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Individual Accountability in International Economic Policymaking after the Global Financial Crisis

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Individual Accountability in International Economic Policymaking after the Global Financial Crisis[1]

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Abstract

In the aftermath of the global financial crisis, the design of accountability mechanisms has taken on renewed importance in academic and policy debates. Calls for holding individuals whose actions and omissions contributed to the meltdown accountable have gained traction in a number of countries after the crisis. Yet, individual accountability norms are seemingly absent from the international economic agenda in response to crisis. In this paper we address this puzzle by exploring the evolution of two major international organisations, the IMF and the FSB, in bringing accountability following financial crises. Our analysis reveals how these institutions have increasingly incorporated in their toolkit policy recommendations related to the unethical or illegal conduct by government officials of individuals in the financial industry, but these tools were geared almost exclusively towards forward-looking policies designed to deter the reoccurrence of illegal or unethical behavior rather than punishing or scrutinizing past wrongdoing. We argue that the extent to which individual accountability norms permeate the international economic agenda is mediated by the institutional characteristics of the organizations that comprise the international financial regime.

Keywords: Accountability; Financial Crisis; Global Governance; Bureaucratic Culture;

1. Introduction

While economic and financial crises are complex phenomena whose roots span across multiple factors, the presence of fraudulent or unethical conduct from specific individuals in the financial industry or in government is often one of the causes (Kindleberger, 1978). As the Financial Crisis

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Inquiry Commission created by the US Congress to investigate the origins of the 2008 crisis stated, the crisis was "the result of human action and inaction, not of Mother Nature or computer models gone haywire" (FCIC, 2011, p. xvii). It is therefore not surprising how in the aftermath of this event calls for holding individuals within government or the financial industry whose actions and omissions contributed to the meltdown accountable have gained traction. This demand for accountability has resulted in different countries such as the US, Iceland, Ireland and Cyprus establishing truth commissions, special investigative mechanisms, and other accountability mechanisms (Kovras et al., 2018; Kovras & Pagliari, 2020), although the extent to which these have resulted in top-level financial executives and policymakers being prosecuted is in many countries limited (Wiseman 2014).

But to what extent has the norm that individuals within governments or the financial industry should be held accountable for actions that caused large costs associated to the crisis also informed the international economic policy agenda after the financial crisis?

In this paper we explore the evolution in the role that individual accountability norms have played in the agenda and the policy advice of two sets of international economic institutions involved in the area of crisis-management and crisis-prevention: the International Monetary Fund (IMF) and the Financial Stability Board (FSB). The analysis reveals how both institutions have increasingly been forced to confront the impact that the unethical or illegal behaviors of individuals - within government in the case of the IMF and within the financial industry in the case of the FSB – may have over the fortune of a country or a financial institution. However, this paper argues that the pre-existing mandate and bureaucratic culture of these international economic institutions steers their policy advice in response to a crisis away from policies designed to sanction past instances of unethical or illegal behavior (retrospective accountability) and favour institutional reforms designed to reshape incentive structures and deter the reoccurrence of illegal or unethical behavior (prospective accountability).

More specifically, this paper will detail how in the case of the IMF, the mandate of the organization and the unpopular nature of interventions seeking to sanction past instances of corruption have steered its involvement of the IMF towards expanding its toolkit of institutional reforms designed to deter corruption rather than targeting directly individual actions or omissions that may have directly contributed to the economic crisis in the first place. Along the same lines, the framework of norms and recommendations that have been developed by bodies such as Financial Stability Board and other standard-setting bodies in response to different episodes of financial instability

have mostly regarded unethical and illegal behaviour of individuals in the financial industry as a risk to be managed by building upon their existing policy advise and toolkit.

2. Individual Accountability in World Politics

An important development in the world politics over the last few decades has been the rise of individual accountability norms in international politics. More specifically, recent years more and more states and international institutions have adopted treaties and conventions designed to hold specific individuals accountable for their actions (Simmons 2009; Mitchell and Powell 2011). This trend has been documented in particular in the area of human rights, where a series of international initiatives since the early 1990s have, challenged the expectation of impunity previously enjoyed by state leaders/officials (Sikkink 2011).

