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The Governance Report 2013

Sovereignty
Fiscal Policy
Innovations
Trade-Offs
Indicators



Hertie School of Governance

OXFORD

The Governance Report 2013



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Foreword

Governance is a relatively new word for a relatively new experience. The experience: There are more and more issues of national, international and even global concern that seem difficult to address and resolve with the institutions, rules and players we know—or used to know. For even these familiar institutions, rules and players seem to change rapidly, and new ones multiply so fast it is hard to keep track of all the changes. As the complexity of problems mounts, so does the intricacy of the search for adequate responses and for their implementation. Modern politics with its many fields and forces of interaction seems like a magic Rubik's Cube—almost intimidating to the beginner, but open to clever procedures, and yielding results that range from poor to optimal. To study governance is to look for preferably clever procedures and optimal results. And good governance is of key importance for shaping politics and policies so as to be legitimate and efficient and so as to achieve just and sustainable outcomes.

This Governance Report provides facts and analyses, cases and principles about how—and how well—governance works on different levels of problem solving: locally and statewide, globally and in transnational and international relations and organisations. The Report furnishes indicators for gauging the quality of governance and offers recommendations for improvement. It was written by the Hertie School of Governance, a renowned public policy school in Berlin, which stands for an international and interdisciplinary approach to current governance challenges. The Governance Report aims to bridge the gap between academia, policymakers and the many stakeholders involved in the thrill and tribulation of governance at all levels.

This Report is a premiere. It pays special attention to questions of economic and fiscal governance that are so pressing currently, and it highlights many choices and trade-offs decisionmakers face in that crucial area. But the Report casts its net much wider. It asks for the most promising roads to better governance in general, it shows why so often these roads are not being taken yet, and it argues convincingly that many obstacles on the way to better governance can be overcome, particularly by recognising that in the world of today, national sovereignty is best used and preserved multilaterally, by combining it with the sovereign rights of others.

There are many encouraging aspects in this Report. A new governance indicator system can help us to better understand the dynamics and relationships between the multiple levels and actors involved in governance processes. The Report discusses governance innovations which provide examples of how in difficult times, we can achieve more if we learn from each other. I am particularly impressed at how creative people have coped with problems not so distant from ours as we might think. They inspire us to

think beyond a logic of necessity and think creatively about how to govern better. And the Report highlights 'the pronounced presence (...) of civil society in the innovations reviewed', not alone but in 'cooperation with governmental agencies and even business that brings about change' and better governance for all. Governance, then, is something we all can help to improve.

This Governance Report deserves many readers and a lively debate, and since it is a premiere, there is more to come. I am glad we have this new and clear view on issues of governance now, and I look forward to reading the next editions of the Governance Report.

PROF. DR. HORST KÖHLER

Former Federal President of Germany



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I. Governance

What Are the Issues?

by HELMUT K ANHEIER

This Report is about the changing conditions of governance, the challenges and opportunities involved, and the implications and recommendations that present themselves to analysts and policymakers. Indeed, few would doubt that the demands put on existing governance systems have changed—and continue to change—as the early twenty-first century seems to enter a period of profound uncertainty. The aftermath of the 2008 financial crisis is a case in point, as is the inability of the international community to reach agreement on major issues such as the environment, freedom of information, or arms trade.

With established systems under pressure, and no realistic, visionary grand solutions to guide, the world is nonetheless alive with a seeming cacophony of approaches—old and new—on how to improve governance and, ultimately, policy outcomes. Not all are well grounded, let alone well guided. Some innovations would likely do more harm than good; others appear unfeasible, too self-serving, or fraught with unknown consequences. Some, however, do harbour potential for seeking better ways and means

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of governing the world's affairs, be they in terms of economic well-being, justice, financial stability, environmental protection, health or social welfare. They differ in how much actual good they would do; the extent to which they are sustainable and replicable; and, of course, how much legitimacy they do and could enjoy among stakeholders.

These innovations take place in a complex world with a seemingly contradictory 'push and pull': cautious pooling of national sovereignty is met by attempts to repatriate monetary or environmental policy, with the euro and Rio+20 as cases in point; a greater openness of national borders confronts renewed emphases on safeguarding and policing frontiers, as exemplified by challenges to the Schengen Agreement; the growing volume of cross-border economic activity is threatened by protectionism, especially by emerging market economies; the free flow of information, so much facilitated by the rise of the Internet, faces the controlling hand of governments and private corporations alike; the ACTA Agreement and small arms treaty of 2012 join a growing list of treaty failures that includes the Mutual Agreement on Investments in the 1990s, and the Kyoto Protocol in the 2000s; social and political movements organise more easily across borders as part of a grow-

ing global civil society yet face many restrictions at national levels and find limited access in international organisations. Finally, although more examples could easily point to the 'back and forth' of today's world in other policy fields as well, international people movements, while growing in numbers, show increasing travel restrictions and more selective migration patterns.

