Requirements for adapting governance

Providing information

Environmental governance depends on good, trustworthy information about stock flows and processes within the resource systems being governed as within the resource systems being governed as well as about the human environment interactions affecting these systems

The information must be congruent in scale with environment events and decisions. Highly aggregate information may ignore or average out the local information that is important in identifying the future problems and solutions.

Information must also be congruent with decision makers need in terms of timing content and form of presentation. Information systems that simultaneously meet high scientific standards and serve ongoing needs of decision makers and users are useful. Information must not overload the capacity of users to assimilate it. Effective governance requires not only factual info about state of environment and human action but also info about uncertainty and values. Decision makers need info that characterizes the types and magnitudes of this uncertainty as well as the nature and extent of scientific ignorance and disagreement.

Dealing with conflict

Difference in power and in values across interested parts make conflict inherent. Indeed conflict resolution may be as important a motivation for diverging resources institutions as is concern with resources themselves. People bring various perspectives, views, interests and if the conflicts do not escalate to dysfunction, it can lead to learning and change.

Inducing rule compliance

Effective govt requires that rules of resource use are generally followed with reasonable standards for tolerating modest violations. It is generally most effective to impose modest sanctions on first offenders and gradually increase the severity of sanctions for those who do not learn from their initial encounters. Community based institutions often use informal strategies for achieving compliance. Whether enforcement mechanisms are formal or informal, those who impose them must be seen as effective and legitimate by resource users or resistance and evasion will prevail.

Much environmental regulation in complex societies has been “command and control”. Govt requires or prohibit specific actions or technologies with fines or jail terms possible for punishing rule breakers. If sufficient resources are made available for monitoring, then enforcement via such methods are effective.

Financial instruments can provide incentives to achieve compliance with environmental rules In recent years, market based systems of tradeable environmental allowances (TEAs) that define a limit to environmental withdrawals or emissions and permit free trade of allocated allowances under those limits have become popular These mechanisms have substantial advantages over command and control methods. These are (i) level of predictability of stock and flows (ii) the number of users or producers who are regulated (iii) the heterogeneity of regulated users and (iv) clearly defined and fully exchangeable permits. There are limitations as well. (i) TEA regimes tend to leave unprotected those resources not specifically covered under trading rules. (ii) Suffers when monitoring is difficult (iii) Problems can also occur with initial allocation of allowances.

Providing infrastructure

Infrastructure including technology determines the degree to which commons are exploited, extent to which waste can be reduced and degree to which resource conditions and behavior of human users can be effectively managed.

Be prepared for change

Institutions must be designed to allow for adpatation because some current understanding is likely to be wrong, the requires scale of organization can shift and biophysical and social systems change. Fixed rules are likely to fail because they place too much confidence in the current state of knowledge, whereas systems that guard against the low prbability high consequence possibilities and allow for change may be suboptimal in the short run but proves to be wiser in the long run.

Strategies for adapting governance

Analytic deliberation:- Well structured dialogue between scientists resource users etc. where they could discover ways to carry on the requirements mentioned above

Nesting:- The arguments must be complex, redundant and nested in many layers with adaptive governance at multiple levels from local to global

Institutional variety:- Mixture of central authority, property rights, market, self governance etc.

Adaptive Governance and Growth reforms| Development Economics

Washington Consensus: Original and Augmented reforms- Key aspects

Washington Consensus - Original

- Fiscal discipline
- Re-orientation of public expenditure
- Tax reforms
- Interest rate liberalization
- Unified and competitive exchange rate
- Trade liberalization
- Openness to FDI
- Privatization
- Deregulation
- Secure property rights

Washington Consensus- Augmented

- Corporate governance
- Anti corruption
- Flexible labor market
- Adherence to WTO
- Adherence to intl. codes and standards
- Prudent capital a/c opening
- Non internal exchange rate regimes
- Independent central bank/ inflation targeting
- Social Safety nets
- Targeted poverty reduction

