

# **Governance Challenges and Innovations: Financial and Fiscal Governance**

## **Chapter Abstracts**

### **Part I Introduction to the Edited Volume**

#### **1. Governance: Issues and Frameworks**

Helmut K. Anheier and Regina A. List

This chapter offers an overview of some of the challenges the world is facing today, highlighting the growing interdependence that requires a new look at governance and its role in finding solutions. Following an introduction to the concept of governance as a multi-actor, multi-level process, selected frameworks are presented that can be used for analysing governance performance and readiness and for understanding some of the rationale underlying the results.

### **Part II Financial and Fiscal Governance**

#### **2. Financial and Fiscal Governance: An Introduction**

Mark Hallerberg

Over the past five years the world has experienced a series of crises that have given rise to significant financial and fiscal governance challenges. While it would seem that there is nothing novel about the sequence of events leading to these crises, there are many aspects – in particular, greater interdependence – that distinguish today's crises from those of earlier years and have implications for policies designed to address them. Problems extend across borders more than before. At the same time, the jurisdictions for most economic policy remain national, subject to domestic politics and distribution conflicts. Decisions national policymakers take nevertheless create externalities for others. This suggests that coordination of policies across borders may help all countries, but here too politics and distributional issues play a role. This chapter offers a brief introduction to the four chapters exploring these themes in further depth that comprise this special focus section.

#### **3. Picking Up (And Rearranging) the Pieces: The Politics of Global Financial Governance in the Wake of the Great Recession**

Mark S. Copelovitch

The Great Recession has triggered a wave of new proposals calling for reform of the rules and institutions of global financial governance, including the International Monetary Fund (IMF), the Group of Twenty (G-20), and the Financial Stability Board (FSB). However, actual progress has been quite modest. What explains this relative lack of successful international cooperation in the wake of the global financial crisis? The chapter argues that reform presents policymakers with a set of difficult trade-offs, and that choices over these trade-offs are determined primarily by political rather than economic factors. These factors – including relative power, collective action, bargaining and enforcement problems, and domestic politics – are the most critical variables shaping international cooperation. This point has been largely overlooked in the current reform debate, which has been dominated by economists and has placed too little emphasis on the politics of global financial governance.

#### **4. Is European Union Governance Ready to Deal with the Next Financial Crisis?**

Lucia Quaglia

The global financial crisis, which began in 2007 with the collapse of the US sub-prime mortgage market, delivered a major shock to the existing architecture for financial services regulation and supervision. The European Union (EU) was one of the jurisdictions most severely hit by the crisis, prompting an intense debate on the revision of existing rules and the adoption of new regulatory measures. This chapter examines the main issues faced by the EU during the crisis, its short-term response (crisis management), and its medium-term regulatory response. Finally, it teases out the main cross-border externalities and collective action problems evidenced by the crisis and the EU response to it, asking whether the EU is now 'governance ready' to face future financial crises.

#### **5. The Fiscal Policy Implications of Balance of Payments Imbalances**

Stefanie Walter

The general research questions examined in this chapter are 1) How do externalities across borders pose fiscal challenges? and 2) Why are some countries more ready to adjust to these challenges than others? The chapter concentrates on externalities generated by balance of payments imbalances. It hence addresses the following questions: Which fiscal challenges result from balance of payments (BoP) imbalances? How do countries adjust to such imbalances and what are the implications of these adjustment strategies for fiscal policy? What are the domestic distributional conflicts associated with different adjustment strategies? Why is adjustment frequently delayed? Finally, what can countries do to increase their readiness to confront emerging problems related to external imbalances early on?

