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Editorial

Financial sector reform and policy design in an age of instability

Abstract

The Global Financial Crisis (GFC) of 2008 has revealed weaknesses in financial regulatory policies and institutions in many countries. These weaknesses extend to the regional and international domains of financial policy as well. This article calls for the need for better designed financial regulations and policies by taking a policy design perspective. It provides a multi-level approach to understanding financial reform as design that examines the various components of policy design – policy means, goals and change – at the three levels of policymaking – international regional, national. In doing so, we aim to provide a first step towards a more design-centric approach to financial sector reform.

Keywords : Policy design; Financial regulation; Global financial crisis; Reform

1. Introduction

Following the Global Financial Crisis (GFC), there has been wide academic interest in the organisational and institutional reforms in financial regulation and supervision that have taken place at the national, regional, and systemic levels. In this issue, we have narrowed our analysis to the financial regulatory and supervisory reforms in banking. More specifically, we aim to understand how such financial reforms are designed and implemented by governments, drawing from the policy design literature.

As was the case with financial regulation and reform, the recent resurgence of policy design as an area of academic inquiry coincides with the GFC. While the 'globalisation' narratives that had become dominant in the 1990s and 2000s had downplayed the role of the state as an economic actor, and emphasised instead the role of non-state actors in financial and economic policymaking, the onset of the GFC shifted the attention back to governments' need to 'design' policies that are able to address the effects of the crisis (Howlett & Lejano, 2013; Howlett, Mukherjee, & Woo, 2015). There was hence a 'return of the state', with a specific focus on policy design.

The GFC also revealed weaknesses in existing financial regulatory policies and institutions, which had hampered policymakers' ability to pre-empt the crises or address its implications. Financial policies and institutions, in other words, were not designed to address the crisis. This thematic issue will therefore take a policy design approach to financial sector reforms, and aims to understand the institutional and policy design processes that may or may not contribute to effective financial sector reform. Given the severity of this GFC and its ongoing effects in the EU and US, this issue represents a timely appraisal of the importance of this topic.

The remainder of this article is organised as follows. In Section 2, we discuss the literature on policy design followed by the theoretical framework that will inform the discussion in this thematic issue. Section 3 presents a discussion on financial reforms with special reference to the components of financial reform design. In Section 4, we conclude with a summary of the contributions of the themed issue, its limitations, and suggestions for future research.

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2. Policy design

The notion that policies can be 'designed' for a specific purpose has been in existence from the very conception of the policy sciences as a field of academic inquiry. Indeed, Harold Lasswell was the first to take an instruments approach to public policy, describing polices as comprising policy means and ends (Lasswell, 1951, 1971). This would resonate with scholars of economic policy, who focused on designing policies as means or instruments (Kirschen, 1964; Tinbergen, 1956). Both means and ends are important elements of what has come to be known as the 'design orientation' in public policy.

Policy design has essentially been described as the ''deliberate and conscious attempt to define policy goals and connect them to instruments or tools expected to realise those objectives'' (Howlett et al., 2015: 291). This focus on instruments has animated much of the existing discourse on policy design. Indeed, much of the early work on policy design had focused extensively on how policy instruments could be categorised or typologised (Bressers & Klok, 1988; Hood, 1986; Salamon, 1981; Trebilcock & Hartle, 1982; Tupper & Doern, 1981; Woodside, 1986).

The aim of such activities was fundamentally to provide a more coherent and systematic understanding of the different ways in which different tools facilitated the attainment of policy goals. For instance, Hood's seminal NATO model focused on the four resources from which policy instruments derive their effectiveness – nodality, authority, treasure, and organisational – as well as the intended effects of the instrument, i.e. whether it is designed to effect change in a policy environment or monitor this environment for potential change (Hood, 1986).

Other efforts to categorise and characterise policy instruments have similarly sought to differentiate between the resources associated with the use of an instrument and the channels through which instruments influence policy formulation (Bemelmans-Videc, Rist, & Vedung, 1998; Grabosky, 1995). However, these early studies had placed a disproportionate amount of attention on examining single instruments and causal relations between a particular instrument and its policy effect. Linearity and a focus on substantive impacts would prove deleterious to understanding real-world policy design, which often involves combinations of various instruments.

In an effort to address the inherent limitations of such 'first generation' policy instruments studies, scholars of policy design subsequently sought to expand their conceptual understanding of policy instruments in several ways. First, there was a shift from single instrument studies to understanding how different combinations or 'packages' of policy instruments are designed and implemented (Elmore, 1987; Grabosky, 1995; van Der Doelen, 1998). Of particular significance is the work of Gunningham, Grabosky, and Sinclair (1998) on 'policy mixes' that sought to address and understand the interactions and complementarities between instruments.

There was thus a growing recognition that policy design involves the design and use of policy 'toolkits', rather than individual tools or instruments. A second shift in such 'second generation' policy design studies involved the distinction between 'substantive' and 'procedural' instruments, with the former directly impacting policy *outcomes* and the latter influencing policy *processes* (Howlett, 2000, 2004, 2011). This further stimulated efforts at understanding the contextual and behavioural aspects of policy design (Linder and Peters, 1989; Schneider & Ingram, 1990a; Schneider & Ingram, 1990b; Schneider & Ingram, 1994; Schneider & Sidney, 2009).

These two theoretical additions to the policy design cannons – policy mixes and procedural instruments – played a crucial role in driving a third and, for the purposes of this paper, more important shift design orientation. Specifically, policy design research became increasingly focused on the notion of 'nestedness', and how policy instruments and designs are embedded within hierarchical and cascading relations of other instruments and designs (Howlett, 2009, 2011; Howlett & Cashore, 2009). Such 'nested' or multi-level understandings of policy design have contributed immensely to the field's ability to address complexity in policy formulation (Bobrow & Dryzek, 1987; Bobrow, 2006).

Based on a delineation of the policy process into meta, meso, and micro levels, Howlett (2009) identifies three levels of policy goals; general abstract policy aims, operationalisable policy objectives, and specific policy targets, as well as three levels of policy means: general policy implementation preferences, operationalisable policy tools, and specific policy tool calibrations. These are illustrated in Table 1. This multi-level approach to understanding policy design is particularly useful for delineating and assessing policy instruments at various levels of abstraction and application.

More importantly, Table 1 provides the broad conceptual framing device for the other contributions in this issue. Taking the design approach highlighted in the framework above – with its distinction of policy goals and policy means – allows for a deeper exploration of linkages between policy means and policy goals. How does this framing resonate with the contributions in this themed issue? Oliver Butzbach argues that macro-prudential policies are not able to