should target greater accountability of international authorities with respect to other (in)formal institutions, which are collectively more representative, and which advocate the promulgation of the 'global public interest' within finance (Helleiner and Porter, 2009).

To discuss the role of participation and publicity in global financial governance and its leading authorities further, requires a basic introduction to the global financial system: its definition, institutional architecture and decision-making processes. This allows imagining new forms of transparency and accountability that could subject policy-making institutions to greater public control. Today's finance is detached from the, historically prevalent, national domain of exclusive economic sovereignty. This is a result of powerful political and market processes that are global in their scope. In this sense, contemporary finance focuses on the interplay of financial institutions, policymakers and companies on a supranational level, constantly shaped by international market movements. It is a system whose practices and institutions are driven by globalized dynamics that affect national policy makers and consequently affect national financial frameworks. Indeed, over the past sixty years the international financial system has moved away from its organization of isolated domestic financial systems based on predetermined relationships, toward an increasingly global and volatile financial mechanism (Arner and Buckley 2011). Broadly defined, the term 'global financial system' (GFS) refers to the international monetary system with its official understandings, agreements, conventions and institutions, as well as to the private and official processes, institutions and conventions associated with private financial activities (Schinasi and Truman 2010, p. 3). The idea is that the GFS functions as an interconnected, regulated network between private financial institutions, national authorities and international institutions that coordinate their interactions. The goal of these institutions is rather simple: to secure the most effective modes of governance through rules that consider interests and roles of all actors concerned. But to calibrate the actions of these institutions, authorities and subjects, through rules is a demanding job:

> 'The economics is complex. The politics tricky. And the economic and political ingredients are constantly changing as economics evolve, financiers innovate, lobbyist lobby, and older political constituencies weaken as new ones emerge.' (Barth, Gerard, Levine 2012, p. 21)

These facts have been clearly demonstrated by the recent crisis. The current institutional backbone of the GFS does not reflect current economic and political realities. Institutional structures promulgated inadequate financial policies that ultimately undermined the effectiveness of global financial governance, and exacerbated the issue of accountability of the GFS. There are several reasons for such behaviour of the GFS' institutions. But the most obvious one is that today's global financial architecture was designed in the period of World War II. It was in fact the 1944 negotiations at Bretton Woods that gave the contours to the international institutional framework we know today: its formal design, international treaties and soft-law mode of governance. Through the years the system has experienced modifications of institutional arrangements and instruments employed, adapting to changing circumstances prompted by financial liberalization, technological innovations and lessons from several crises (e.g. Mexican or 'Tequila', Asian and other). Although modifications were made, the backbone of the GFS remained the same, with the central institutional role in finance played by the International Monetary Fund (IMF) and its developmental counterpart, the World

Bank. The core levels on which the system operates, remain unaltered at present (Arner and Buckley 2011, p. 18):

> (1) the political one, with the policy discourse developed within the group of countries with greatest political and economic leverage (G7, G8 and G10),
> (2) the standard-setting one, largely technocratic in its nature with the Bank for International Settlements (BIS) and the Financial Stability Board (FSB) taking the lead role,
> (3) the implementing level, focused on national convergence with agreed arrangements with the help of regional and multilateral organizations, and
> (4) the monitoring level, with the IMF and the World Bank (the latter with a focus on economic development and poverty reduction).

In this form of 'networked governance' that still persists, it is operationally and politically challenging to effectively manage the governance framework of global finance (Schinasi and Truman 2010, p. 10). Publicly demanded improvements of the GFS accountability require alternations in focus along the lines of commonly agreed responsibilities, as well as in coordination between public authorities and international financial institutions. One of the strongly advocated demands is that the GFS should become more accountable to all the world states rather than to the few wealthy, industrialized countries that now lead its operations. This is because:

> 'Over the past decade, developing countries were increasingly pressured by markets and the Bretton Woods institutions to adopt financial standards and codes whose content they played little or no role in developing. Not surprisingly, the content of those standards and codes was often deemed inappropriate for local conditions and also designed to favour industrialized country interests.' (Helleiner and Porter 2009, p. 16)

In this respect, the promulgation of the 'the common interest' and greater acceptance of global financial policies could be achieved by extending the institutional membership and the participation in the policy-making process. It is clear then that the GFS future improvements have to respect nascent socio-economic realities and strive for a pronounced participative dimension in policy-making. And this is where the concept of cosmopolitanism offers a fresh approach in respect of global institutional arrangements in finance. Following this premise it is possible to identify three key entities that have the potential of coordinating private, financial markets' incentives with national economic interests along the lines of cosmopolitan principles: the G20, the FSB, and finally the IMF.

