The transformational role of the Great Recession for economic governance

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Abstract
The financial crisis of 2008 and its aftermath in the form of the Great Recession have precipitated the need for redesigning economic governance. The severity of the economic governance fault lines that were created by the Great Recession are comparable to those of the Great Depression of the 1930s. Both events underlined the ineffectiveness of the scope and substance of economic policy to address the contemporary economic challenges.

The operational definition of economic governance that will be used in this paper encompasses the institutional economic governance architecture, the machinery of economic governance and the scope and substance of economic policy.

This paper provides an anatomy of the financial crisis of 2008 and describes the fault lines in economic governance that appeared subsequent to the Great Recession. It concludes with a modern template for economic governance that is congruent with the new global economy of the 21st century.

Keywords economic governance, new global economy, financial crisis, great recession, great depression, economic policy

Introduction

The Great Recession of the 21st century has revealed the economic governance fault lines on the economic landscape. In this regard, there are significant comparisons between the structural realignment that occurred in the 20th century as a result of the Great Depression of the 1930s. In consequence, the mission and mandate of economic governance on the contemporary landscape and its accompanying institutional architecture requires transformational change in order to conform to the realities, challenges and opportunities of the new global economy of the 21st century. The operational definition of economic governance that will be used in this paper encompasses the institutional economic governance architecture, the machinery of economic governance and the scope and substance of economic policy.

Three recent economic events have revealed the fault lines in the modern constructs of economic governance. First, the profound structural changes that heralded the advent of the new global economy. Second, the devastating consequences of the global financial crisis of 2008.Third, the prolonged Great Recession that followed the global financial crisis and was accompanied by high unemployment and diminutive economic growth.

There is no denying that the global financial crisis of 2008 and its aftermath have triggered a wakeup call in regard to the deficiencies in economic governance. Indeed, the recent cataclysmic financial and economic crisis should become the catalyst for redesigning our economic mission, realigning the scope and substance of economic governance and creating an institutional architecture that is congruent with the new global economy of the 21st century.

New economy

The new global economy of the 21st century has transformed the economic, social and political landscape in a profound and indelible manner. Never before in human history has the pace of structural change been more pervasive, rapid and global in its context. Furthermore, the new economy is built on a culture of innovation. Indeed, the signature mark of the new global economy is new ideas, new technologies and new initiatives.

The new global economy of the 21st century is composed of a trilogy of interactive forces that include globalization, trade liberalization and the information technology and communications revolution. Globalization has melted national borders and redefined economic policy. Free trade has enhanced economic integration and extended the economic governance architecture. The information technology and communications revolution has made geography and time irrelevant and enhanced the reach of economic parameters (Passaris, 2006).

The advent of the new economy has resulted in the restructuring of economic society. The role of innovation as a catalyst that drives the engine of economic growth has become a fundamental postulate of the new global economy. Furthermore, the new economy has underlined the pivotal role of a country's human resources and the unique economic value of its human capital endowment. Indeed, the old economy of the 20th century was about the resources under our feet, while the new economy of the 21st century is about the resources between ourears.

A country's human capital assets take the form of the educational attainment, the technical competencies and the special skills of its population. They are an essential prerequisite for empowering the new economy and facilitating the integration of labour in the knowledge based industries.

On the contemporary landscape, economic globalization takes the form of a porous global economic environment. This permits the mobility of foreign direct investment, has accentuated the movement of immigrants and refugees, has enhanced the flow of international trade and has multiplied the volume of transactions in international financial markets. Furthermore, the global outreach and economic integration of corporations beyond their national borders has made the world a truly global economic village.

Financial crisis

The financial crisis of 2008 unfolded with record speed into a devastating economic crisis of global proportions. It had a more devastating effect than simply creating the most significant economic crisis since the Great Depression of the 1930s. More specifically, it revealed the fault lines on the economic landscape and particularly the deficiencies in economic governance.

At the outset, it should be stated that the financial crisis of 2008 was a made in America financial crisis. The epicenter of the financial crisis was the sub-prime mortgage crisis that unfolded during 2007 and 2008. Despite the fact that the eye of the financial storm was the asset backed securities collateralized with sub-prime mortgages, it was the USA housing market that influenced in a profound and indelible manner the economic outcome and is the principal cause of the financial crisis. Indeed, the contextual narrative for the 2008 financial crisis starts with the abrupt collapse of the USA housing market in 2006 (Passaris, 2015A).