In parallel with the emergence of initiatives to hold state leaders guilty of major human rights crimes accountable, recent years have also witnessed numerous calls for extending norms of individual accountability to other domains besides human rights violation, and in particular towards the economic sphere. The UN Office of the High Commissioner for Human Rights (OHCHR) acknowledged that "in some countries, economic crimes have been as prominent – and in the public's mind as egregious – as the civil and political rights violations by a prior regime" (cited in Carranza, 2008). However, the extent to which norms of individual accountability have taken hold in different domains of international politics is uneven. In particular, the existing scholarship notes how one key difference that characterize the way in which individual accountability norms have been incorporated in the international economic sphere and human right sphere concerns the emphasis of placed by international initiatives on seeking to investigate and allocate responsibility for past events (retrospective accountability). As Carranza argues in relation to the anticorruption regime, this domain "was more forward looking, seeking to prevent corruption rather than push for accountability for past actions. It promoted the nebulous notion of 'good governance' instead of confronting legacies of large- scale corruption and economic crimes" (Carranza, 2008).

Similar patterns have also been detailed in the context of the international response to large scale economic and financial crises. For instance, the studies that have investigated the wide range of policy initiatives that have been negotiated internationally in response to the global financial crisis have detailed how the work of international institutions has primarily focused on the institutional

shortcomings and public policy failures at the origin of the crisis, such as chronic spendthrift policies that derailed sovereign debt, or regulatory failures that allowed the build-up of excessive risk-taking at financial institutions, and called for reining back economic policies and strengthening the regulatory oversight of financial institutions and markets (Helleiner, 2014). What was notably missing from the agenda of these institutions was an attempt call upon their member governments or national regulatory authorities to introduce policies designed to facilitate the task of holding individuals from the financial industry or policymakers whose actions and omissions contributed to the crisis accountable, let alone any attempt to directly trying to apportion blame for the crisis to specific individuals.

This gap is puzzling from the perspective of some of the existing theories for the rise of individual accountability norms in world politics. Functionalist explanations have presented the emergence of individual accountability norms in world politics as a solution to important events that called into question existing norms and approaches (Neier, 1998). From this perspective, large scale financial crises that expose widespread instances of misconduct to set the stage for rethinking the importance of individual accountability norms in the international economic domain. Other explanations have focused on the role of 'principled' nongovernmental organizations like Amnesty International and other transnational advocacy groups assuming a key role in bringing domestic demands for accountability to the attention of international organizations since the 1970s (Sikkink, 2011). Also in this case, the aftermath of the global financial crisis has been characterized by the emergence of a number of protest movements, like 'Occupy Wall Street' and the 'Indignant' movements in Southern Europe, whose demands included identifying and bringing to account those responsible for the crisis (Bermeo & Bartels, 2014). However, as argued above, the global financial crisis was not followed by similar transformative change when it comes to the role of individual accountability in the international economic agenda.

A wide range of realist theories all converge that individual accountability norms emerge when it is in the interest of the hegemonic state to do so (Ikenberry, 2011; Krasner, 1993). This perspective can explain why we have not seen a major shift in the policy advice of international institutions regarding holding individuals accountable after the global financial crisis. The fact that the 2008 global financial crisis originated within the US and the powerful position of the financial industry within this context could be expected to limit the prospect of greater scrutiny from international institutions over the action of individuals compared to the international response to crises originating in less powerful countries. But as the analysis below will show, in some cases the post-global financial crisis approach on individual accountability reflects the legacy of policies

developed in response to crises originating in developing countries that do not have much leverage over the work of international financial institutions.

In order to explain the limited extent to which individual accountability norms have permeated the international economic policy agenda, the next section will focus on the characteristics of the international economic institutions that are involved the area of crisis-management and crisis-prevention and explore how these influence the adoption of these norms.

3. International financial institutions and individual accountability norms

While existing theories explaining the rise of individual accountability norms in world politics have mostly focused on the creation of new international institutions designed to pursue individual accountability (e.g. International Criminal Court), the international policy response to a economic or financial crisis usually does not start from a blank canvas. On the contrary, an increasingly crowded landscape of existing international economic institutions has emerged in recent decades, with numerous organizations now involved in the management and prevention of balance-of-payment and financial crises (Porter, 2005).