Washington Consensus: East Asian anomalies

Institutional Domain	*Mainstream Ideal*	*"East Asian" Pattern*
Property rights	Private, enforced by the rule of law	Private, but government authority occasionally overrides the law (esp. in Korea)
Corporate governance	Shareholder ("outsider") control, protection of shareholder rights	Insider control
Business-government relations	Arm's length, rule based	Close interactions
Industrial organization	Decentralized, competitive markets, with tough antitrust enforcement	Horizontal and vertical integration in production (*chaebol*); government-mandated "cartels"
Financial system	Deregulated, securities based, with free entry. Prudential supervision through regulatory oversight.	Bank based, restricted entry, heavily controlled by government, directed lending, weak formal regulation
Labor markets	Decentralized, deinstitutionalized, "flexible" labor markets	Lifetime employment in core enterprises (Japan)
International capital flows	"Prudently" free	Restricted (until the 1990s)
Public ownership	None in productive sectors	Plenty in upstream industries

Adaptive Governance and Growth reforms| Development Economics

Washington Consensus: Stories of adaptations and modifications

Liberalization and Property rights (China)

China liberalized agriculture only at margin. As long as state quotas were set below the fully liberalized market outcome, China's dual track reform in effect achieved full allocative efficiency. Another area to discuss is property rights. Rather than privatize land and industrial assets, the Chinese govt implemented new inst. arrangements such as Household responsibility system and TVEs. Thus the efficiency loss by absence of prop rights < Implicit security gained from local govt control. Thus China relied on unusual non WC standard institutions still providing orthodox results from unorthodox means. It is hard to argue that WC ideas would create even better results.

Financial markets (East Asia)

Interest rate remained controlled below market clearing levels and competitive entry was typically blocked, a financial restraint for Asian model where asymmetric info prevails and level of savings is sub optimal. Hellman et al argued that creating a moderate amt of rents for incumbent banks can generate useful incentives. These rents induce banks to do better job of monitoring their borrowers and expand effort to mobilize deposits. Both the quality and level of financial intermediation can be higher than under financial liberalization.

Industrial Policy (Korea and Taiwan)

The east asian economies rejected the standard advice that they take an arms length approach to their enterprises and actively sought to coordinate private investments in targeted sectors. The joint presence of scale economies and interindustry linkages can depress the private return to investment in non traditional activities below the social return.

Internal organization of workplace (Japan)

They evolved from a set of arrangements originally designed for wartime mobilization and centralized control of resources. Japan's team centered approach and redistribution of economic resources from advanced to backward sectors is akin to horizontal hierarchy and bureaucratic pluralism.

Lessons to be learned - Stylized facts

Growth spurts are associated with a narrow range of policy reforms

Growth spurts often result from targeted interventions that address specific economic bottlenecks, such as macroeconomic stabilization, export promotion, or investment in infrastructure. These reforms are usually context-specific, focusing on immediate challenges rather than systemic overhauls. While they can trigger rapid economic expansion, their limited scope means they may not establish a foundation for sustained growth.

Policy reforms associated with growth transitions typically combine elements of orthodoxy and unorthodox institutional elements

Successful growth transitions often balance conventional policy measures—like fiscal discipline, trade liberalization, and market-friendly regulations—with unorthodox approaches tailored to local contexts. For example, East Asian economies employed export-led growth strategies while maintaining state-directed credit systems, defying purely market-based orthodoxy. This hybrid model underscores the importance of flexibility in adapting global best practices to domestic conditions.

Institutional innovations do not travel well

Institutional arrangements that succeed in one country may fail in another due to differences in history, culture, and political contexts. For instance, the chaebol system in South Korea or Japan's keiretsu may not work in economies with weaker state capacity or different societal norms. Effective institutions are deeply embedded in local contexts, making it challenging to replicate their success through straightforward transplantation.

Sustaining growth is more difficult than igniting it and requires more extensive institutional reforms

While initial growth may be achieved through targeted reforms, maintaining it demands a broader transformation of institutions to support long-term productivity and resilience. Sustained growth requires robust legal frameworks, transparent governance, and inclusive social policies that adapt to evolving economic structures. In East Asia, for example, the shift from manufacturing to knowledge-based economies necessitated reforms in education, innovation ecosystems, and labor markets.