The perfect financial storm was created by the adverse alignment of a combination of political, economic and financial factors. These factors included political pressure in the USA to increase home ownership for low and medium income earners, the advent of economic globalization and the global contagion effect, the introduction of new financial products such as derivatives and hedge funds that carried a significant level of risk, the process of de-regulation that allowed large investment banks to carry excessive leverage and the existence of a large global supply of investment funds seeking investment grade bonds. All of this created unsustainable mortgage lending practices and a vulnerable financial governance institutional architecture. In short, the financial crisis reflected a systemic failure of the USA housing market in particular and the global financial industry in general. More precisely, the financial crisis created an implosion of the financial sector with global consequences (Bernanke, 2015).

Crisis anatomy

A forensic analysis of the financial crisis of 2008 reveals the failures of the existing economic governance system. The increase in the supply of credit during the period immediately preceding the financial crisis facilitated the promotion of less stringent financial requirements associated with new mortgages. Indeed, this is the context for the emergence of sub-prime mortgages which are defined as mortgages issued to a homeowner without a strong credit worthiness and consequently carry a greater risk of default in comparison to holders of prime mortgages.

Another emerging economic fault line prior to the financial crisis was reflected in the fact that the pricing of complex derivatives was not congruent with the systematic risk associated with them. In consequence, the financial markets did not accurately measure the risk contained in financial products such as collateralized debt obligations and mortgage backed securities. Finally, the period prior to the financial crisis witnessed political pressure in the USA to increase the supply of mortgages to low and moderate income households. The abrupt collapse of the housing boom in 2007 created a high default rate and an increase in foreclosures which in turn generated serious liquidity challenges not only for major banks but for several large financial firms that had a significant investment in mortgage backed securities and other forms of collateralized debt obligations.

By 2008, the serious economic challenges of the USA housing market had contaminated the global financial market. In addition, many financial institutions attempted to safeguard their liquidity by recalling outstanding loans and raising the bar with respect to new loans. All in all, a full-fledged and worldwide decrease in the supply of credit developed. The economic impact of the failure of several major USA financial institutions with a large exposure to subprime mortgages confronted the financial markets around the world.

Greenspan put it more succinctly during his testimony before the Committee of Government Oversight and Reform of the USA Congress:

> "The evidence strongly suggests that without the excess demand from securitizers, subprime mortgage originations (undeniably the original source of crisis) would have been far smaller and defaults accordingly far fewer. But

> subprime mortgages pooled and sold as securities became subject to explosive demand from investors around the world. These mortgage backed securities being 'subprime' were originally offered at what appeared to be exceptionally high risk-adjusted market interest rates. But with U.S. home prices still rising, delinquency and foreclosure rates were deceptively modest. Losses were minimal... The consequent surge in global demand for U.S. subprime securities by banks, hedge, and pension funds supported by unrealistically positive rating designations by credit agencies was, in my judgment, the core of the problem. Demand became so aggressive that too many securitizers and lenders believed they were able to create and sell mortgage backed securities so quickly that they never put their shareholders' capital at risk and hence did not have the incentive to evaluate the credit quality of what they were selling... It was the failure to properly price such risky assets that precipitated the crisis" (Greenspan, 2008, pp. 2-3).

By 2009, the capital markets were in a downward tailspin. The exporting of problematic securitized financial instruments, conveniently but most certainly inappropriately rated triple A by the credit rating agencies, brought about a freeze in global markets with global repercussions. The mechanics of the operation involved packaging mortgage products that financial institutions would not want on their own books and selling them globally at prices that were significantly higher than what would have been recorded in their books by carrying the mortgages in the traditional banking manner. This process gave birth to the global demand for sub-prime mortgages.

During the course of the better part of 2008 and in the early months of 2009 stock markets around the world incurred significant losses which were driven by fears of bank insolvency, a sharp decline in credit availability and a plummeting investor confidence. Countries around the world were confronted with a weak level of economic activity, international trade declined and credit shrank. The blame for all of this was pointed at credit rating agencies and investors that failed to account for the risk involved with mortgage related financial products.

The Great Recession

The Great Recession commenced during the second decade of the new millennium. It was triggered by the global financial crisis of 2008 and developed in its aftermath. I believe the Great Recession is an important economic governance milepost. To my way of thinking the Great Recession is the defining economic event that revealed the fault lines in economic governance and the dysfunctional nature of our economic policy tool kit for the 21st century. In effect, our inherited economic governance model had developed structural deficiencies and public policy shortcomings (Passaris, 2015B).

