T02P05 / Understanding Causal Mechanisms that Make Financial Systems More (in)Stable

Topic : T02 / Comparative Public Policy sponsored by Journal of Comparative Policy Analysis

Chair : Caner Bakir (Koc University)

Second Chair : Jun Jie Woo (Nanyang Technological University)

Third Chair : Mehmet Kerem Coban (SOAS, University of London)

GENERAL OBJECTIVES, RESEARCH QUESTIONS AND SCIENTIFIC RELEVANCE

Understanding Causal Mechanisms that Make Financial Systems More (in)Stable

Causal mechanisms (or processes) aim to explain why and how certain outcomes are produced by the actions of various actors embedded in various contexts. Here the emphasis is on properties of actors, their interactions and actions informed by micro and macro-level contexts. There have been wide consensus in the policy science and political science disciplines that causal mechanisms are understudied (Gerring, 2008; Capano, 2009; Howlett and Cashore, 2009; Real-Dato 2009; Falleti and Lynch, 2009; Capoccia, 2016). Moreover, the current political economy scholarship is still searching for ‘the right intellectual questions of the [global financial] crisis and to guide us toward appropriate responses’ (Green and Hay 2015: 334). On this account, it has been recently argued that there is a key lesson for politicians, policymakers, and bureaucrats who are engaged in ‘successful policy design’ (Howlett 2009, 2011): They should identify and steer a set of structural and institutional complementarities, and agency level enabling conditions guiding policy design and implementation that would dynamically guard against excessive risk taking over a period of years (Bakir, 2013, 2017).

The policy design literature has produced much insights on the various ways in which policy means, or ‘instruments’, can by classified and combined as ‘policy mixes’ (Elmore 1987, va der Doelen 1998, Gunningham et al. 1998). This recognition that the utilization of policy instruments by governments as part of a larger policy mix adds a significant dose of nuance and realism to the study of policy instruments. Scholars of policy design have subsequently sought to understand the internal workings of the policy mix, studying complementarities and interactions between policy instruments within a mix, and emphasizing how processes of policy patching or layering can result in greater consistency, coherence and congruence in a policy mix (van der Heijden 2011; Rayner 2013; Howlett and Rayner 2013; Howlett et al. (2014).

However, there remains insufficient specification of the exact relationship between these policy instruments or instrument mixes and the policy goals which they purport to achieve. Despite the pride of place that this policy means-goals connection holds in policy design studies, the reality is that insufficient work has been done on the causal mechanisms that link the two design components. Furthermore, policy instruments do not exist in a vacuum. Policy instrument choice is often influenced by contextual elements such as political or organizational culture and social relations (Linder and Peters 1989, 1990; Salamon 1989; Howlett 2004; Woo, 2016).

This panel aims to address a pressing practical and intellectual need for 1) a better understanding of how specific causal processes effect financial stability and 2) how causal mechanisms may be designed or managed in practice through aligning and reinforcing various incentives thereby producing financial stability that would not otherwise occur. Specifically it calls for cutting-edge empirical and theoretical research on causal processes generated by structural, institutional and organisational complementarities that reinforce each other’s incentives and compensate for each other’s shortcomings that influence policy design and implementation processes and various actors’ behaviour and financial stability (See Campbell, 2011; Bakir, 2013, 2017; Woo, 2016).

It encourages conceptual and empirical contributions on (1) our conceptual understanding of mechanism-based explanations that explores why and how financial (in)stability is produced; (2) causal processes that resides at the level of the interactions between context dependent actors; (3) causal linkages between policy subsystems and policy mixes; (4) interactions among interdependent structural and institutional complementarities as causal mechanisms that inform actor behaviour and financial stability; (5) how a balance between policy mixes can be achieved so that they can mutually reinforce each other and compensate for the shortcomings of another in the realm of finance; (6) causal mechanisms in the post-GFC era that produce institutional reforms in regulatory governance arrangements such as multiple, unified, or twin peaks models; and (7) a systematic approach that enhances qualitative rigor in inductive interpretive research that makes a causal argument credible (list is not exhaustive).

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CALL FOR PAPERS

Understanding Causal Mechanisms that Make Financial Systems More (in)Stable

Causal mechanisms (or processes) aim to explain why and how certain outcomes are produced by the actions of various actors embedded in various contexts. Here the emphasis is on properties of actors, their interactions and actions informed by micro and macro-level contexts. Scholars of policy design have subsequently sought to understand the internal workings of the policy mix, studying complementarities and interactions between policy instruments within a mix, and emphasizing how processes of policy patching or layering can result in greater consistency, coherence and congruence in a policy mix. Indeed, it has been recently argued that there is a key lesson for politicians, policymakers, and bureaucrats who are engaged in ‘successful policy design’ : They should identify and steer a set of structural and institutional complementarities, and agency level enabling conditions guiding policy design and implementation that would dynamically guard against excessive risk taking over time.

This panel aims to address a pressing practical and intellectual need for 1) a better understanding of how specific causal processes effect financial stability and 2) how causal mechanisms may be designed or managed in practice through aligning and reinforcing various incentives thereby producing financial stability that would not otherwise occur. Specifically it calls for cutting-edge empirical and theoretical research on causal processes generated by structural, institutional and organisational complementarities that reinforce each other’s incentives and compensate for each other’s shortcomings that influence policy design and implementation processes and various actors’ behaviour and financial stability.