The G20, established in 1999 as a direct response to the so called Mexican and then Asian crisis, acts as an informal political steering group, which issues guidelines for future financial reform (through regulatory initiatives) and oversees the functioning of the international financial architecture overall (Giovanoli 2010, p. 99). By the own wording of the G20, its scope is: to provide an informal forum where the interaction and exchange of ideas between industrial and emerging-market economies can offer new solutions on key issues related to global stability. In its first ten years the G20 kept a low profile without major involvement in the international standard setting process (Giovanoli 2010, p. 103). This is partly due to the fact that this organization has no formal legitimacy and thus no legal competence to impose binding rules on its participants or other countries. On another level, this is because within the international financial sphere, the IMF was seen as the lead institution not only with respect to monitoring, but to regulatory initiatives as well. Hence the G-20 acts simply as a forum for discussion, whose concluding remarks are then brought to the formal international structures, to be incorporated as part of future policy arrangements. Although for many years the G20's informal approach was shadowed by more formal multilateral arrangements led by Bretton Woods' institutions, recent reforms, articulated at the groups' Washington meeting in November 2008 and the London meeting in April 2009, gave a new weight to G20 discussions and its conclusions on pressing financial issues. Mainly this is due to the notable extension of the representativeness of emerging economies in the G20, even though this representation still remains uneven in geo-political terms and so issues of legitimacy persist. But even if all countries were secured a seat at the table, further expansion would hinder productivity of informal discussions and prolong the groups' actual decision-making (Dervis 2009, p. 27).

This is not to say that reform dynamics should not continue, especially in view of preserving the G20's informal nature and speedy decision-making process. Formal and binding international decisions, for the time being, should remain a competence of international institutions with near universal membership.

At this point the IMF enters the scene, as a high profiled international institution with more than sixty years of international financial experience and credibility dependent on its Bretton Wood heritage. This is a formal international institution with a potential for governance reforms in light of today's realities. In its beginnings the IMF was preoccupied with international monetary stability, which it monitored by focusing on the exchange rate and the removal of restrictions on payments. This narrow policy focus of the IMF, formalized in its statute (Articles of Agreement), is understandable if we keep in mind the fact that back in the 1950s the international monetary system represented the whole GFS, with a very modest role for private incentives (*i.e.* financial institutions). But, as time passed, the focus of the IMF broadened towards the global financial system. This orientation of the IMF has brought forward transparency issues in regards of its governance and issues of accountability, at present still vividly discussed among experts. This vibrant academic interest for IMF's institutional potentials has much to do with its possibility of securing 'global public good' in future financial policies, along the line of its existing mandate of precautionary finance and macroeconomic stability (Dervis 2009, p. 29). Prospects of reform will have to target both governance issues and the use of resources. And although the modification of resources to the needs of many emerging economies is addressed through new monetary facilities, the governance reform is more difficult to make. Governance reform of the IMF not only requires the revision of participating quotas, but also of voting quotas that is set depending on a country's leverage in international economic relations. By opening up the governance issue, a Pandora's box of interlinked problems is opened, such as international political economy, divergent political interests and challenged institutional legitimacy in a world of changing economic realities. Whatever the path of IMF' reform may be, in order for its policy to be inclusive and impartial to immediate political interests, then the IMF will have to be subject to scrutiny and review of public expert advisors. Dervis (2009, p. 33) suggests that this 'impartial judgment' could be provided by experts congregated either in an informal group or as part of an existing international institution. This is a laudable proposition, whose conceptual essence and institutional sketching resemble that of the 'Sentinel' proposed by Barth, Caprio and Levine (2012). The driving idea is to provide the public with greater participation in policy-development, by ensuring an institutional point for public discourse on financial policies developed within the formal international financial sphere. This is where the potential for further development of the interaction between the IMF and its international counterparts lies. The first that comes to mind is the Financial Stability Board.

