Global Financial Crisis, Public Administration and Governance: Do New Problems Require New Solutions?

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Global Financial Crisis, Public Administration and Governance: Do New Problems Require New Solutions?

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Abstract A financial crisis, or any crisis, is likely to produce a variety of responses from governments. This article discusses the range of responses that may be possible, pointing out that diametrically opposite answers may be made to the common problem. The analysis points to the persistence of many dichotomies in our thinking about public administration and public policy. These varied responses to crises are investigated in several political systems including the Baltic States and the European Union.

Keywords Crisis management · Governance · Dichotomies · Comparative public policy

Introduction

The economic world in 2010 is vastly different than it was 2 years ago, or even 1 year ago, and that reshaping of the economy is likely to persist for years or even decades. We are not economists, and make little or no attempt to explain the economics that have produced the global financial crisis, nor to make any policy recommendations about how best to produce an economic recovery. There are many people much better suited for those tasks of economic and financial policy analysis than we are.

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The consequences of the crisis extend well beyond the economy itself. We are interested in its impacts on patterns of governance, and the role that public administration plays in the processes of governing. Just as the economic positions of most countries have been altered dramatically, their patterns of governance have also changed perhaps as much in some countries, although those changes may not be as immediately visible. Further, the role of the civil service and the permanent, professional components of the governance apparatus are now placed in somewhat different positions relative to other actors within the state and in relationship to the private sector.

As we begin to think about the changing role of the state in governance after the crisis, we must first remember that most states were implicated to some degree in the problems inherent in it. Any number of governance failures contributed, if not led, to it. At perhaps the most basic level, many governments did not even know what was happening in their banking sectors or in the economy more generally. Even when they were aware of the level of debt or the level of risk being accepted within their banking sectors, the regulatory frameworks had been weakened sufficiently so that there was no way to intervene effectively.

The fragmentation of the state, both horizontally and vertically, contributed to the inability of governments to monitor effectively and to regulate effectively.[1] Part of the logic of governance for the past several decades has been to divide the public sector into numerous single-purpose organizations. Those reforms were designed to increase the efficiency of service delivery. That same logic, however, also has tended to divide information and regulatory powers, and therefore limited the capacity of the public sector to understand and regulate risk. In some cases that pattern persists, even after the apparent regulatory failures. It continues to be followed and is being manifested in the creation of new regulatory organizations to address perceived failures from existing organizations.

Perhaps the most glaring governance failure during the period leading up to the crisis was the loss of memory and the willingness to allow ideology to blind governments to the real possibilities of economic failures coming from markets with inadequate supervision. The neo-liberal project that apparently had been so successful in promoting economic growth during the 1990s and the first part of the 21st century had permitted many political leaders to forget most of what ever they had learned about history. Governing depends heavily on information and ideas (Braun and Busch 1999), and if the ideas being used to manage an economy and society tend to obscure information rather than to interpret it accurately there will be governance failures. The spread of the neo-liberal project to a wide range of countries with less experience in managing complex free economies may have exacerbated the governance problems.

Faced with these manifest failures of economic policy and of public governance, governments across the world must attempt not only to recover from those failures but also learn how to govern more effectively in the future. However, just as the

[1] Although not related per se to the macro-level failures of economic management, the failures of the Securities and Exchange Commission (SEC) in the US to monitor Bernie Madoff's Ponzi scheme were indicative of these problems. The SEC had all the information needed to detect the fraud that was going on, but it was held in different divisions of the home office and in different field offices, and the picture was never brought together prior to the abject failure of this financial pyramid.

crisis has occurred in different ways and with different intensities in different countries, so too will the responses differ. Therefore, the perceived lessons to be drawn from governance failures will tend to differ and in some cases may be almost diametrically opposed to one another.

These perceptions of the causes of failure and the responses to those failures will reflect a number of factors. One way of understanding the different responses is that they will reflect the interaction of national patterns of governance (see Painter and Peters 2010) with the real and perceived nature of the crisis within that country. Thus, politically as well as in substantive policy terms the nature of the crisis may be very different in different countries. Comparative analysis of these differences is crucial for understanding the nature of the crisis and to learn from it.

