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Good governance: a political science perspective

Professor Niamh Hardiman
UCD School of Politics and International Relations,
and UCD Geary Institute of Public Policy
Niamh.Hardiman@ucd.ie

Brief

- Key features of an effective system of governance i.e. standards to which relationships in institutions within a democratic structure should operate.
- Understanding of good governance in the context of a healthy public and political life.
- Contribution of the system of governance, if any, to the circumstances that gave rise to the banking crisis in Ireland.

Introduction

The broad outlines of the banking crisis are familiar enough: the banks borrowed too much, and made too many risky loans; too little heed was taken of the growing property price bubble.

From a political science perspective, some of the key weaknesses that stand out are these:

1. Poor oversight and accountability
There was too little regulation of the banking sector. The powers of the parliament to scrutinize policy were too limited. There was poor accountability in the political system when things go wrong.

2. Privileged access to decision-making
Politicians and key public officials had too little distance from powerful private sector interests, resulting in what is sometimes termed 'cronyism' or even 'crony capitalism'.

3. 'Group-think'
Too much consensus obtained over policy priorities, causing critical views to be marginalized. There was a shortage of specialized knowledge in the public service. There was a resistance to using expertise effectively.

This paper outlines why each of these features of the political system conflicts with principles of good governance, and provides a sketch of some of the institutional weaknesses that made them possible.

Institutional design and good governance

There is no single definition of 'good governance', since the concept embraces a number of dimensions of behaviour and outcomes. But guided by normative criteria, and drawing on comparative literature, we can identify some empirical features that contribute to the 'quality of government'. This can help us think about the political practices that are most conducive to 'good governance'.

Political science takes the view that good institutional design is important for good political outcomes. Institutions create the framework for people's interactions with each other. But even good institutions can end up being run badly, so there always need to be appropriate incentives, including appropriate accountability procedures and sanctioning mechanisms, to make sure good standards of conduct are maintained.

The Quality of Government Institute at the University of Gothenburg in Sweden argues that the 'impartiality of institutions that exercise government authority' is a key criterion for good government (Rothstein and Teorell 2008). There are two dimensions to impartiality in the way the state relates to its citizens. One concerns the 'input' side of things, or who gets access to public authority. The implication is that privileged groups should not be able to gain preferential access to decision-making in ways that would distort considerations of public interest. The other concerns the 'outputs' of political decision-making, the way public authority is exercised. This means that procedural rules and guidelines should always be respected, so no individual or group is either favoured or discriminated against.

Good governance as 'impartiality'

What sort of institutional arrangements are best suited to ensuring good governance in this sense? If we take a key element of good governance to require 'impartiality', both on the 'input' and on the 'output' side, a number of weaknesses in Irish institutional design and political practices become apparent. We can identify three areas in which institutions and practices have been weak, corresponding to the three sets of problems noted at the outset. These concern political oversight and accountability, the relationships between political actors and private interests, and the contestation of ideas.

1. Political oversight and accountability

Government must have the capacity to manage public affairs. But policy needs to be challenged, and government needs to be held to account. A research group I led concluded that powers of the Irish legislature were weaker than most other western European countries, and that this had negative effects on the quality of policy-making and implementation in a number of policy areas. It is more difficult in Ireland than elsewhere to scrutinize and amend legislative proposals, and more difficult to hold the government to account (Hardiman 2012). Some procedural changes in the Oireachtas in recent years have indeed strengthened parliamentary powers. But the Irish legislature is still an outlier in comparative perspective.[1]

Accountability within the public service is also a problem. Ireland has been poor at ensuring that the appropriate lessons are learned when things go wrong in the public service. Too often in the past, the answer to policy mistakes has been a shrug and a comment that 'the system is to blame'. The Civil Service Renewal plans aim to reform the structure and functioning of the civil service, including its procedures to ensure accountability (Department of Public Expenditure and Reform 2014). This is a work in progress, and it is as yet unclear how well the plans will work in practice.

2. Privileged access to decision-making

Good governance considered as 'impartiality' requires that there should be distance in the relationship between private interests and public authority – both on the 'input' and the 'output' side.

Powerful economic interests have been able to gain insider access to government, and during the years of the boom, close relationships developed between banks, builders,

[1] This is the subject of the submission by Professor David Farrell.

developers, and political leaders.[2] Tribunals and Commissions of Inquiry have revealed how this can result in political corruption (Byrne 2012). Legislation on ethics in public office and regulation of political donations, along with Freedom of Information legislation, helps to reduce the incidence of inappropriate access and influence. But poor practices may be harder to eliminate. Ensuring that the legislation has the desired effect may not be so straightforward. One way of ensuring effective accountability in other European jurisdictions involves the strong oversight and accountability role of parliamentary committees. But as noted above, this continues to be a deficit in Irish democratic practice.

A similar observation may be made about the gap between formal provisions and informal practices in the case of financial regulation. The powers available to the financial regulator prior to the crash were not excessively weak (Clarke and Hardiman 2012). But enforcing a strong regulatory regime, with full disclosure of risks and liabilities on the part of financial institutions, is another matter. Much has been done to remedy these shortcomings in recent years, but complacency is the enemy of good practices.