From this perspective, it is important to note the fact that existing international institutions that populate the international financial regime do not have an explicit mandate to act as quasi-judicial bodies. Instead, the primary mandate of the existing international institutions that are involved in defining the international policy response to financial crises mostly consists of providing financial and technical assistance to member countries and formulating best practice standards. At the same time, over the years a number of international financial institutions such as the IMF and FSB have been tasked to take a larger role in monitoring the soundness of policies implemented by its members and their adherence to international standards. For instance, the International Monetary Fund provides regular monitoring of the policies of its members in order to identify weaknesses that are causing or could lead to financial or economic instability (Pauly, 1997; Blustein, 2016). Likewise the Financial Stability Board provides regular assessment of the extent to which financial regulatory frameworks in different countries are consistent with the international best practices (Helleiner, 2014). However, this scrutiny focuses on the policies designed and implemented by a member country and it does not typically extend to passing judgment on the conduct of specific individuals - either in the financial industry or within government - nor to sanctioning unethical or criminal behavior in this domain. Existing international financial institutions lack the mandate to

operate as international courts, and any attempt to apportion blame to specific individuals within government or within the financial industry for the role these played in the context of a crisis would open them to the accusation of exceeding their remit from the party being targeted.

At the same time, the lack of explicit references in the mandate of existing international organizations to the sanctioning of unethical or illegal behaviour by individuals in the financial industry or within government does not completely preclude these institutions from engaging with issues of individual accountability. An important sociological literature has detailed how the objectives of institutions are often prone to "slippage" beyond the intention of their founding fathers, especially in the case when organizations have ambiguous charters and broad mandates (Babb, 2003). This literature has noted how international organisations may stretch the interpretation of their mandate in order to expand their scope of power and role (Babb, 2003; Barnett & Finnemore, 2004; Kentikelenis et al., 2016). The extent to which institutions with ambiguous mandates are likely to revise their original tools and objectives and accept new ideas is likely to be influenced by the extent to which these are consistent with the dominant norms and bureaucratic culture that permeate the organization (Babb, 2003; Barnett & Finnemore, 2004; Blyth, 2002). These 'give rise to particular understandings of experiences, thus channelling lessons that emerge and making existing interpretations "sticky" and resistant to change' (Chwieroth, 2009, p. 130).

The insights from this literature have important implications also for understanding the diffusion of individual accountability norms. Episodes revealing the links between episodes of unethical or illegal conduct by individuals and the core objectives of an organization are likely to push an organization to play an autonomous role in adapting existing norms in a way that fit their own organizational interests and goals. Moreover, when faced with the need to respond to the unethical or illegal behavior by individuals after a crisis, an international organization is more likely to tackle this issue by revising and expanding the scope of its existing tools rather than adopting an ad-hoc policy approach targeted at tackling individual accountability.

To illustrate the expectations of this argument, Figure 1 below maps the different types of policy interventions that are available to an organization in response to a crisis according to two dimensions. The first dimension considers who is the target of the policy intervention, differentiating between policies targeting individuals and institutions. The mandate of existing international institutions steers their focus heavily towards institutional targets. The second dimension considers the temporal dimension of the policy intervention, and whether an

organization is seeking to investigate and allocate responsibility for past events (retrospective accountability) or rather trying to steer future behavior (prospective accountability). The path dependency injected in the international agenda by the mandate and dominant culture of existing economic institutions are likely to steer the international response to crises away from a focus on retrospective accountability, such as attributing responsibility for the crisis, or naming and shaming individuals whose actions contributed to the crisis given the difficulty in reconciling this with the formal mandate of the organization and the likelihood that this will be regarded as intrusive by key member states. On the contrary, organizations are more likely to expand their existing policy toolkit to also include institutional reforms designed to deter future unethical or illegal actions by individuals that are more likely to be regarded as consisted with the mandate and more in line with the existing practices adopted by the organization.

Figure 1 – Retrospective vs. Prospective Accountability

		Time horizon	
		Retrospective	*Prospective*
Policy Target	*Institutions*	*Inquiries into policy/ regulatory failures leading to the crisis* *Fines on institutions*	*Financial regulatory reforms* *Restructuring of government agencies* *Policy change*
	Individuals	*Criminal prosecution* *Civil sanctions against individual* *Naming and shaming of individuals*	*Reforms of rule of law* *Disclosure Requirements* *Compensation Rules*

The rest of the paper will illustrate this argument by exploring the evolution of the agenda of two sets of international economic institutions that play a pivotal role when it comes to defining the dominant norms and the toolkits of policies available in response to financial crises: the International Monetary Fund and the Financial Stability Board. The analysis of the IMF focuses on the policy advice from the institution in relation to holding government officials accountable for criminal or unethical behavior. The analysis of the FSB instead will explore the policy advise of this institution in relation to holding financial executives accountable. This analysis is based on the analysis of a number of policy documents from these institutions which allow us to trace the

dynamics that inform the evolution of the policy approach in these institutions. We complement these data sources with secondary literature.

