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## New World Order

By JUSTIN FOX Thursday, Feb. 05, 2009



Illustration by Harry Campbell for TIME ENLARGE +

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In recent weeks, the world has been politely standing by and watching how things play out with the fiscal stimulus and latest bank-bailout plans in Washington. Yes, there's been some grumbling overseas about "buy American" provisions in the stimulus bill, but for the most part, officials elsewhere don't want to step on the toes of a new President to whom they are favorably disposed. They also don't want to endanger legislation that they hope will help jump-start the global economy.

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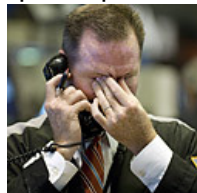
Just wait a couple of months, though. Politicians from Beijing to Berlin to Brasilia see the current crisis as the product of a messed-up global financial infrastructure dominated by the U.S., and they will soon be pushing for big changes--whether Americans like them or not.

All this will begin to gel on April 2, when the newish international organization known as the G-20--the leaders of 19 of the world's biggest national economies, plus the European Union--meets in London. An unofficial meeting has already taken place, at the World Economic Forum in Davos, Switzerland, where G-20 officials (with the conspicuous exception of those from the U.S.) made speeches, conversed in the halls and gave a sense of the direction in which the world outside the U.S. wants to head. (Read TIME's special report on Davos 2009.)

The global discussion of the financial crisis is

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strikingly different from the one in the U.S. Here there's still something of a debate over whether the mess is the result of too much government interference in the housing market or too little government regulation of financial markets. In the rest of the world, that's no debate: inadequate and inconsistent financial regulation is uniformly blamed. What's more, a consensus seems to have emerged among the world's finance ministers and central-bank bosses that the chief underlying cause of the crisis was an unbalanced and out-of-control system of global capital flows in which some big-spender countries (namely the U.S.) ran up huge debts while big savers (China and India, for example) hoarded surpluses.

On the regulatory front, the path to a new global approach is pretty clear. Last spring the leaders of the G-7, a club of wealthy nations, agreed to create a "college of supervisors" to more closely coordinate regulation of multinational banks. The Group of Thirty, an influential organization of current and former central bankers and financial regulators, recommended in January that "systematically significant" financial institutions (those that are too big to fail) be identified in advance and subjected to higher capital requirements and tougher regulation. ([See who's to blame for the financial crisis.](#))

Yet regulators around the world were already jointly setting bank-capital standards before the current crisis hit. A lot of good that did us. So there is also much talk about the need for a new architecture--"a new Bretton Woods" was a phrase that echoed around Davos--to rein in global financial flows.

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