Governance and Interdependence

These developments occur in the wake of deepening interdependencies among countries. Financial markets, global supply chains, and the Internet are as much indications of this deepening as are environmental issues, migration, health and social policies. Such interdependencies have opened up many opportunities but they also involve risk; they invite competition as well as cooperation—and not only among states but also among business corporations, public agencies, and civil society institutions.

As recent crises have amply demonstrated, risks and opportunities on the one hand and competition and cooperation on the other are more easily realised and established for private goods and services than for public goods generally, and for global public goods in particular. And it is in context of the latter—bringing about policy outcomes that involve cooperation and competition in public goods provision—that governance systems have shown the greatest strains and weaknesses.

Developments towards greater interdependence unfold in the context of major shifts in global power relations since 1989 and a politically weakened and cash-starved UN system. They gather force as many states find their capacity to respond to the developmental challenges of our times reduced, with limited state capacity in all but a very few countries and the persistence of failed states, in contrast to the continued rise of the transnational corporation as the likely dominant organisational form of the twenty-first century and a strengthened role of civil society actors at national and international levels.

We live in a complex, interdependent world, to be sure, so perfectly illustrated by the financial crisis of 2008, especially the tensions between risk and opportunity, and cooperation and conflict: weaknesses in national and international financial regulation created short-term opportunities and long-term risks, brought to extremes in the US housing market. At the height of the tumult, the solution to swap private for public debt pushed sovereign debt to crisis levels for countries such as Greece, putting pressure on interest rates for government bonds and the euro; others, like the US or the UK, through a policy of quantitative easing opted for higher inflation and loss of purchasing power. Austerity measures enacted by national governments to reduce public debt and ensure liquidity led to economic contraction, increased unemployment, and political instability. Ultimately, political and financial risks increased, as did opportunities and opportunism; and insti-

tutions meant to cooperate found themselves in conflict, e.g. the European Central Bank and national central banks, and countries until recently on the best of terms traded public insults, at times falling back onto old stereotypes.

It seems that the geopolitical dynamics unleashed by the end of the Cold War, the economic globalisation spurt that has gathered new momentum with the rise of emerging market economies, and the advances in information and communication technologies—all appear to threaten the very foundations of many of the successes they themselves helped bring about over recent decades. In an almost dialectic process that would require the pen of a Joseph Schumpeter or Max Weber to describe adequately, the affairs of the world—at the global and even local level—seem to be going backward and

forward at the same time, leaving the observer at awe as to the speed and depth of the changes taking place.

These changes have not gone unnoticed, to be sure, as the uncertainties they generate lead to searches for new approaches to governance and policymaking. This pursuit involves new ways of thinking (e.g., the initiative to redesign economics by the Institute of New Economic Thinking; to rethink the very notion of sovereignty as a foundation of a future EU that is at the core of the various political design efforts proposed by think tanks around Europe), innovations of many kinds (e.g. constitutional reform to break political gridlock in California; social impact

bonds in Britain; or Liquid Democracy in cyberspace), and also investigations of how weakened institutions and fragile organisations could be changed to perform better in the longer run (e.g. UN reform efforts, relationship between the European Central Bank, national banks and regulatory agencies, or the African Union).

New approaches are being explored and tested, not only by national governments and international agencies but also by local governments, corporations, think tanks and universities as well as civil society organisations. They reflect specific interests, to be sure, and serve different stakeholders, entangled in strategic games of power relations and positioning—be it in dealing with transnational issues such as the euro crisis, climate change, or intellectual property rights or with seemingly more local issues such as local government budget woes, water and air pollution, or crime.

This Report is not to lament the changes and uncertainties of today's world; nor is it to bemoan the complexity of the often contradictory movements and counter-movements that are taking place; rather the Report seeks to address the implications of the current state of the world in terms of governance—or 'good governance' to be precise. By good governance we mean an effective, efficient, and reliable set of legitimate institutions and actors engaged in a process of dealing with a matter of public concern, be it in the field of financial markets, health care, or migration, and across local, national and international levels.

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