The FSB, as an expanded successor of the Financial Stability Forum established in 1999 by G7 countries, was institutionally renewed in April 2009 at the G20 London Summit when it was awarded a broadened mandate in view of financial stability promotion. The task of the FSB is to envisage ways in which existing externalities in global finance could be internalized, through information sharing and to develop codes and best practices in financial regulation (Schinasi and Truman 2010, p. 28). In its role of a 'regulatory think thank' the FSB seems suitable to act as an institutional mechanism that coordinates national interests with financial policy development. However, his weakness is that it still lacks legal personality under international or private law (Giovanoli 2010), which clearly hinders its accountability and leverage in the international arena. Also, the restrictive membership of the FSB (currently set to comprise G20 countries and the EU) gives it less legitimacy with respect to the IMF, for example. In this sense, a closer cooperation between these institutions – the sanctioned surveillance powers of the IMF with the policy-making potential of the FSB – could be an immediate pragmatic solution for a more inclusive development of global financial policies (Eatwell 2009, p. 43). Indeed, such strengthened roles of the IMF and FSB would be better suited to capture the interest of the many as opposed to the negligible few (roughly represented by the wealthiest, industrialized countries) making international governance networks more trustworthy and accountable. In other words:

> '(...) working with the existing networked properties of global governance is not simply a second best alternative that less powerful states and citizens must reluctantly accept because of their lack of influence. It is instead the best way right now to work towards a system in which relatively small numbers of unaccountable elites will never again be able to bring down the world economy.' (Helleiner and Porter 2009, p. 24)

Regardless of the prevailing stance that none of institutions underpinning the GFS are now worth of a high vote of confidence, they shouldn't be dismissed completely. These are institutional structures that still develop and promote commonly agreed standards and other important guidelines in global financial matters even when measured against new requests for greater accountability and participation. True, their policies proved to be much less effective in dynamic, complex financial relations, as they worked on overly simplistic assumptions. It is time for an update of concepts, for increased participation and transparent decision-making processes in the GFS. The search for new formats of interaction in the global institutional set up should be encouraged through regulation developed within these structures. This is because regulation, as a very effective policy instrument, can integrate national financial interests into the international context in a sustainable manner (Arner 2007).

Articulating 'fairness' in global financial regulation

A just and well-governed global financial system does not rely solely on its institutional structure; it also depends from the quality of regulation developed within these networks. This is why the post crisis environment has proved to be beneficial for the prolific discussion about the optimal regulatory framework in the context of global finance. Currently, one of the most pressing topics on the international financial agenda is the re-design of the global financial regulation, with experts often stating the ultimate goal of a more resilient, stronger and *transparent* global financial system. As human civilization has become intrinsically connected, globalization has had a profound impact in the area of economic life, making some of the most fundamental economic problems today – such as effective economic governance or the management of financial stability, issues that cannot be solved by countries or individuals acting alone. Hence, financial regulation has to respond not only to national or regional economic requests, but also create new forms of accountability and greater participation in decision-making. To this end global financial regulation comes as an effective tool, one that can subject different economic processes (*e.g.* financial liberalization and integration) to better political control and management.

But what does this 'global financial regulation' entail? The term refers primarily to standards developed by institutions competent for global financial governance and promulgated in the form of soft law, through which global cooperation on some of the most urgent economic issues that affect our 'overlapping communities of fate' is encouraged (Guibernau 2002). This type of regulatory intervention has a decisive role in ensuring public confidence in global finance understood as a system that should produce socially desirable outcomes and consequently, make finance more just and trustworthy. Indeed, the crisis has unmasked the self-endorsed assumption that the individual hand of actors who behave in a self-interested manner will produce efficient markets, and henceforth finance. What is now evident is that markets and finance in general, crucially depend on certain key services that private actors will not supply adequately; namely for markets and finance to function in a voluntary, efficient and just manner they require the authority of a civil government, system of justice and institutional infrastructure that facilitate the relations within a social community, in the broader sense (Barth, Caprio, Levine 2012, p. 43). Financial regulation is arguably the best example of a service provided by public authorities in the interest of the overall society. Indeed, regulatory intervention in finance is much more pronounced that in any other sector of the economy. This is because finance is part of the information industry, where information are managed and traded by (mostly) private actors: financial institutions and markets. But these actors do not necessarily act on behalf of the public; rather they use their expertise and resources to successfully manage their profits. Irrespective of this, the crisis taught us that finance performs well only when private rewards are aligned with wider social interest. Hence, incentives matter in finance, but when incentives are distorted we get distorted behaviour. This is why finance is regulated and supervised more attentively than any other sector of the economy – be it national, regional or global. As finance exhibits such information asymmetries that may cause serious markets failures with socially devastating consequences, it then deserves an interventionist approach that will guarantee coherence of private and wider social interests. Indeed, the social costs associated with the failure of a single financial institution, or the collapse of an entire financial system (not to mention one with global significance) are indisputably higher than costs associated with the failure of other economic sectors. This is why ever well functioning financial system requires a balance between regulatory intervention and its constituting elements: financial institutions and markets. This was clearly demonstrated during the last financial crisis where divergent interests and ethical groundings allowed the proliferation of structured financial products giving rise to unwise underwriting practices, to which some of the biggest mortgage lenders to the public were exposed (such as with government sponsored enterprises in the US) causing devastating social damage.