Ireland was not the only country to commit taxpayers' money to providing guarantees to the financial sector, but two things stand out about the Irish experience. The first was the dearth of accurate information about the true state of the banks that was available to policy-makers prior to extending the guarantee – a clear failure of the regulatory regime. The second was that, although a number of other countries also extended very large guarantees, they did not necessarily have to put them into practice. For example, Denmark committed 259% of its GDP to guaranteeing its banks, and Ireland committed 232% (Grossman and Woll 2014, p.581). But the total amount for which Danish taxpayers were eventually liable, while difficult to estimate with precision, was probably less than 1% of GDP, perhaps €0.7bn in absolute terms. In 2012, the direct cost to the Irish state was estimated at €64bn, or 41% of GDP. The difference, according to a recent analysis, lies in the relationship between banks and government:

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[2] It may be noted that Ireland ranks relatively poorly on indicators of 'institutional quality' in the Global Competitiveness Index (World Economic Forum 2014). Among the poorest ratings was the item on 'favouritism in decisions of government officials'.

> While the Irish government was torn between denial and panic, the Danish government negotiated a sectorwise rescue scheme based on substantial participation by the financial industry. Even if the Danish solution needed frequent updating, it committed the banking sector collectively through considerable fees for guarantees and contributions to a fund covering losses from bank failures, which effectively ring-fenced the Danish financial industry and protected the public budget (Woll 2014, chapter 7).

It is sometimes held that in a small country, it is difficult to maintain an appropriate distance between regulator and regulated, or between powerful and wealthy business people and politicians. Regular social interaction, and multiple ties of education, socialization, and even kinship, all play a role in lowering the boundaries between personal and official roles. But Denmark is just as small and as socially interlinked as Ireland. The political science perspective would suggest that where institutions are well designed, appropriate incentives and sanctions can encourage good practices, and in the event of unexpected crises, better solutions can be devised.

3. Group-think

Nyberg commented on 'behaviour exhibiting bandwagon effects both between institutions ("herding") and within them ("groupthink"), reinforced by a widespread international belief in the efficiency of financial markets' (Nyberg 2011, p.i). But group-think – where critical judgement fails to be exercised – is harder to identify and to expose when it is part of normal operating procedures in an organizational or political environment.

Group-think was clearly a problem in the run-up to the crisis in the case of bank risk as well as in the case of macroeconomic performance more generally. Too many people's opinions converged on what was perceived as the general wisdom, without subjecting this to too much criticism. Those who were uneasy about bank risk and the sustainability of the property boom sometimes lacked confidence to speak out too loudly. Some who voiced their doubts were criticized or marginalized.

Among the safeguards against group-think in public life are the capacity of the public service to use high-quality information well; and an open environment for debate, critical engagement with different points of view, and contestation over ideas in the policy process.

Open debate requires informed analysis and good capacity for policy formation. Developing the policy capacity of the public service was not high on the list of political priorities during the boom. We saw a proliferation of new agencies during those years, because it was often easier add on new skills outside the existing public bureaucracy, resulting in what the OECD has called the 'organizational zoo' of Irish state agencies (Hardiman and MacCarthaigh 2008). A number of reports (including the Wright Report on the Department of Finance) have noted the dearth of technical skills of all sorts in the Irish public service. Some of these deficiencies in policy capacity are now being remedied, for example with the creation of the Government Economic and Evaluation Service. But other shortcomings are frequently pointed out, for example, in the management skills of the senior civil service, and reform in these areas is again still very much a work in progress.

A culture of independence needs to be maintained within the public service, so it can function as a guardian of the public interest. Some commentators have suggested that senior civil servants may be less willing now than in the past to challenge government ministers' views. A number of reasons have been put forward for this. For example, some commentators suggest that the longer a government is in power, the more likely it is that senior civil servants will align themselves with the government's preferences, lest they risk their career advancement prospects. Others have noted that civil servants are under increased pressure to protect their minister from adverse publicity in what is now a media-saturated policy process.

Until recently, individuals exposing where things have gone wrong could expect little protection. The Protected Disclosures Act 2014 goes a good way toward remedying this, in both public and private sectors. But a culture of critical engagement needs to be developed to make sure the legislation will have the desired effect. The most effective way of doing this is to develop an environment in which the contestation of ideas is normal.

Some progress has been made in engaging the universities in critical debate about public policy and public sector reform, but much remains to be done. In other countries, civil society organizations also often play an active role as watchdogs over public regulatory and other organizations. Very little of this is as yet in evidence in Ireland.

To some degree, banks' risky lending practices were driven by the pressure directors felt from their own shareholders, whose expectations were formed by the performance of the most profitable but also the most risky institutions. In this context, a comparison between the governance of the Irish and Canadian banking sectors may be instructive. The Canadian banks did not suffer the systemic crisis that befell the Irish banks. One very marked contrast between the two systems is of course the strong role played by the Canadian financial regulator, where the expectation of rigorous and even painful scrutiny by the regulator was strongly internalized by bank directors. But inside the banks, the functioning of boards was also different in some respects. Students of corporate governance contend that the behaviours exhibited by members of the board of a bank are every bit as important as the board's composition or the way its members are recruited. Directors can influence board decisions and bank outcomes through good preparation and critical and challenging behaviour. A recent study shows that in Canada, some corporate practices provided a stronger framework than in Ireland for encouraging these behaviours. For example:

> Canadian directors place significant emphasis on the use of "in-camera" sessions without management present as the primary tool through which to test ideas and build support among colleagues. This arguably helped to avoid excessive deference on the part of non-executive directors and to strengthen independent and challenging voices on corporate boards (Halton 2014, p.180).

Conclusion

In summary, a key aspect of good governance centres on 'impartiality'. Good institutional design is vital, but so too are the practices that make institutions work effectively. In the Irish case, this has implications in three areas. When considering political accountability, we note a relatively weak capacity to subject the executive to scrutiny. Improving administrative accountability is still in its early stages. The relationship between private interests and public office-holders needs to be constantly monitored. The risk of 'group-think' persists as long as there is too little respect for informed critical opinion, and too little openness to debating and contesting ideas.

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