Furthermore, the Great Recession was a tangible acknowledgement that the economic governance landscape was no longer an effective mechanism for delivering the desired outcomes for the new economy. Indeed, it served as a wakeup call that the economic policies that were effective in the old economy of the 20th century are no longer potent for the new economy of the 21st century.

This new term, the Great Recession, is an informative play on words on the Great Depression. The Great Depression lasted for about a decade during the 1930s. It was a period of protracted economic downturn, high inflation, soaring unemployment, stagnant income levels and a decline in total output.

On the other hand, the Great Recession got branded as such because it did not neatly comply with the definition of a depression which requires four consecutive quarters of negative economic growth. The intermittent spurts of weak economic growth recorded during the period of the Great Recession disqualified it from meeting the definitional parameters of an economic depression. However, in terms of its longevity and severity the Great Recession matches the fundamental economic malaise that was triggered by the Great Depression. In effect, the Great Recession that commenced during the late-2000s was the worst economic downturn since the Great Depression. The parallels and similarities between the Great Depression and the Great Recession are striking.

The Great Recession provided a reality test for economists regarding economic governance and policy. It underlined the need to redesign economic governance in order to address structural change at the same time as initiating economic policies to combat economic adversity.

More specifically, it revealed that the mainstream economic policy tool kit was no longer potent or effective in the new economy. The reason being that the structural parameters of the economic landscape had changed so profoundly and deeply that conventional policies had become an anachronism. In short, the mainstream theories, models and policies had lost their best before date.

Financial governance

There is no denying that the financial crisis of 2008 precipitated an urgent need for greater government involvement and the introduction of enhanced regulation in the financial sector. Prior to that there was a minimalistic overview of the financial sector. This had started in the USA during the Reagan administration with the process of a gradual relaxation of regulations.

This laissez-faire approach culminated with the endorsement by a former Federal Reserve chairman's prediction that the markets would self-regulate because it was in their best interest to do so. In this regard, it is worth noting the remarks of Greenspan during his testimony before the Committee of Government Oversight and Reform of the USA Congress, when he stated:

> "We are in the midst of a once-in-a century credit tsunami. Central banks and governments are being required to take unprecedented measures.... those of us who have looked to the self-interest of lending institutions to protect shareholder's equity, myself included, are in a state of shocked disbelief" (Greenspan, 2008, p. 1).

In their recent paper, Olivier Blanchard and Lawrence Summers came to the following conclusions:

> "we view the basic lessons from the Great Financial crisis to be similar to those drawn by the Keynesian revolution in response to the Great Depression: Economies can be affected by strong shocks, and cannot be expected to automatically self stabilize. We have no doubt that, absent the

> strong monetary and fiscal policy responses we have observed, the financial crisis would have led to an outcome as bad or worse than the Great Depression. Thus, strong stabilization policies are simply of the essence. This is not to say that we should return to the Keynesianism of the 1960s and 1970s. The economic environment is different, the financial system more complex, neutral interest rates are low, creating problems for monetary policy, but opportunities for fiscal policy" (Blanchard and Summers, 2017, pp. 20-21).

The authors also suggested a more innovative economic policy that is grounded in the realities of the new global economy of the 21st century.

> "What we specifically suggest is... the combined use of macro policy tools to reduce risks and react more aggressively to adverse shocks. A more aggressive monetary policy, creating the room needed to handle another large adverse shock… providing generous liquidity if and when needed. A heavier use of fiscal policy as a stabilization tool, and a more relaxed attitude vis a vis debt consolidation. And more active financial regulation, with the realization that no financial regulation or macroprudential policy will eliminate financial risks" (Blanchard and Summers, 2017, p. 21).

Economic internetization

I have coined the word internetization for the purpose of circumventing the drawbacks of the concept of globalization. These drawbacks commence with the fact that globalization is not a new concept. The international outreach between nations has taken place since time immemorial. Furthermore, globalization does not reflect the contemporary digital empowerment of civil society and the electronic facility for modern financial transactions.

In effect, internetization denotes a combination of two contemporary features. These are global outreach and electronic connectivity. There is no denying that internetization has had a significant impact on the new global economy and the scope and substance of economic governance. The electronic prefix that is appearing before an increasing number of our daily interactions such as e-commerce, e-mail, e-learning, e-banking, e-travel, e-democracy and e-government is a tangible expression of the pervasive influence of the information technology and communications revolution (Passaris, 2014A).