In addition to market characteristics and forces, regulation is also shaped by the theoretical and ideological basis of law and economics. As noted by Yergin and Stanislaw (1998), the 20th century was a battle of ideas and a battle between two different models of the role of government in the economy, with the capitalist models focusing on the self fulfilling role of markets with limited government intervention, and the communist models focusing on central planning through state ownership and control. The capitalist models proved superior to the communist one during the 1980s, hence during the last decades the global financial system has developed under the influence of a specific capitalist doctrine: neoliberalism. Without entering into conceptual details of neoliberalism, it is possible to summarize that this doctrine operated on the assumption that financial markets gather, process and transmit relevant information regarding the real counterparts in finance and the condition of borrowers in a rationally efficient manner (McKinnon 1973). Consequently, the rise of this trail of thought in economics has spread the presumption in favour of absolutely free markets and advocated strong deregulation, as the premise was that government intervention through regulation will tend only to lower the inherent efficiency of the markets. Recent research, however, has demonstrated that the neoliberal doctrine has abstracted a number of critical features of global finance, the most notable of all being – uncertainty. Namely, if financial systems are 'left to their own devices' through deregulation, they do not produce efficient outcomes in conditions when relevant information is imperfect. Rather, they are prone to market instabilities such as information asymmetry and social externalities, which have recently come to prevail on the global market level, leading global finance to resemble a 'global casino' with financial investments founded on speculation rather then information, and with devastating economic and social consequences.

The reality is that nowadays no economic activity exercised within a community can be absolutely free of norms or other forms of regulatory intervention, since different types of legal arrangements limit the interference of individual market actions with the legitimate interests of others within the society. Simply put: *ubi societas ibi ius*. By establishing the 'rules of the game' regulations govern the spontaneous order of economic life through legislation. This is valid not only for national financial systems, but even more so for global finance. It is precisely in a global context that 'best practice' standards, soft law instruments and regulation in general are fundamental to stability, economic growth and equality.

But to design a uniform set of financial regulations for all countries around the world, is a daunting task to say modestly. Yes, basic regulatory principles are valid almost everywhere in the world (*i.e.* those of prudential regulation, systemic, code of conduct, etc.) but the unique political, legal and economic characteristics that shape the design of international financial policies evolve over time (Barth, Caprio and Levine 2012, p. 50). To complicate the issue even more, the international financial institutions develop and promulgate financial and regulatory policies on the basis of political compromises rather than objective assessments of global financial conditions dependent on the specific economic cycle of different countries. Over the years, global regulatory standards in finance were developed under the dominance of industrialized countries, which exhibit significant leverage in decision-making. This is why many countries around the world have often characterized 'best practice' standards and other global regulatory guidelines as unfair. Fairness, of course, is an elusive and multifaceted concept, but in regards of global financial regulation its core could be described as follows: it is the problem of regulators standing back and looking to see who will have the upper hand in global finance and public services, and then tailoring regulatory responses to the needs of this most influential group (Saggar 2012, p. 3). Furthermore, fairness in global financial regulation necessarily implies a form of partnership between regulators (*i.e.* the institutional backbone of the GFS) and the 'users' of regulatory policies (*i.e.* national states). The current GFS did not work in their interest at large, as many countries were excluded from institutional membership or lacked the political or economic leverage to compel regulators to act in that manner. This objection relates to the previously discussed issue of redesigning the institutional structure of global finance. Namely, it is only by enabling international institutions to promote improvements in global regulatory policies that work in the interest of the majority of the world's community, that a check on fairness will be provided. Recent reforms sidestep this crucial challenge:

> 'Reforms emerging from the US Congress, Basel, the United Kingdom, the European Union, and many other countries and organizations do not squarely address the deeply rooted, institutional weaknesses in the regulatory apparatus that led to so many critical problems affecting so many people. (...) reform efforts primarily provide fleeting palliatives, not enduring improvements to the process for selecting, implementing, evaluating, and reforming financial regulations.' (Barth, Caprio and Levine 2012, p. 204)

All the mainstream views to recent regulatory reforms (*e.g.* greater information transparency, inclusiveness of developing states in the decision making processes) are insufficient to address such challenges and in this lies the possibility for a new approach to regulating global finance (Brassett 2006, p. 47), attaining fairness or linking commonly agreed moral values to the manner global finance is being governed today. And with this remark, a fundamental issue regarding the conceptual basis of the required change is posed: what could constitute the common ground on which the post crisis society could design such a regulatory approach that would introduce concepts of fairness, and ethics in general, in an otherwise technocratic field of global finance. To determine this common ground is not straightforward, as ethics is a highly contested domain. However, it is only by working on sensible and sustainable ethical arguments that the GFS can regain its legitimacy in the eyes of the global community. As has been already argued cosmopolitanism offers a credible approach to escaping current alternative practices of global financial reform. Strange (1995, p. 171) succinctly verbalizes this intention: 'the horizons of moral philosophy (...) no longer end at the frontiers of the state.' By adhering to this proposition we can create a dynamic site of interaction between the society and the global financial community, built on the assumption that the reform of global finance through commonly agreed ethical values, embedded in various regulatory policies promulgated by global policymakers, is both possible and desirable. These issues have to be echoed in the design of recently proposed global regulatory policies and the reputation and accountability of policy-makers (Saggar 2012, p. 12). It is evident that global financial regulation has come to a turning point in its development that will require a radical paradigm shift in its design. This 'paradigm shift' has multiple dimensions, and one may well be the shift in the international seat of regulatory power. However, one that is particularly significant is that the underlying intellectual and soft power considerations in the regulation of global finance have to embody specific common arguments in order to create a stronger feeling of participation and legitimacy in the eyes of the 'post crisis society'. In this global context, regulation rests on the acceptance by others of agreed ethical underpinnings for global financial arrangements. Therefore, to maintain sound incentives in global financial regulation and to reach for fairness in regulatory policies, the global financial system must adapt to changing socio-economic realities. Current global regulatory initiatives are simplistic solutions that do not acknowledge different influences in global finance. What global financial regulation deserves is coherence in addressing intricate policy decisions, by creating a system of 'checks and balances' that works for the majority of world countries (Barth, Caprio and Levine 2012, p. 55) and this is why the potential of the cosmopolitan idea deserves to be explored in global finance.

Conclusions

The views expressed in this paper seem as easy targets for criticism. The most straightforward criticism may well be this: as with most theoretical works, the paper does not offer practical solutions. But practical solutions are easy, or at least more straightforward. What is more difficult is to envisage changes in the manner we reflect upon, and perceive, societal relations in our 'overlapping communities of faith'. To increase awareness on dilemmas that now pervade global finance means to solve numerous questions and problems of ethics that now exist, and to venture on a quest for something so elusive as 'universal values' or 'a new kind of morality'. But as every thrilling and daunting journey, this one too begins with the first, small step. In the context of this examination, the first step forward is to understand that finance in general and global finance in particular, are not 'inherently evil'. It is only when exercised unconscientiously – with excessive risk taking and poor accountability patterns that finance can cause extensive damage, whose consequences spill over from the economic domain to the broader social environment. But, as Barth, Caprio and Levine (2012) rightly point finance is not destined to resemble a big casino, where only the chosen wealthy few come to place their bets. Moreover, finance is not moral at all, precisely because one of its main characteristics is that it does not take moral considerations into account. Morality should not be demanded from 'finance' but rather from the persons or 'free agents' that take part in various transactions in the financial flow. In the background of every market exchange, behind every numeral in finance, there are human lives influenced by such transactions. And those lives also have dignity, which should be valued and protected. It is exactly this central significance of finance with respect to social prosperity, that demands a closer reflection on how to justify contemporary financial arrangements in the eyes of many: its global domain, institutional underpinning and policy-commitments.