Descriptive and explanatory dichotomies

In an attempt to understand the crisis and its implications for governance, it is useful to develop a series of dichotomies concerning its management. There are good reasons, theoretically and practically, to expect either side of a dichotomy to occur. Further, there are some real world cases in which each side has occurred. This method is not dissimilar to the famous argument by Simon (1947) that most of the knowledge about public administration came (comes?) in the form of opposing prescriptions about ways to create good administration. Likewise, Peters (1998) developed a series of dichotomies that could explain the choices that were required during administrative reform.

The dichotomies developed here will similarly be used for both description and explanation. They are means of examining the differences among countries as well as of understanding the difficulties of choice. Like the dichotomies above there is some truth on both sides of them and each alternative could be, in the appropriate circumstances, effective in coping with the governance crises created by the financial crisis. Therefore, we must think about which horn of these dilemmas should be selected and what contingencies are associated with the likelihood of success in responding to crises when one choice versus its alternative is selected. Further, although there may be good political reasons for a country to select one reaction or another, the response may still not be appropriate for the governance challenges being faced.

Perhaps most important in understanding the role of dichotomies in governing is that there is not in fact an emergent common paradigm that can be readily accepted. During the past several years, the new public management (NPM) approached being a paradigm for public administration, albeit perhaps not one for governance more generally. The market-based assumptions behind NPM now appear less viable than in the past, but there is not a clear replacement for either that or for more traditional modes of governance. In particular, the various approaches to governing that have been a reaction to the crisis reflect fundamental differences among the various OECD countries. The differences, however, may be substantially less than those found across the whole range of countries in the world.

We first discuss the dichotomies analytically, pointing out how the choices involved are related to administrative theory. We also discuss the extent to which

they are observed in real world administrative cases, especially in the OECD countries that have been at the center of the crisis. There is no space to develop all of the cases in full; rather, most are just mentioned to illustrate key points. That said, we include more detailed discussions of the responses of the European Union and the Baltic Republics to the crisis.

Path dependence

The most basic question about governance responses to a crisis is whether the governments in question maintain their well-worn paths of governing, or whether the crisis becomes the source of change, and perhaps fundamental change, in the patterns of governance. We know that in most instances the response of governments to demands being placed on them is to do what they have always done. In the language of historical institutionalism (Steinmo et al. 1992), government decisions tend to be path dependent, unless there is a "punctuation" in the equilibrium that provides the basis for a new equilibrium and a new approach to governance.

The persistence of policies in the face of a crisis is to be expected, as is noted in the historical institutionalist literature, but the persistence of governance patterns is perhaps even more predictable. Governance patterns are supported not only by ideas about the best ways to govern, but also by institutions that reinforce the status quo and have employees and clients (Pierson 2000). Further, a crisis may not be the most felicitous time to begin to think about restructuring government and creating new procedures. That type of restructuring within the public sector is itself disruptive, and attempting to implement institutional change in the midst of a crisis may appear to be a recipe for confusion and failure. The crisis may emphasize the need for such changes but also make the change more difficult to implement. Also, the institutional theory literature suggests that given the institutionalization of roles and values (see March and Olsen 1989), institutional change is rarely a matter of fine-tuning and incremental change but more often a distinct change of course (Baumgartner and Jones 2009). Since policy tends to follow institutional arrangements, this will entail equally fundamental changes in policy.

On the other hand, a crisis may demand new approaches to governance problems, and hence may create the punctuation in even a stable equilibrium. Indeed, if there is a crisis there may be manifest evidence that the old patterns of governance were not effective and there is some need for new approaches to the policies in question. To some extent the presence of the crisis will reveal the need for change, but it may also be an opportunity for people in government to make changes that would not be possible without the presence of a crisis. A number of studies of organizational change in the public sector have indicated that the employees of public organizations have ideas about change that they may only be able to implement when there is some way of overcoming existing commitments. These opportunities are more often seen in terms of specific policy proposals, but they can also be seen in the creation of specific governance strategies.