4. The IMF and the Individual Accountability of Public Officials

Created in 1944 with the original mandate of safeguarding the working of the post-war exchange rate system, the International Monetary Fund has since become a key actor in influencing national economic policies of its member countries via the design policy conditionalities attached to its financial assistance, as well as other channels such as the provision of technical assistance, the socialization of domestic policy elites, and the monitoring the economic policies of its members (Woods, 2006; Chwieroth, 2009; Kentikelenis & Seabrooke, 2017). As a result, the IMF has been described as the "paramount institution of global norm-making" (Halliday, 2009, p. 264; Kentikelenis & Seabrooke, 2017).

While the original IMF Articles of Agreement drafted in 1944 defined the mission of the IMF that of supporting member states in dealing with balance of payments adjustment, this mandate did not specify the policies to be adopted in pursuit of this objective (Kentikelenis et al., 2016). In the first few decades IMF conditionalities have mostly focused on macroeconomic adjustments such as fiscal policies designed to reduce budget deficits, monetary policy and exchange rate adjustments. Since the 1990s, however, IMF policy advice has increasingly moved beyond its core focus on macroeconomic issues and into areas that more significantly infringed upon domestic politics (Stiglitz, 2002). This included a greater attention towards tackling corruption in member countries.

This shift reflected in part a number of developments outside the IMF. First, whereas prior to the 1990s issues related to corruption and the misuse of public office by public officials have largely remained a national issue, since the early 1990s a number of international initiative within bodies such as the UN (United Nations Convention on Anti-Corruption ratified in 2003), OECD (1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions), and World Bank (Stolen Assets Recovery Initiative) codified the norm that state leaders who steal from their own populations should be held accountable (Kim & Sharman, 2014).

Second, the greater attention towards the issue of corruption also entered the agenda of the IMF via developments in the economics literature (Chwieroth, 2009). An emerging body of economics

research during this period has started to shed light over the adverse impact of corruption on the traditional macroeconomic objectives targeted by the IMF such as macroeconomic stability and sustainable growth (IMF, 2016; Tanzi, 1998). For instance, the same research conducted within the IMF suggested that conditionalities ceased to have a positive impact in countries with high corruption (Crivelli & Gupta, 2016).

Third, during this period the IMF staff found itself increasingly involved in providing financial or technical assistance to countries whose economic difficulties were often directly related to the widespread misuse of public office and corruption (e.g. see discussion of Kenya below). In the mid-1990s around 25% of all IMF Board discussions on Article IV reviews of the economic health of its members raised issues related to how to reduce opportunities for corruption and malfeasance, and more broadly governance (IMF, 2016, p. 30).

Given the absence a clear mandate on how to deal in its engagement with member countries on issues of corruption, in 1997 the IMF developed a new policy setting the terms of its involvement with issues of corruption - defined "as the abuse of public office for private gain" - as well as other instances of misconduct that may not be criminal in nature but may nevertheless have a significant detrimental economic impact (IMF, 1997). The framework made the case that considerations about "good governance" should factor prominently both in the surveillance of its members policies (IMF, 1997, p. 7) as well as in the design of conditionalities associated with the disbursement of IMF resources and the decision on whether to continue or suspend IMF programmes (IMF, 1997, p. 8). At the same time, the governance framework acknowledged the tension between policing corruption and the doctrine embedded in its mandate that that "the IMF's judgments should not be influenced by the nature of the political regime of a country, nor should it interfere in domestic or foreign politics of any member" (IMF, 1997, p. 4). As a result, the 1997 Governance Policy set some clear boundaries on its engagement with cases of corruption and other instances of misconduct by public officials. First, the general principle that was established in this document was that the IMF involvement in this area should not be guided by a concern with corruption per se, but "by whether poor governance or corruption would have significant current or potential impact on macroeconomic performance in the short- and medium-term and on the ability of the government credibly to pursue policies aimed at external viability and sustainable growth" (IMF, 1997, p. 5). Second, the framework stated that "the IMF's mandate and resources do not allow the institution to adopt the role of an investigative agency or guardian of financial integrity in member countries, and there is no intention to move in this direction" (IMF, 1997, p. 5). Instead, the involvement of staff was limited to raise these issues with the

relevant authorities and "point out the economic consequences of not addressing these issues" (IMF, 1997, p. 9).