This panel encourages conceptual and empirical contributions on our conceptual understanding of mechanism-based explanations that explores why and how financial (in)stability is produced. It focuses on the following questions: (1) what are the causal processes that resides at the level of the interactions between context dependent actors; (2) what are the causal linkages between policy subsystems and policy mixes; (3) how and why do interactions among interdependent structural and institutional complementarities as causal mechanisms inform actor behaviour and financial stability; (4) how can a balance between policy mixes be achieved so that they can mutually reinforce each other and compensate for the shortcomings of another in the realm of finance; (5) what are the causal mechanisms in the post-GFC era that produce institutional reforms in regulatory governance arrangements such as multiple, unified, or twin peaks models; and (6) what are the advances in systematic approaches that enhances qualitative rigor in inductive interpretive research that makes a causal argument credible (list is not exhaustive).

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Session 1 Session 1: Causal Mechanisms and Financial (in)Stability

Thursday, June 29th 13:30 to 15:30 (Block B 2 - 2)

Discussants

Mehmet Kerem Coban (SOAS, University of London)

JJ Woo (Nanyang Technological University, Singapore and John F. Kennedy School of Government, Harvard University, USA)

Bubble and crash, Chinese style: campaign-style governance and China’s stock market crisis 2014-2015

Chen Li (Faculty of Social Science and Center for China Studies)

China’s market-oriented reforms have been carried out under a Leninist system of bureaucratic control. Unconventional forms of institutional adaptation, hybridization and innovation have featured prominently in the Chinese model of economic governance and public administration. The state-led development of stock market and its regulatory system has been a key element of China’s economic reforms. However, the complex interface of regulation and control between the Chinese party-state bureaucracy and the rapidly evolving financial market still belong to the least-understood components of China’s political economy. This article uses a model of campaign-style governance to characterize and analyze how the institutional legacy of the Chinese Communist Party (CCP)'s Leninist control and policy styles have shaped the policy instruments, mixes, processes and effects of China’s stock market regulation. It focuses on examining the case of how the Chinese authorities managed the major stock market bubble and crash between 2014 and 2015, which have generated profound and ongoing impact on China’s financial stability and reforms.

From Micro-Prudential Framework to Macro-Prudential Mechanisms: Analysis of the Banking Mechanisms in the Post 2011 Turkish Experience

Sinan Akgunay

Caner Bakir (Koc University)

Many of the policy changes and financial regulations, which have been implemented during the aftermath of the 2008 GFC, have been identified and analysed within the literature political science, public policy and international political economy literature ignored causal mechanisms behind socio-economic outcomes. Despite the importance of the economic outcomes and structures of financial regulatory policies, we argue that these policy outcomes are actually a result of a set of contextual factors and behavioural actions that have taken place by the system actors. Thus this paper focuses on the transition from the micro prudential policies to the macro prudential framework in the Turkish experienceby offering the causal mechanismic explanation for what the period. In spite of the literature on causal mechanisms, prior studies emphasise the i) relationships or components within the mechanisms or systems of mechanisms leading to a causal process (Hedström and Swedberg 1998; Kuorikoski 2009) and the ii) interactions or influences of mechanisms in consideration of the contextual factors where they are embedded (Bakir 2017; Falleti and Lynch 2009). In this respect we offer a combination of these insights. We discuss that the policies in the Turkish experience were functioning through a form of a complex system of component mechanisms within a decomposable system as well as causal effects that arise from the interaction of these specific mechanisms with the context where they are embedded. We suggest that, approaching financial regulations from a mechanismic perspective, both sets a concrete picture of the system and also enables a comparative analysis of the initial design of the complex mechanism with the actual established mechanism.

Some of the theoretical and methodological weaknesses in the mechanisms research and what to do about them

Caner Bakir (Koc University)

This paper argues that there are theoretical and methodological weaknesses of causal mechanisms view which calls for integrated view of interactions among contextual and agency-level variables and transparent, rigours inductive research. In regard to theory, the first weakness is that it identifies mechanisms that operate at the actor level (e.g., individual and/or group level) but aggregates into larger scale outcomes, ignoring mechanisms that operate at the structural and institutional levels that inform this lower level of aggregation. Second, scholars using the mechanisms approach and institutional theory conflate and/or combine structures and institutions, failing to appreciate the analytical value of their interactions and influence on actor behaviour. Third, they conflate actors with institutions. Fourth, they omit complementarities, the various sets of structural and institutional influences that inform actions by reinforcing similar incentives. Fifth, context does not only constrain but also enables actor behaviour. Finally, mechanisms research has a mechanistic logic which assumes that causal mechanisms influence actions in the same direction. This view ignores the importance of contradictory complementarities reinforcing simultaneously opposing actor behaviour. In regard to methodology, the first weakness is that mechanismic researchers limit themselves to explain and/or explore why and how a certain outcome occurs, ignoring inductive methods that aim to generate theory from data. Second, although multiple causes are rightly understood occasionally in terms of context, agency and their interplay, weaknesses in data collection, presentation, and analysis in current mechanisms research allow for only limited progress towards qualitative rigour achieving a balance between data and its interpretation in explaining causal interactions among constructs informing actor behaviour that generate an aggregate outcome. The papers discusses how structure, institution and actor-based eclectic SIA framework and so-called Gioia Method take step forward addressing these problems. Empirical evidence comes from a comparative analysis of advanced financial systems in the run up to the global financial crisis.