Increasingly, internetization has become a driving force in the business strategy pursued by corporations in the 21st century. Internetization embraces the transformative powers of the world-wide-web and the electronic information high way and serves as a catalyst for the evolving dynamics of interconnectivity in the new global economy. Furthermore, internetization captures the pervasive influence of technological change and electronic innovations on the global economic landscape as well as on all aspects of human endeavour for our civil society (Passaris, 2017).

Internetization has also impacted upon economic governance by facilitating public scrutiny of government documents, enhancing the accessibility of data and generally promoting the electronic connectivity between civil society and government. In short, internetization which is empowered by the internet and electronic connectivity has enabled the spectacular technological structural changes of the new global order.

It should be noted that the process of internetization is not static. It is constantly evolving, mutating and transforming. The capacity for internetization took a giant leap forward with the transformation of wired electronic technology into wireless devices. In addition, new technological frontiers have been reached through nanotechnology, cloud computing and virtual networks.

There is no denying that internetization has impacted directly and profoundly on the scope and substance of economic governance. It has facilitated new channels of communication between civil society and the government. Economic governance has been exposed to a new form of transparency and accountability in regard to government decision making. Internetization has created a new layer of intervention and regulation for government. Internetization has also revealed a darker and malicious side. In effect it has created the electronic vulnerability of the machinery of economic governance that requires its constant upgrading and the introduction of cybersecurity firewalls. All in all internetization has generated a new form of exposure and interaction for economic governance.

Governance antecedents

The scope and substance of economic governance has evolved over the centuries. Indeed, the span of economic history reveals several noteworthy mileposts that have taken form and substance on the economic governance landscape. One of those was the transformational change that occurred in the 20th century.

Adam Smith, the founder of modern economics and the author of the foundational economics treatise *An Inquiry into the Nature and Causes of the Wealth of Nations* first published in 1776 laid the groundwork for economic governance in the latter part of the 18th century. His philosophy of free enterprise advocated the absence of government intervention in the economy. Indeed, this was the paramount model of economic governance until the Great Depression of the 1930s. It was a theoretical premise that underlined the importance of the private sector as the principal engine for economic growth and the sole decision maker in economic matters. Despite the absence of government involvement in economic affairs, the role of government was confined to three other areas. More precisely, government's jurisdiction would be limited to foreign affairs, ensuring domestic law and order through the operation of the courts and policing and maintaining the country's national defense system (Smith, 1776).

The Great Depression of the 1930s lasted for more than a decade and had a devastating impact on the economic landscape. It created in its wake a downward spiral of economic growth, a pandemic of business bankruptcies, massive unemployment, escalating inflation, widespread poverty and financial instability.

Furthermore, it underlined the fault lines in economic governance that had been in existence from the late 18th century until the Great Depression.

As a direct consequence of the Great Depression a new model for economic governance was introduced by John Maynard Keynes with the publication of his book *A General Theory of Employment, Interest and Money* in 1936. This new model of economic governance was labelled Keynesian economics and was adopted by most of the advanced and industrialized countries after World War II.

Unlike Smith's philosophy of no government intervention in the economy, the advent of Keynesian economics in the latter half of the 20th century opened the door for government's presence and influence in the economy. It created a mixed economy which embraced a compounded form of private sector and public sector economic decision making. Its implementation required a more affirmative economic role for government through the formulation and implementation of monetary and fiscal policies (Keynes, 1936).

The consequences of the Great Depression also underlined the fault lines in regard to the financial landscape. It revealed a specific vacuum in the financial architecture. In consequence, the economic governance skyline was modernized through the introduction of a new institution of economic governance in the form of the central banks as well as the inception of monetary and stabilization policies.

Economic governance

Economic governance can take different forms and structures. An operational definition of economic governance is the multidimensional aspects of direction and policy that impact on the economy including the machinery and institutional architecture for the delivery of economic governance initiatives. In this regard, a conventional approach to economic governance impacts the private and public sectors, households, financial institutions and labour organizations. More specifically, it is directed to all aspects of economic engagement including production, distribution, consumption and the investment of resources. In short, economic governance refers to the formulation and implementation of policies, the institutional economic architecture and the administration and management of the economic landscape (Passaris, 2015C).

The recent past has witnessed a reversal in the economic governance mission for most countries. There are several reasons for the retreat of the public sector from its previous level of economic engagement and involvement. These include, declining tax revenues, an increase in the public debt, public displeasure with the government's management of the economic agenda, a decentralization of government operations, the belt tightening and reduction in government expenditures particularly with respect to social programs and the privatization of government activities.