Crises and their management have a potential to trigger power battles within government, or to serve as pretexts for latent conflicts to surface. The financial crisis that hit a number of western democracies as well as several Asian countries some years ago led to a concentration of power within Ministries of Finance, a control

they have maintained ever since. The centralization of control was justified as a necessary means to resolve the crisis, but the patterns of control that emerged during the crisis were quickly institutionalized. Even in the face of movements to decentralize government, finance ministries have been able to maintain their influence.

The present financial crisis has evidence that can substantiate either approach to path dependence in government. On the one hand, some countries such as Germany and France have maintained, or perhaps even intensified, their approaches to governing, and especially to governing the economy. For example, the French government has to some extent reinforced its fundamentally *etatiste* approach to governing. Interestingly, the Irish government that had experienced substantial success with its own version of liberalism as a "Celtic tiger" seemed to persist in that approach to governing and encountered substantial economic and governance losses rather than alter the approach.

The United States is perhaps the clearest example of a country that has broken markedly with its traditional pattern of governance as a result of the crisis. Even the conservative administration of George W Bush intervened in the economy in ways that might have been unimaginable without the crisis. The Obama administration has followed those interventions with even greater levels of intervention and with a generally more activist approach to governing than has been seen for some decades.[2] The numerous claims from the political right about socialism coming to Washington are indicative of the shifts that have been occurring in American government in response to the crisis.

Centralization and decentralization

One of the other major shifts in governing that has occurred, and continues to occur, in a number of countries has been a movement between centralization and decentralization. This has indeed been one of the classic dichotomies in the study of public administration and governance. Since there have been governments there have been movements back and forth between centralized governance and attempts to move responsibility and resources out to lower levels of government. The uniformity and control produced by centralization continue to be contrasted with the local adaptation of service, mobilization of local resources and popular involvement that are associated with decentralized governance. Centralization and decentralization are thus two alternative institutional arrangements, both of which are conducive to some types of policy goals while they prevent other types of policy (Weaver and Rockman 1993). The pendulum movement between these two institutional models is to some extent caused by the frustration which they present to policy makers and bureaucrats. Centralized governance allows for uniformity and equal standard but poses a distinct organizational and financial burden on central government. Decentralized governance, on the other hand, allows government to redistribute organizational and financial responsibilities but it also deprives central institutions of control.

[2] Perhaps the only really comparable period was the New Deal in another, and even greater, crisis: see Calmes and Zelenes (2008).

The last 20 years have in general been a period of substantial decentralization as the ideas of NPM, as well as those of participatory reforms, have tended to move power out of the center of government. There have been strong political motivations for these reforms, stressing local autonomy and democracy. In part, reactions against the over-centralized regimes in Eastern Europe and Latin America have made decentralization a powerful political argument. Likewise, the ideas of the NPM have emphasized greater competition among governments and government organizations as a means of enhancing efficiency. In general, these reforms have tended to move decisions out of the center of government and, in the process, have empowered a range of other actors.

In the face of the general tendency toward decentralization, the need to govern the financial crisis might be thought to place pressures for a return to centralization. When there is a major crisis of any sort, a common response has been to emphasize the need of central government actors to exert control over policy and to attempt to impose their priorities on governing (Boin et al. 2008). Any priority setting in government tends to be centralizing (Wildavsky 1984:186-7). We might therefore expect a common reaction to the crisis to involve the movement of substantial powers to the center of government.

On the other hand, managing a crisis also requires gaining consensus or at least acquiescence across the society and decentralization may be a useful strategy for producing that legitimacy for the proposed changes. If governments have to undertake a range of novel and perhaps extreme policy initiatives then they may be well advised to involve stakeholders and the general public to the greatest extent possible. Likewise, it may make sense to involve as many actors as possible within the public sector. To make the difficult decisions that have to be taken in times of crisis, collaboration within government will be needed. Again, both institutional arrangements present policy makers with costs and benefits.