#### **6. The Political Sources of Crisis Situations**

William Roberts Clark and Vincent Arel-Bundock

When are financial crises most likely to occur? The answer seems to be under a fairly wide set of circumstances. They occur in rich countries as well as poor. They seem to be endemic in the contemporary global capitalist economy, but they occurred hundreds of years before the industrial revolution. While predicting crises is difficult, there are identifiable factors that seem to set the stage. This chapter reviews the political correlates of financial crisis and explores the link between such crises and monetary and fiscal policies. It pays particular attention to whether macroeconomic imbalances are more likely when the exchange rate is flexible and capital is mobile and whether the situation is most dire when these structural features are combined with an independent central bank and a right-wing government.

### **Part III Governance Innovations**

#### **7. The Contribution of Innovation Research to Understanding Governance Innovation: A Review**

Helmut K. Anheier and Mark T. Fliegau

The chapter situates governance innovations within the broad innovation literature. It offers a multi-dimensional concept of innovations; reviews causes and conditions for innovation such as innovator characteristics and innovation systems; highlights the interdependent relationship between innovation and isomorphism; and identifies the main characteristics of innovations in the realm of governance. Our engagement with the literature reveals seven propositions and hypotheses that can guide research on governance innovations in the future.

## **8. Financial Governance Through the Lens of Innovation**

Helmut K. Anheier and Mark T. Fliegau

The chapter examines the evolution of governance arrangements in the global financial system through the lens of governance innovation. It explores the interplay between financial crisis and the emergence and increasing complexity of the current international system, compares governance innovation in finance to fiscal and monetary policy, and addresses the potential for a radical break from the status quo.

### **Part IV Governance Indicators**

## **9. Governance Indicators: Some Proposals**

Piero Stanig and Mark Kayser

Good governance extends beyond narrow questions of efficiency and control of corruption. Nevertheless, many governance indicators focus on narrow issues to the exclusion of broader questions about effective governance understood as the precondition for the delivery of the most welfare to stakeholders at the least cost. Broader measures of governance, by contrast, often conflate governance with outcomes such as prosperity, thereby reducing their utility for research on effects. We suggest that understanding the “how” (or “how well”) of governance requires understanding also the question about in whose interest a government governs. This chapter broadens the definition of misgovernance to include those activities, structures and decisions that reduce the utility of a broader set of legitimate stakeholders to the benefit of smaller sets of individuals and organizations. We propose a set of novel governance indicators that operationalise two missing aspects of extant measures: organisational capture and the capacity for governance innovation.

## **10. Public-Private Sector Relationships, Capture and Governance Quality**

Klaus J. Brösamle

The chapter argues that a country's governance quality depends, among other things, on public-private sector relationships and the influence exerted through them. It discusses evidence suggesting that the degree of "elite interlacement" and the amount of inter-sectoral mobility (the "revolving door") are factors directly related to state capture. First, these phenomena are put in a larger context with state capture, cronyism, corruption, and “connections” more generally. Then the role of regulation to counter such phenomena, especially post-government employment regulation and conflict of interest policies, is explored. Because of the apparent lack of data, the chapter then outlines how elite interlacement and revolving door mobility could be measured, highlighting key issues to be considered when compiling data that is useful for valid and meaningful cross-national comparisons. To answer relevant but to date unaddressed research questions, a set of measures that appears most useful and feasible to compile is proposed.

## **11. Governance beyond the Nation-state: Estimating Governance Indexes at the Subnational and Transnational Level**

Piero Stanig

Existing governance indicators might suffer from "methodological nationalism", in that they focus exclusively on governance at the national level. The Governance Report dashboards provide empirical counterparts to a perspective that considers governance a multi-level and multi-actor phenomenon. The

dashboards presented here try to compensate for the neglect of behaviour in the international arena and governance at the subnational level in existing measurements of governance. The Transnational Governance Dashboard consists of estimates of the more or less cooperative stance of countries in the international arena, focusing on international commitments as a manifestation of "responsible sovereignty" and on contributions to the production of global public goods. The City Governance Dashboard presents a set of indicators of social capital, inequality, impartiality, corruption, and public good provision for "global cities". The chapter provides a non-technical introduction to the methods and data that inform these two dashboards and highlights some of the patterns that emerge.