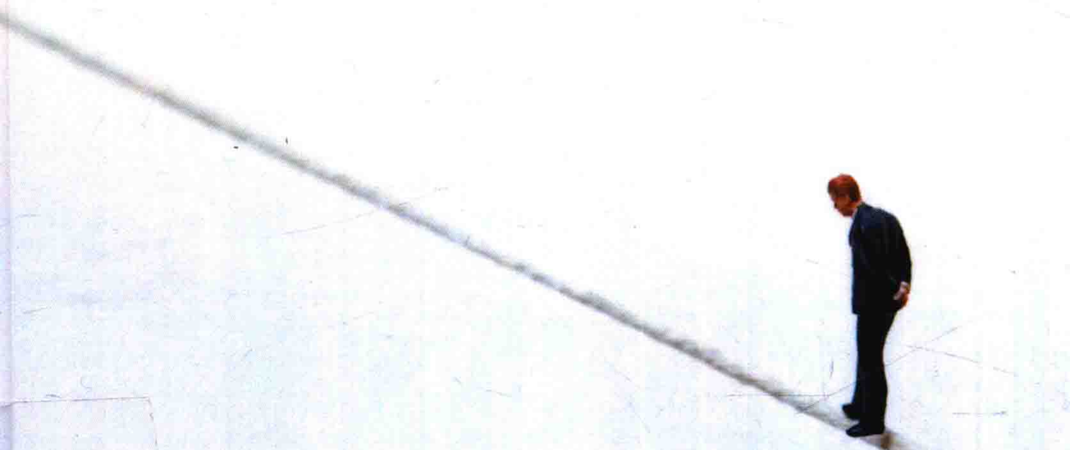

Risk Management in Public Administration

Edited by

Konrad Raczkowski

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Editor

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Editor
Konrad Raczkowski
University of Social Sciences
Warsaw, Poland

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Introduction

Although risk is a feature that is deeply rooted in the practice of economic trading, there is still a wide knowledge gap as far as the determination of the theoretical rules underlying the creation and management of risk involved in individual economic actions is concerned. This is also, and perhaps particularly, true for the public sector, where individual management functions are burdened with constant strategic and operational risk that is political, economic, social, technological, legal, and environmental in character— and thus influenced by volatile cycles. There are two primary reasons behind this. The first is related to the fact that it is not possible to consider risk in fully logical terms, if the assumptions of neoclassical economics are not rejected or challenged, especially in regard to the rationality of human behaviour. The second is the existence of an intense causal relationship between taking risk and gaining an advantage, as well as incurring irrational losses in the case of excessive acceptance of risk under the circumstances of limited possibilities of risk dispersion. Additionally, we are faced with the phenomenon of incomplete information, as developed by the agency theory or transformed transaction costs theory within the framework of new institutional economics. It is also inconceivable to discuss risk management in the economy if we disregard individual management functions understood in classic terms, such as planning, organizing, managing, and controlling, which are applied in the theory of rationality of crime that is increasingly common in contemporary business relations. It is thus justified to claim that an economic entity strives for an increase in individual and/or collective utility in the contemporary economy, which is marked by certain behavioural and information asymmetry. Therefore, the objective of this book is to demonstrate the multifaceted nature of risk management in public administration in a form of an enrichment of finance theory, the theory of economics, and management theory, which might be pragmatically reflected in real economic trading and public administration. One could even claim that risk management in public administration should identify and constantly develop the capacity of an organization in order to achieve the result – measured with the efficiency of operation – of the capability of cooperation with the real economy – under the circumstances of continuous decrease in the number of court cases between the citizen and the state. At the same time, accounting standards for calculating budgetary expenses or proper integration of systems and processes, which may not stray from the global reality, should be sustained.

In the economic and financial context, the significance of the lack of an appropriate approach to economic risk management in public administration is greater than ever before. This is because public administration may be the creator of public policies which establish the organizational and economic order and simultaneously acts in the vital national interest, and takes care of business competition, social security, and the fair redistribution of incomes. Public administration is supposed to ensure that citizens have access to desired services and must, at the same time, strive for balance in decision-making situations where it is profitable to take extreme risks, if it may enable success. Such tasks may not be delegated to the free market exclusively in the hope that it will spontaneously redress social inequalities or take care of sustainable development.

Due to that fact, public administration must understand contemporary business models that are characterised by an increasing level of optimization in terms of limiting the tax base and/or attempting to introduce unfair competition on the market. It must understand that the power of international corporations is rising and active economic policies run by sovereign countries are becoming more and more limited, usually by means of indirect mechanisms of exerting influence and win-lose (or less often win-win) relationships. Such administrations must be aware that it is not the same thing for certain entities to accept compliance rules and to implement them in their practical business activity. Therefore, a question emerges whether if there is a lack of compliance of the accepted rules and principles with an actual activity, it is possible to limit or eliminate risk at all? The answer is clear—of course it is possible to limit or eliminate risk—but only provided that the administration adopts various perspectives of thinking and decision-making with respect to the same entities, situations, and events, which will reflect the particular course of action in the process of evaluation. Not everyone is a law-abiding citizen, nor are all economic entities, while the manner or thinking and acting of two even declaratively analogous entities may be radically different due to pursuance of secret objectives.

The following book fills the cognitive gap with respect to the possibilities of risk management in public administration and, due to its economic character enriched with a considerable number of case studies, it may indicate trends in risk development both from a micro- and macro-perspective. The book is comprised of fourteen chapters; each is preceded by a summary and followed by conclusions. Chapter 1 presents the theory underlying risk and risk management on micro- and macroeconomic levels. Chapter 2 contains an interesting description of the elimination of currency risk in the Transatlantic Trade and Investment Partnership by way of inserting a clause combining the Euro and the Dollar. Whereas an illustration of changes that credit ratings undergo due to the influence of credit spreads is provided in Chap. 3. Chapter 4 presents the elements of risk management, especially with reference to the public financial sector. The next chapter (Chap. 5) contains a description of the possibilities for management of public safety based on the concept of risk processes. Chapters 6, 7 and 8 elaborate on risk in economic activity in the light of the early warning system within the framework of the social economy and operations on the Internet. The next chapters (Chaps. 9, 10, 11 and 12) are concerned with the risk involved in intellectual capital, bank regulatory risk in the EU, the financial distress of public sector entities, and systemic risk in the insurance sector. The final two chapters (Chaps. 13 and 14) elaborate on extremely important issues in the contemporary economy, which are concentrated around the European tax gap in personal income taxes and VAT carousel fraud in selected European States.

As the scientific editor, I hope that the book presented to you will explain what risk management in the public administration and economy is, as there are still no widely acceptable standard constructions and scientific laws which would be, first and foremost, approved by the majority of researchers and simultaneously implemented in the practices of economic entities.

Konrad Raczkowski

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