There is ample evidence on both sides of this dichotomy. For example, the United Kingdom which has a tendency toward centralization in politics has experienced a substantial movement in the direction of centralized control during the crisis. Likewise, Finland which has had a more consensual system of governing has also seen some degree of centralization in managing the crisis. On the other hand, Sweden has maintained and even intensified its tradition of involving social actors and making collective decisions in governing. At the extreme, Slovenia has developed a complex set of coordinating committees within government to ensure consensus.

Politicization

Governing is inherently political, but there are differences in the extent to which government actors emphasize their political commitments versus their reliance on the expertise within the permanent bureaucracy or on other sources of expertise. Some political systems such as the United States (Light 1995) have tended to rely on political appointments for leadership, but with the appointees often having substantial policy expertise. Others have tended to rely more on expertise within government itself or on other formalized methods for tapping expertise in public decision-making. Although there has been a general movement toward higher levels

of political control over the bureaucracy (Peters and Pierre 2004), marked differences remain across countries.

There are reasons to expect either type of behavior in the current crisis. On the one hand, when governments have to make difficult decisions on which their political success is likely to depend they may want to rely on the advice and implementation of their own adherents than on neutral civil servants. The desire for commitment on the part of participants in the political process is not uncommon even in ordinary circumstances (Peters and Pierre 2004) and that is likely to be exaggerated in times of significant stress. Perhaps most importantly, the public may expect their political leaders to make the crucial decisions when there is a major crisis.

On the other hand, government leaders often attempt to avoid blame for potential policy failures (Hood 2010) and therefore rely more on the permanent bureaucracy for advice. This governance strategy provides the leaders with plausible deniability for any failures that may occur. In addition, a less strategic and political reason for relying on the bureaucracy is that it is often the most expert source available for economic advice. Therefore, in times of crisis it can make great sense for political leaders to delegate responsibility to permanent officials and to hope that expertise can alleviate, or at least ameliorate, the problems being faced by the society.

Even if a crisis does not lead to reliance on the public bureaucracy, it may lead to a somewhat less overt form of depoliticization. One way of reducing political responsibility for policymaking in a crisis is to create or to emphasize a coalition among the major political parties. While this is a political solution in a way, it also diffuses responsibility and makes the "blame game" more difficult to play. Further, parties that resist involvement in the crisis management team run the risk of being considered irresponsible, uncooperative, or even unpatriotic.

Again, there is ample evidence on both sides of this dichotomy. On the one hand, governments in the United States and the United Kingdom quickly embarked on a highly politicized approach to managing the crisis. In both cases, the chief executive (and in the case of the United States two chief executives) have been extremely visible and have taken primary responsibility for managing the economy. On the other hand, other countries such as Japan and Italy have relied more heavily on their bureaucracy and reserve banks to manage the problem, although the chief executives clearly could hardly avoid responsibility entirely.

Coordination and coherence

Another question about the response of governments to the financial crisis is how much emphasis there is on coordination and coherence in governing. Coordination is always a problem within the public sector, given the multiple demands on government and the difficulties in getting numerous large and complex organizations to work together. That said, however, this underlying problem in governing can be exacerbated by the demands of a crisis. Again, different political systems cope differently with the problem of coordination

There may be good reasons to expect governments to have responded to the crisis with increased levels of coordination. Responses to the crisis can be managed more effectively if all the relevant actors within the public sector, and the private sector,

are working together. Further, governing in a more coordinated and coherent manner should be able to produce more efficient and lower cost governing, and bring together the multiple factors needed to ensure successful responses to the crisis. If nothing else, the image of a coordinated and coherent style of governing just might help the legitimacy of a government attempting to cope with a crisis.

On the other hand, in times of crisis ministries and other organizations within the public sector might be motivated to attempt to defend their own "turf", and perhaps especially to defend their own budgets. Cooperation can be seen as a threat to survival or success for organizations in the best of times, and the threat may be exaggerated in times of crisis. Further, in addition to protecting their budgets, organizations may sincerely believe that they are better capable of addressing the problems at hand than would be a more coordinated attack. The development of coordinated strategies for attacking a major crisis takes time, while existing organizations have programs and strategies already in place.