The boundaries set by the 1997 Governance Policy on the capacity of the Fund to hold public officials accountable informed the approach by the organization moving forward. Policy conditionalities related to corruption were found in around half of the country reports in the period 2005-2016 (IMF, 2017, p. 38). However, rather than tackling instances of corruption directly, in most cases the IMF conditionalities sought to regulate the problem indirectly by promoting institutional reforms seeking to deter future instances of corruption, in line with the existing toolkit that characterized IMF conditionalities during this period (Kentikelenis et al., 2016). These included promoting "economic reforms" geared towards rolling back the government's role in the economy in order to limit opportunities for public officials to extort bribes (IMF, 2016, p. 21), as well as institutional reforms to increase transparency in different areas of government (IMF, 2016, pp. 25–26), and towards "strengthening the legislative and judicial frameworks to effectively criminalize and prosecute corruption" (IMF, 2017, p. 25).

In some cases, however, the IMF has also adopted policies designed to shed light over the individual responsibilities for the economic situation requiring the IMF intervention in the first place. For instance, the IMF has in some cases conditioned further access to its resources upon the "conduct of an independent audit" or the creation of "specialized institutions that can prosecute corruption while longer-term reforms of the traditional law enforcement institutions are implemented" (IMF, 2017, p. 24). These measures promoting retrospective accountability rather than focusing simply on deterring future instances of corruption have generated significant tensions with the member states.

These tensions were clearly visible in the case of the IMF involvement with Kenya, a long-standing recipient of IMF funding. In what became known as 'Goldenberg scandal', it was revealed that between 1990 and 1993 high profile politicians, include the Finance Minister, misappropriated approximately $600 million (the equivalent of 6% of the country's GDP). The position of the IMF Legal Office at the time of the scandal was that program conditionality should not be linked to the prosecution and imposition of criminal sanctions on officials allegedly involved in Goldenberg scandal and that the IMF should focus on legal and institutional reforms (IMF, 2008, p. 32).

However, after the trials against senior officials from the Treasury and the central bank were suspended by the High Court in 1997 (Otieno, 2005, pp. 70–72), the IMF decided to halt a $205

million three-year aid package in July 1997 and demanded the creation of "strong, independent anti-corruption agency with prosecutorial authority" as a condition for the resumption of loans (IMF, 2008, p. 33). The IMF pressures led to the creation of the Kenya Anti-Corruption Authority (KACA) in 1997 with the mandate to investigate allegations of corruption, and its strengthening in following years (Reuters, 1999).

Also in Indonesia, widespread corruption was largely seen as a root cause of the financial crisis and the revolution that paved the way for the collapse of authoritarian regime of President Suharto and the political transition in 1997 (Hamilton-Hart, 2001). The loan from the IMF to the Indonesian government in the aftermath of the crisis required the release of a full report into a corruption scandal involving an Indonesian bank connected to the former ruling Golkar Party (Richardson, 1999) and led to the creation of a new 'Anticorruption Commission' (KPK) to investigate and bring charges against individuals involved in past (and ongoing) cases of corruption (Schütte, 2012). This body successfully indicted a large number of senior politicians (IMF, 2016, p. 20), and it is used a role model for other countries facing similar challenges (IMF, 2016; Kuris, 2012; OECD, 2013).

Overall, the engagement with these countries show how the IMF has been willing to engage with policies promoting individual retrospective accountability in cases where corruption was systematic and hindered the progress of its programmes, but also highlighted how these interventions have often put the institution on a collision course with domestic actors which denounced the IMF-sponsored anti-corruption reforms as foreign imposition accepted under economic duress (Kuris, 2012). In its ex post assessment of the Kenyan programme, the IMF staff it is clear that engaging with issues of prosecuting corruption 'put the Fund in the politically sensitive position of enforcing accountability. It set the programs up to fail' (IMF, 2008, p. 41).

The lessons from the involvement of the IMF with these countries had a long-lasting legacy which also influenced the response to the global financial crisis of 2008. The crisis has been interpreted by different scholars as an important turning point in the policy advise of the IMF in different areas such as such as the regulation of cross-border finance, the role of austerity policies, and state-creditor relations (Ban & Gallagher, 2015; Grabel, 2011). Similarly, the IMF's director Christine Lagarde, in an important intervention she praised the successful experience of countries like Iceland that launched criminal investigations in the aftermath of the crisis, and highlighted that individual (criminal) accountability can serve as a deterrent in the future (Lagarde, 2015).

Despite the fact that the issue was in the cognitive radar of the Fund, the post-crisis period has not significantly altered the IMF position in relation to the issue of individual accountability.