The quality of 'fairness' demanded by the public as an imperative for global financial matters in general, has a strong ethical background. And this ethical commandment is something that should be reflected in future reforms of global finance especially, because for many decades this social domain has been dominated by the concept of ethical relativism. Such relativism was founded on contemporary global policy arrangements that functioned on the premise that morality is not universal. But as clear moral limits to global finance are being loudly demanded by the public, the quest for a different, new kind of morality emerges: one that will redesign the global financial system and its governance by respecting common interests and allow broader public participation. Globalized financial markets operating on structured financial products that transcend national geographical boundaries and impact economic cycles from a distance, suggest that there are many ethical loopholes worthy of research attention. At the same time, the potential benefits of a inclusionary and participative global financial system emerge as normative possibilities that imply significant corrections to current institutional power structures (Brassett 2006): to their membership, representation, inclusiveness, which should ultimately reflect in their policymaking. At last, regulation could attain more fairness if developed within a forum non-dependent on political and economic leverage, but on commonly agreed moral boundaries in financial matters.

The possibility of developing global finance on the principles of cosmopolitan ethics is a significant idea worthy of further academic examination. Although it can hardly be considered as brand new, regardless of the fact that cosmopolitanism was never a dominant idea in economic governance, it is a fresh, commonly acceptable outlook to current obstacles. This is not search a for perfect morality; instead it is a lookout for closer cooperation between different geo-political actors, for louder public activism with respect to financial governance, and – in the words of David Held – for a 'social democratic globalization' in the sphere of global finance. A starting point in this direction may be to develop global finance with respect to concepts of cosmopolitan democracy, or cosmopolitan ethics in general.

Global finance today functions as a complex economic, political and social context whose boundaries are determined by commonly agreed political and ethical dimensions. One of the benefits of such a global financial system (GFS) is that it could be managed to deepen socialization processes and minimize specific accountability concerns expressed by the public. Publicly demanded improvements of the GFS institutional structure require alternations along the lines of commonly agreed responsibilities. The system should become more accountable to all countries rather than to the few wealthy, industrialized ones. In this respect, reforms should make international authorities more accountable to other (in)formal institutions, existing or new, collectively more representative with respect to the 'global public interest'. Perhaps it is the extension of the institutional membership and of the participation in the policy-making process that would make global financial policies more acceptable and supported.

Regardless of the poor vote in confidence that institutions of the GFS collect nowadays, one cannot dismiss the fact that they are the 'second-best solution' for developing international, voluntary financial policies. True, in a globalized environment they are measured against stricter accountability and participation requests, which can only be satisfied by taking a different approach to the policies developed by these institutions. And since financial regulation is their most effective policy-making approach, loud demands for fairness are being primarily directed to regulatory matters. How to make regulation 'fair' in the eyes of the post-crisis society? In essence, by achieving a paradigm shift; the underlying intellectual, reputational and soft power considerations in the regulation of global finance have to embody specific arguments in order to create a stronger feeling of participation and legitimacy of the global financial system in the eyes of many. As regulation rests on the acceptance by others of agreed theoretical underpinnings to common regulatory arrangements for finance, monitored through a system of 'checks and balances' (along the lines of the existing GFS architecture) that works for the majority of world countries.

Extending cosmopolitan ethics to the sphere of global finance will not offer a straightforward, pragmatic solution whose effectiveness can be measured against administrative benchmarks or one that can be proved or disproved. However, it does offer a new way of thinking in this globalized community that should influence the decisions of global policymakers. The solution of the cosmopolitan approach seems easy – in order to make the global finance system more just, regulations and institutions have to be designed in a specific manner, meaning that they need to be grounded on commonly agreed values, on some type of 'universal ethics'. Primarily this means that the obsolete outlook to global finance, with its instrumental and technocratic foundations, has to be surpassed in favour of a more ethical context that levels out negative effects of global financial interdependence. Perhaps cosmopolitanism takes governance issues to a somewhat sentimental narrative, but in the era of market dominance and profit-led governance solutions, sentimental re-addressing can only benefit the debate on global financial issues.

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