Again, there are examples of countries reacting to the financial crisis in both ways. For example, in the United States the economic strategy has become increasingly coordinated under the leadership of the Federal Reserve Bank. There is an elaborate set of organizations for making and implementing economic policy in the US, but the need for coherent public action has tended to create one clear leadership structure. On the other hand, the *Ressortsprinzip* in German government has tended to maintain the relative powers of the ministries, even in the face of a strong Chancellery (Fleischer 2010) attempting to coordinate action. Similarly, the integrated governance of the Swedish government can be contrasted with greater autonomy of organizations within the Danish government.

Time perspective

The final relevant dichotomy in governance concerns the time perspective in the design of the responses to the crisis. The crisis did not materialize overnight, but many governments have apparently wanted to "solve" it overnight. This reaction is understandable for political reasons, given that the public tends to emphasize economic success and failure when making judgments about the performance of their governments.

On the one hand, governments might well be expected to focus their collective attention on creating short-term responses to the challenges. Politically, the motivation for quick solutions, even if perhaps not the best solutions, is extremely powerful. Citizens (voters) are suffering during the crisis and their conditions must be improved as quickly as possible. In policy terms there may also be reasons to make quick responses to the challenges, given that the longer-term damage to the economy (and other policy areas) may result if the government procrastinates.

On the other side of this dichotomy, in the best of all worlds governments will always want to generate solutions that are more viable for the long run. Unfortunately, however, crises tend to drive out planning and consideration of more fundamental solutions in favor of "quick fixes". Numerous politicians have argued that their governments have been attempting to prevent the next crisis, as well as to ameliorate the problems created by the current one, but it is less clear that many of them have actually adopted this more visionary approach.

Rahm Emanuel, President Obama's Chief of Staff, has said famously that no crisis should go unused. In the context of this dichotomy, we should remember that crises do provide governments with the opportunities to undertake major reforms that might be impossible in more ordinary times. The present crisis may provide the opportunity for adopting longer term solutions to economic and social policy problems that might be unthinkable without the "opportunity" presented by it.[3] The danger, however, may be that the solutions adopted in a crisis may not in reality be the optimal solutions but merely something that was possible at the time.

Although we do expect most governance responses to be short-term, there are some apparent longer-range approaches to reform. For example, attempts to build more robust regulatory capacities have been discussed and implemented in a number of countries. This strategy may actually further fragment the regulatory capacity of government, but it can also represent attempts to institutionalize enduring responses to the crisis that may prevent similar crises from occurring in the future.

Despite examples of a more farsighted approach to managing policy in response to the crisis, the majority of the responses have been directed at shorter-term fixes and to some extent toward political fixes. This may be in part because institutionalizing longer-term remedies in governance arrangements is difficult and costly. Further, making major changes in governance arrangements may be more uncertain than making more incremental changes, such that leaders, whether political or administrative, become very risk-averse.

Selected cases

Although there are some examples in the above discussion, they are used just to illustrate particular points. Two cases, however, will illustrate the problems of choice more clearly and in more detail. The two also illustrate choices being made in rather exceptional circumstances. In the first, comprising the Baltic Republics, we discuss three new democracies with somewhat limited experience in democratic governance. In the other, the European Union, we consider an unusual governmental system that combines some features of an international organization with some of a "normal" government. Given its fundamentally economic basis, the crsis is perhaps of greater relevance for the EU than for some nation states.

The impact of the crisis on governance in the Baltic states

The crisis has hit new democracies much harder than the old ones. After the 1998 Russian crisis, the economies of the Baltic states had performed remarkably well. These small open economies became poster children of free market transition and quickly developed into the fastest growing countries in the world. Yet that success had a downside in that their growth was based on easy foreign credit, a real estate bubble, and consumer debt. After having experienced double-digit growth rates during the past decade (peaking in 2006 at 10.0%, 12.2%, and 7.8% respectively in

[3] The crisis may amount to a "policy window" opening, permitting more innovative policy making: see Kingdon and Thurber (2003).