Different countries within the executive board objected to the proposal to increase the capacity of the fund to denounce instances of corruption. The majority view among the IMF Executive Directors was that "the Fund should continue to engage in addressing corruption where it is assessed to have a significant macroeconomic impact (IMF, 2017, p. 3), with some country representatives claiming that a more intrusive approach had the potential to have deleterious political effects and inhibit the future activities of the Fund (IMF, 2018, p. 7). As a senior IMF official stated, "Some countries fear being named-and-shamed" (Talley, 2017). As a result, the revised policy framework adopted in 2018 reaffirmed that "the Fund should continue to avoid interference in individual enforcement cases" (IMF, 2018, p. 11) and that the emphasis should be "institutional and regulatory reform" such as "the elimination of excessive regulation, the promotion of transparency and accountability and general capacity-building of institutions" (IMF, 2018, p. 23).

Overall, this analysis has shown how although the IMF has increasingly confronted the impact that the abuse of office by public officials have over the economic fortune of a country, the mandate of the organization and the unpopular nature of this intervention with member countries have steered the involvement of the IMF towards expanding its toolkit of institutional reforms designed to deter corruption rather than targeting directly individual actions or omissions that may have directly contributed to the economic crisis in the first place.

5. The FSB and Individual Accountability in the Financial Industry

While the IMF has traditionally been the main focal point at the international level when it comes to the policy advise related to balance-of-payment, the international institutional landscape dealing with the activities of private sector actor is more fragmented. The creation of the Basel Committee on Banking Supervision (BCBS) in 1974 to coordinate the response to instability in the banking sector (Goodhart, 2011) was followed by the emergence of other standard-setting bodies at the international level along sectoral lines with the mandate of domestic coordinating regulatory policies in areas such as securities markets, insurance, and accounting standards (Porter, 2005). In the late 1990s, the Financial Stability Forum - later renamed as Financial Stability Board (FSB) - was created with the mandate of coordinating the activities of all these different bodies in

developing regulatory, supervisory, and other financial policies to strengthen financial stability (Moschella, 2012).[2]

The dominant approach that has informed the work of these standard-setting bodies has been to target financial institutions rather than individuals working within them. For instance, the first major global piece of financial regulation negotiated internationally - 1988 Basel Accord - sought to strengthen the capacity of banks to withstand shocks and avoid a competitive race-to-the-bottom by setting minimum capital requirements for banks (Goodhart, 2011). However, it was not long before the implications of the fraudulent or reckless activities of individuals in the financial industry entered the international agenda. For instance, the spectacular failures of Barings Bank in 1995 as a result of the poor speculative investments in the derivatives markets by a single trader highlighted the significant financial stability implications of the behaviour of individuals. The new Basel II agreement negotiated over the late 1990s tackled the risks arising from the actions of individual traders through what Power calls "the invention of operational risk" (Power, 2005). This was a residual risk category comprising types of risk that could not be classified as either credit risk or market risk and which included the risks of losses arising from the materialization of a wide variety of events including "fraud, theft, computer hacking, loss of key staff members, lawsuits, loss of information, terrorism, vandalism and natural disasters"[3] (Moosa, 2007; Power, 2005). Categorizing the actions of individuals as another form of risk allowed the Basel Committee to extend to this area the tools already used to tackle other forms of risk, in particular requiring banks to hold an additional minimum regulatory capital in order to increase their capacity to withstand losses coming from the action of individuals. In other words, the international response by banking regulators to the emergence of financial vulnerabilities associated with from illegal or unethical actions by individuals was that of expanding the existing regulatory requirements placed upon banking institutions in order to reinforce their capacity to withstand shocks deriving rather than targeting directly the actions of individuals. This focus reflected the prevalent focus of cooperation within the Basel Committee, as well as the focus on preserving financial stability that informed the mandate of the national authorities that comprise the membership of institution.

This focus on institutional actor rather than on the individuals responsible for acts of misconduct has also characterized the initial response to the global financial crisis of 2008-09. During the initial regulatory response to the crisis, the issue of the employees of financial institutions has hardly

[2] While the BCBS is a member of the FSB, the two are distinct bodies. It is worth nothing that the mandate of the FSB includes coordinating the agenda of standard-setting bodies such as the BCBS.

[3] The BCBS defined define operational risk as "the risk arising from inadequate or failed internal processes, people and systems or from external events".

been a priority of existing international standard-setting bodies such as the BCBS, as well as the newly created FSB. On the contrary, the initial response of international regulatory agencies to the crisis has primary focused on revising the regulation of specific institutions – such as in the case of capital requirements for banks through the negotiation of a new iteration of the Basel Agreement (Basel III) (Helleiner, 2014).

