Less directly self-interested outsiders

The problem of "regulatory capture" has been long understood. It is the observation that regulated industries, including finance, come to dominate those agencies established to supervise them—gamekeeper turned poacher. This occurs through several means:

- familiarity—supervisors have to be in frequent personal contact with those they supervise, are often highly dependent on them for information and insight, and may be looking for future employment opportunities in the industry;
- money—industries can be richly resourced, affecting supervisors' political masters views, and allowing the industries to be far better technically and legally staffed than the (usually cash-strapped) public supervisory agencies.

Such problems are well-known to be prevalent in finance and economics and in politics.

However, even as banking and economic authorities will gladly acknowledge the problem "in general", they are, even after the two global crises, completely allergic to acknowledging it in particular, and notably, in their particular.

Two telling recent examples of this are noteworthy.

First, in 2013, M. Pisani Ferry and co-authors put out a study of the programs in the Euro Area. While the Troika in public welcomed the study as a useful input, their response discussion and questioning was to emphasize that the study was "too early". The clear implication of this was that the Troika should be left alone to run the programs without "premature" judgements being reached by outsiders and that outsiders should only come with their studies once the programs were all over and done and we could look back at the as historical events.

The audacity of this response—not just given the failures of all three authorities ahead of the global and euro area crises but even more-so given the Troika's design failures for the Greek program and its handling of Euro Area-wide reforms—is truly remarkable. But it speaks to the intensity of the personal feelings aroused when, despite ritual general acknowledgement of the problem of regulatory and political capture, the competence and integrity of those with the levers of power in their hands are questioned from this perspective. The suggestion that outsiders, like M. Pisani Ferry or any others, could "legitimately" question and propose adjustments comes very hard to such officials, despite the all-too-evident need for it.

The second example of this comes from a different context. Recently, the 2014 BIS Annual Report raised stability alarms consequent on continued reliance globally on Quantative Easing. Though the BIS' central substantive points were, in my view, overstated somewhat, what was notable for present purposes was the response of the Bank of England to the report. The Governor, Mr. Carney, and Mr. Bailey, head of the PRA in the Bank of England, both emphasized the fact the the BIS did not have direct policy authority on anything, that they were "outsiders", as if that fact, by itself, disqualified their judgements. In making their case this way, they not only directly denied the general problem of "regulatory capture" and its possible application to their particular cases, but they boldly and unapologetically asserted its opposite, that only those with the levers of official power in their hands can possibly know fully what needs to be done and outsiders like the BIS should pipe down.

The fact that such officials can make such claims so stridently and so boldly so soon after the two global crises is striking testament to the fact that global economic policymakers remain, astonishingly, unchastened—and in that regard, still completely allergic to outside criticism. In that light, it is perhaps not so surprising that the IMF is similarly unchastened. But the costs of that remain in the corrosion of the IMF's early warning role, as argued in the main paper.

Peter Doyle
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p.t.d.y@outlook.com
Twitter: @retepelyod