Estonia, Latvia and Lithuania), the "Baltic tigers" recently became record-setters in the opposite direction, being the first countries to spiral into economic depression (see Kattel 2009). Of the three, Latvia has been hit the hardest. Despite the €7.5 billion ($10 billion) December 2008 bail-out led by the International Monetary Fund—about 34% of the country's GDP—Latvia registered a GDP decline of up to 15% in 2009, the steepest fall worldwide. In 2009, Estonia's second-quarter figures showed a year-on-year GDP decline of 16.1%. The corresponding statistic in Lithuania was a stunning 20.2% and in Latvia 18.7%. Unemployment also soared. By June 2009, it had reached 13.3% in Estonia, 17.1% in Latvia and 15.6% in Lithuania. These were the highest indicators in Europe after Spain.

Monetary policy cannot be used to alleviate the crisis, since all three currencies are pegged to the euro. Rather than pursuing devaluation and counter-cyclical fiscal policies, all three governments have attempted to accomplish an "internal devaluation" by cutting public expenditures. In that, their aim has not merely been to reassure external lenders, but also to keep to the right side of the Maastricht deficit threshold of 3% of GDP. The latter is an important constituent of all three governments' overarching aim of joining the Eurozone as soon as possible. Consequently, crisis management in the Baltics may be described as administering a steady flow of budget cuts, public service layoffs and tax raises which are very much the opposite of crisis-fighting policy measures in OECD countries.

Each of the Baltic governments cut back the 2009 budget on two occasions. To meet the demands of the IMF, the Latvian government adopted a package of measures that included cuts of 15% in public sector wages (plus an additional 20% cut for top and mid-level management positions), and a 30% reduction in ministries' operational expenditures. As a direct consequence of budget cuts, 1145 civil servants were made redundant in Latvian ministries in 2009, and total employment in ministries dropped by 29% during the year. Estonia was more prudent during the boom, building up a net reserve of public assets equivalent to 7% of GDP, which has provided the government with some room to manoeuvre. However, the central government was forced to reduce its operating expenses (including personnel costs) by 15% within 2 years, and civil service salaries were sliced back by 10–20%. The Estonian government also abolished around 3000 central government positions and laid off 1000 civil servants in 2008. For example, the State Chancellery laid off 16% of its workforce, and the Ministry of Finance laid off 11%. In Lithuania, the government pushed through similarly tough reductions by cutting back civil service salaries by 10–25%. Actual layoffs in the Lithuanian public service have been marginal (less than 400 people altogether), although the government is planning to cut a total of 4000 civil service jobs.

The current generation of political and administrative leaders has not experienced a crisis of this magnitude since the fall of communism. The sharp recession threatens to expose the true cost of stalled reforms of previous years. For the Baltic governments, the effort to meet EU and NATO requirements had provided a veritable compass to good government and sound economic policies. Since the accession, outside pressure to take hard decisions (including those concerning administrative reforms) has been minimal. Moreover, the political compass, which could previously be relied on to point a hand (often ignored) in the direction of due policies, is now swinging wildly as Western governments break taboo after taboo in

the hope of fending off financial meltdown. In short, path dependency has been broken. To countries whose governments have been told that privatization, liberalization, open markets, balanced budgets and the minimal state are the sure path to prosperity, the sudden economic downturn came as an unexpected and painful experience.