It was only almost a decade after the beginning of the financial crisis that the role of individual employees of financial institutions has entered the international regulatory agenda. This change was in part the result of a series of high-profile scandals associated with the illegal misconduct of individual traders, most notably the manipulation of Libor that was uncovered in 2013, as well as other scandals that resulted in significant fines for the banks involved.

As the litigation costs and increasing fines associated with the actions of individual employees have escalated during the crisis, international regulators have expressed their concern about their impact. In February 2015 the Chair of the FSB wrote to the G20 Finance Ministers noting that "the scale of misconduct in some financial institutions has risen to a level that has the potential to create systemic risks" (FSB, 2015a). Moreover, regulators have also come to recognize how these episodes may have a broader implications that went beyond the quantifiable economic impact. According to the FSB, "Ethical conduct, …is critical to public trust and confidence in the financial system" (FSB, 2016), while the scale of misconduct "threatens to undermine trust in financial institutions and markets, thereby limiting some of the hard-won benefits of the initial reforms" (FSB, 2015a).

The Financial Stability Board took the lead in coordinating an international response to tackle this issue, which culminated in the publication by the FSB in 2018 of a toolkit of measures to deal with what the FSB labelled "misconduct risk" (FSB, 2018). "Misconduct risk" was defined by the Financial Stability Board as "conduct that falls short of expected standards, including legal, professional and ethical standards" (FSB, 2017), thus broadening the focus of regulators beyond purely illegal acts to encompass also actions that were regarded as legal but unethical. In line with the dominant culture of international financial regulators, the possibility of individual employees of financial institutions committing illegal or unethical actions was recast as a risk to be managed rather than simply a wrongdoing to be sanctioned. However, in a significant departure from the treatment of rogue trading as "operational risk" within Basel II, the toolkit of measures developed by the FSB to govern "misconduct risk" did not target uniquely financial institution but also directly the individuals.

Rather than focusing uniquely on retrospective sanctions and fines of firms a crucial part of the agenda devised by the FSB concerned the role that ex-ante financial and non-financial incentives played in directly shaping the behaviour of individuals working in financial institutions and the likelihood they would commit illegal or unethical behaviour. In order to achieve this objective, the FSB has since 2015 tapped into a variety of existing regulatory tools and workstreams and supplemented these in an attempt to "to strengthen disincentives to misconduct" (FSB, 2015b).

For instance, a key set of incentives identified by regulators as facilitating misconduct concerned the compensation received by individual employees of financial institutions. At the beginning of the crisis, the FSB published a set of "Principles & Standards on Sound Compensation Practices" to align the interests of individuals with the long-term safety of their financial institutions and overall financial system (FSB, 2009). The emergence of "misconduct risk" as a key part of the FSB agenda since 2015 has brought regulators to build upon this initiative to improve the alignment between remuneration and the incentives to engage in conduct risk. The FSB has endorsed the reduction or cancellation of unpaid bonuses (malus) or the return of paid bonuses after instances of individual misconduct had been uncovered (clawback). In order to further disincentivise misconduct, the FSB has sought to increase the barriers for employees conducting misconduct to be able to move from one firm to another in order to escape the consequences (so-called "rolling bad apples") (FSB, 2018, p. 7) and encouraged the strengthening of mechanisms to encourage tipsters and whistleblowers who are in a position to inform regulators concerning cases of misconduct (FSB, 2017).

A second set of standards developed under the aegis of the FSB sought to deter misconduct by individuals in the financial industry by strengthening the oversight provided by board and senior management in detecting and misconduct of individuals (FSB, 2015b). Also in this case, regulators built upon an existing set of corporate governance principles set by the OECD before the crisis (OECD, 2004). The revision of these principles in 2015 reiterated how companies should have internal mechanisms for individual employees "to freely communicate their concerns about illegal or unethical practices to the board and to the competent public authorities" (OECD & G20, 2015). Banking regulators that comprise the BCBS revised in 2015 a set of corporate governance principles for banks which required the bank to adopt a code of ethics that would explicitly "disallow behaviour that could lead to any reputation risks or improper or illegal activity".

Third, the international standards negotiated by the FSB after the crisis have also gone beyond the collective responsibilities and focused on holding a broader range of senior employees of financial

firms accountable. The FSB acknowledged that that the “accountability and responsibility of the most senior individuals in firms for both their own actions and the actions of those that they oversee appear to be areas where there has been less coverage” in the international regulatory response to the crisis (FSB, 2017).