A lack of strategic vision is one of the reasons why the Baltic governments have not been able to make full use of the window of opportunity for structural reforms opened by the crisis. Latvian and Lithuanian governments have been more active in planning administrative reforms, yet have done so mainly in the context of government reshuffles, without specific reference to the crisis. In Lithuania, a new government took office in November 2008 after parliamentary elections. The parties in the present Lithuanian coalition campaigned on the basis of a NPM platform, and endorsed an ambitious program of structural reforms, which has had only limited success due to implementation problems. The Latvian government changed in March 2009, when the then incumbent cabinet stepped down, having declared themselves unable to manage budget cuts and keep the promises made to the IMF. The new government adopted a public administration reform agenda called the "Optimization Plan", the main objective of which is minimizing the state. The Estonian Prime Minister is the only Baltic premier to have remained in power when boom turned to bust. In Estonia, the focus is clearly on short-term "emergency issues" rather than on a more fundamental change in governance. However, the crisis has provided fertile ground to some of the previously discussed reform ideas (e.g. the abolishment of civil service pensions and benefits and the re-hiring of several categories of civil servants on private sector labor law contracts), which have not yet been approved.

The current crisis has led to renewed interest in the dimensions of economy and efficiency, though not necessarily in aspects of democracy. To some extent, cuts in government expenditures have become a driver of improved efficiency, since public authorities have been forced to do their job on a reduced budget. However, the Baltic states are also experiencing sharp falls in access to and the quality of public services. For instance, 52 Latvian schools were closed down in 2009, and there are health reforms underway in all three countries by limiting access to medical services. Virtually all governmental decisions are informed by considerations of efficiency (often very narrowly understood), which are deployed along two parallel lines. On the one hand, the three governments expect to increase their efficiency through various centralization measures, including a merger of several governmental agencies in Estonia, a sweeping merger of local authorities and agencies in Latvia, and the abolishment of county administrations in Lithuania. On the other hand, all three governments, while having very small public sectors left before the crisis, are searching for additional decentralization opportunities by examining various privatization and public-private partnership options, including a plan to contract out public sector support functions in Estonia, pressure from the Latvian Confederation of Employers and the Latvian Free Trade Union to contract out additional public sector functions, and the enhancement of public-private partnership as one of the top priorities of the Lithuanian government.

The crisis has forced governments to make fast decisions, which in turn has increased the politicization of decision-making. Centralization has also been used as a means to facilitate fast-track decision-making, although not so much as a means of

ensuring coherent strategic action. The crisis has allowed very little time for analysis, which has reduced the role of civil service expertise in policy planning. Examples abound in each of the three countries of major structural reforms being literally announced overnight: for example, Estonia's VAT reform, preparation of the agreement with the IMF in Latvia, and the Lithuanian tax reform which was even dubbed the "night reform". The urgency and extent of the problems requiring government intervention has effectively reduced the role of various social actors in actual decision-making, although the social actors themselves have become more active and are keeping their governments under pressure.

The role of external partners—the IMF and the European Commission—in tackling the crisis has also contributed to an increased politicization of decisions. For instance, the Memorandum of Understanding between the Latvian government and the IMF (by which Latvia committed itself to major structural reforms and budget cuts) was drawn up behind closed doors without any consultations with social partners, and was kept confidential for several months after being signed. During the boom years, when resources for coalition-building, consultation and analysis were abundant, the Baltic leaders were loath to consult stakeholders but instead relied on civil service expertise. Instead of forcing a change of views in that respect, the crisis has been used by the political elites to further legitimize fast and ill-prepared decision-making.

Events in the Baltic states over the past 2 years mark the end of a radical neo-liberal shock therapy imposed in these countries after the dissolution of the Soviet Union. As governments assume a broader, more significant role in response to the crisis, it becomes even more important that they are effective and accountable; otherwise, they will compound the severity of the problems. However, the recent experience of the Baltic states demonstrates that although the return of the state as an organizing force in the economy is indisputable, the state apparatus itself is still perceived as a burden on the economy and society. Yet, further liberalization and hollowing out of the state are likely to become a barrier to tackling the crisis and restoring economic growth.

The European Union

The European Union is a major economic actor, although it does not have the direct responsibility for a national economy in the same way that a national government has. That said, its regulatory powers and its connections with the European Central Bank mean that it does have substantial economic governance capacity. The questions, therefore, are how has it chosen to exercise those powers during the crisis, and have its interventions had any discernable impact on broader patterns of governance?

The responses of the EU to the crisis have represented a combination of path dependency and some greater direct involvement in the economy than it had exercised in the past. For example, the majority of the interventions from the EU have involved rather familiar uses of existing regulatory instruments and spending programs. The European Social Fund, for example, has been used to help ease some of the problems of unemployment in the member states.

On the other hand, the EU has embarked on a more extensive involvement in the economy through the European Economic Recovery Plan, adopted at the December

2008 Economic Council meeting. This program has coordinated a fiscal stimulus plan from the EU with those of the member states, and has also sought to reduce some constraints on issues such as public procurement. In addition to that fiscal program, the EU has also initiated an ambitious program of regulatory reforms (Communique of 4 March 2009), directed at improving controls over the financial sector and fostering general improvements in risk management.

The role of the EU in managing the crisis to some extent represents the use of an opportunity to expand the relative importance of its position in governance. Often, the EU can undertake regulatory interventions that national governments might find more difficult to adopt: for example, regulations on the remuneration of managers of banks and other corporations. As in many systems of multi-level governance, the EU can move decisions around among levels for political or administrative reasons, and a crisis such as the present one makes those movements all the more important. The question then is whether the changes in the venues of decisions, and hence the relative power of institutions, is permanent.

It appears as if the range and sharpness of the EU's measures to address the financial crisis were a reflection of its formal and informal governance. The EU institutions used their regulatory capacity to address some elements of the crisis, but the core of the short-term crisis and its resolution was financial more than regulatory in nature. Again, the EU could use capital sitting in various funds to provide parts of the capital necessary to restart the financial flows. But, ironically, banking and financial systems—which are often (rightly) portrayed as the epitome of financial globalization—have in the crisis become strangely connected to domestic institutions. The EU has been able to provide the regulatory instruments and parts of the financial instruments to address the crisis. It has also been integral to concerted and coordinated action on the European continent. However, most of the substantive elements of the crisis programs have been mobilized nationally. This applies not least to the provision of huge amounts of capital to restore financial markets.

Furthermore, path dependency has clearly been at play during the financial crisis. The EU's approach to the crisis was, logically, first and foremost to employ its regulatory capacity in ways that reflect a predominant policy style among the major member states. In France, argued *The Economist* (13 November 2008), "Mr Sarkozy is simply returning to French interventionist tradition, with the economic crisis providing a ready excuse". There have also been strong similarities between how member-state governments have addressed the crisis with previous crises in the banking sector, for instance in the early 1990s. Thus, it appears that two factors—the EU's reliance on regulatory responses to the crisis and path dependencies in member-state policies to address the crisis—have contributed to create a rather diverse set of policies at the member-state level in Europe.

Summary and conclusions

The financial crisis is but the most recent example of major events in the environment of political systems. This external stimulus, like those before it and those which will follow, has provoked a wide range of responses. We have demonstrated, however, that there has been no common response to this crisis across

countries, and countries which we might have expected to behave in certain ways have not done so. The responses to the crisis reflect a wide range of conceptions of how to manage government, all of which have the possibility of success depending on the circumstances in place.

The various responses to the crisis across the range of industrialized countries make the point that there has been no new paradigm for governance emerging as a result of the crisis. This absence of a paradigm appears to result from at least three broad factors. First, the crisis has been perceived differently in different settings, and indeed has been objectively very different in countries such as Germany or Sweden when compared to the United States. Second, the different starting points for the different regimes have meant that the policy and governance options available to them were very different, as were the demands being placed on them. Finally, and most importantly, having a new paradigm requires new ideas and those appear to have been in rather short supply. There have been some innovations in economic policy, especially when viewed in the context of established patterns of policy, but no common ideas about how best to govern. The profound failures of the market have tended to undermine any confidence in ideas such as those of NPM which depend on the market, but as yet there seems to be no clear alternative. Governance has always been difficult and has relied on judgment, and the crisis has made it an all the more difficult undertaking.

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