Following the example set by the Senior Manager Regime introduced in the United Kingdom after the crisis (Bank of England et al., 2016), the FSB endorsed the development of “responsibility maps” requiring firms to “identifying key responsibilities and clearly assigning them to the holders of various positions within a firm” so senior management functions so that they could be held accountable for breaches of regulations within their area (FSB, 2018, p. 6). Moreover, the FSB also recommended the introduction of legislative and regulatory provisions to “hold individuals accountable for the responsibilities to which they have been assigned” (FSB, 2018, p. 6).

Overall, the global regulatory response to the global financial crisis has elevated the importance of holding individuals working in financial institutions accountable in the international regulatory agenda. The framework of norms and recommendations that have been developed by FSB and other standard-setting bodies has regarded unethical and illegal behaviour of individuals in the financial industry as a risk to be managed by shaping individual incentive structures to minimise the probability that any individual (or group of individuals) will engage in misconduct. Consistent with the mandate of the international standard setting bodies active in this space and the domestic agencies that comprise these bodies, initiatives designed to promote retrospective accountability for the actions of individuals in the lead-up to the crisis have remained missing from this agenda. This approach is consistent with Power’s description of “fraud risk management”, that is “different in kind from the historical preoccupation of penal systems with retribution and blame; it is a distinctive risk framing of a future to be managed in the present” (Power, 2013).

6. Conclusion

This paper has contributed to the literature on the governance of the global economy by exploring one aspect that has been neglected in existing analyses of international economic policymaking: the role of individual accountability norms in the international response to financial crises. Our analysis has tracked the evolution of the policy advise when it comes to holding individual accountable for financial crises by the two main international institutions involved in the management and prevention of balance-of-payment and financial crises: the IMF and the FSB.

We found that both institutions have incorporated in their toolkit policy recommendations related to the unethical or illegal conduct by government officials of individuals in the financial industry. Most importantly, our analysis has revealed how the policy approaches adopted by international economic institutions were geared almost exclusively towards forward-looking policies (prospective accountability) designed to reshape incentive structures and deter the reoccurrence of illegal or unethical behavior rather than targeting directly individual actions or omissions that may have directly contributed to the economic crisis in the first place (retrospective accountability). For instance, the IMF has focused on promoting institutional reforms designed to deter corruption of public officials, while the FSB has focused on the role that financial and non-financial incentives played in shaping the likelihood that individuals working in financial institutions would commit illegal or unethical behaviour. We find the global financial did not mark a turning point for the IMF to revise its agenda on individual accountability; instead it served to confirm the relevance of the original agenda. In the case of financial standard-setting bodies, the crisis has expanded the significantly the scope of policy recommendations related to "misconduct risk" and policy recommendations have increasingly targeted senior executives of financial institutions rather than the institution.

Our analysis has explained this pattern by focusing on the mandate and bureaucratic culture of the existing international economic institutions. In particular, the IMF mandate has limited the involvement in this area to only if and when a country's level of corruption precludes the successful implementation of the Fund's macro-economic policy programmes and recommendations and forebode the institution directly acting as a prosecutorial body. In the case of the international standard-setting bodies, the nature of these institutions as informal transgovernmental networks rather than treaty-based organizations and their mandate in promoting best practices limited the extent they could focus on retrospective accountability. Instead, unethical and illegal behaviour of individuals in the financial industry has been treated as a risk to be managed in line with the culture and policy tools that characterize these institutions. Moreover, our analysis supports the notion that the bureaucratic culture of these institutions has shaped the way they have promoted prospective accountability in finance, as their policy advise has largely built upon existing tools and extended their scope to the purpose of deterring illegal or unethical behaviour.

The findings contribute to the literature on the evolution of accountability norms in international politics, by questioning the generalizability of extant theories – mostly based on the study of human rights – presenting an even and linear diffusion of accountability norms. Instead we show that the emergence and diffusion of accountability norms may take different trajectories in various areas

of international politics. While our objective in this paper is limited to explaining the post-crisis agenda of international economic institutions, future (comparative) research should unwrap the puzzle of why different areas of international policymaking embrace different conceptualization of accountability (individual vs. institutional and prospective vs. retrospective policies). Our paper highlights the powerful role of institutional and cultural continuity in international policy-making even in times of crisis, but a comparative analysis with other domains such as environmental policymaking will serve as a litmus test about the generalizability of our findings.

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