It is worth noting that along with the downsizing, outsourcing, devolution and the downloading of government economic initiatives and an increased reliance on the market mechanism, the public sector's institutional architecture has been neglected and allowed to atrophy to the point that it has reached a minimalistic state of existence. There is no denying that this weakness in the structural foundation for the formulation and implementation of economic public policy has had a deleterious effect on economic governance.

Good economic governance is not a static concept. It should evolve in order to accommodate the structural changes on the economic landscape. Clearly it is a concept that is not only time sensitive but also responsive to societal permeations. In this regard Dixit points out "….that different governance institutions are optimal for different societies, for different kinds of economic activity, and at different times. Changes in underlying technologies of production, exchange and communication change the relative merits of different methods of governance" (Dixit, 2008, p. 673).

The modern institutional architecture of economic governance should have a pronounced global mindset. It should be noted that international economic events have national and local repercussions. Similarly, local and national economic policies will trigger an international impact. In short, globalization has changed the flow of economic governance traffic from a one way singular direction to a two way bi-directional traffic flow. Indeed, on the contemporary economic landscape, the dividing line between the national domestic context and the international linkages is blurred at best and fluid on most economic issues. This does not negate the need for domestic institutions of economic governance. It simply requires that we recognize and acknowledge that their efficacy in responding to national issues can be constrained. Furthermore, a global disposition and mindset will create a positive environment for taking advantage of international opportunities. Global economic interdependence is a fact of life in the 21st century and our institutions of economic governance need to adapt and evolve to embrace it rather than ignore its existence.

Creative destruction

In redesigning economic governance we need to adopt a new vision, embrace an entrepreneurial approach, unleash an innovative wave and promote a global mindset. In this context, charting a new course for economic policy and redesigning economic governance we should resort to a model of creative destruction. Creative destruction is a concept that was introduced by the Austrian economist Joseph Schumpeter to the economics lexicon in 1942. It denotes the process of replacing the old and ineffective economic methods with new and more potent initiatives. This process of creative destruction is urgently needed at this time for the purpose of modernizing economic governance.

Simply put, the iconic phrase of creative destruction is about evolution and mutation. It fosters creativity and innovation and avoids stagnation and decline. It is not about resisting change but embracing it for competitive advantage. It is about responding to structural change and positioning oneself for improved economic outcomes (Schumpeter, 1942).

While the word destruction denotes turmoil and upheaval its purpose is the amelioration of the economic journey and process. It is about a mind-set that destroys an old and derelict structure and building an improved and modern one in its place. In idiomatic context it is out with the old and in with the new. It is about discarding the common adage “if it ain’t broke, don’t fix it” with a new aspirational objective – “if it ain’t broke, improve it”. In essence it is about unleashing the tremendous power of innovation.

Creative destruction in economic governance introduces a dynamic and evolving feature to structural change. It permits an entrepreneurial dimension to the process of reforming economic governance. In this journey, it is assisted by innovation and the advances in technology. It applies to all forms of human interactions and governance models including economic, social, political, cultural to name but a few.

In effect, creative destruction recognizes change as the one constant in the human condition and economic enterprise. The guiding principle of creative change is to change with the times and take advantage of new opportunities or be left behind. This process rewards innovation and change and punishes the status quo and the stagnant. Indeed, the tangible rewards of this economic journey are numerous and multidimensional. They include accelerating economic growth, harnessing efficiencies, reducing cost, reallocating resources to maximum advantage, promoting innovation, achieving economic progress and sustaining higher standards ofliving.

Governance innovation

The overarching purpose of this paper is to develop an innovative blueprint for economic governance in order to redress the fault lines that appeared as a consequence of the Great Recession. A new economic governance template that is congruent with the structural changes that were precipitated by the new global economy of the 21st century and the Great Recession.

As a result of the Great Recession the contemporary economic governance landscape requires reimagining. This may result in the restructuring of existing institutions through a process of renewal and institutional innovation. It may also take the form of designing new economic institutions with the purpose of becoming more synergistic with the structural changes brought about by the new global economy. In some cases existing institutions of economic governance only need to be renewed and remodeled. In other cases, there is a need to build new institutions from the ground up.

Since the Second World War, the economic role of government has mutated and evolved. Increasingly it has responded to demands for enhanced transparency and accountability. It has been forced to respond to the structural changes on the economic landscape. In addition, civil society has raised the bar and articulated higher expectations with respect to the performance of economic governance. It has also generated an increasingly higher level of public scrutiny with regard to the efficacy of the government's economic agenda.

In addition, technological advances in information and communications have provided a degree of public scrutiny that is unprecedented. They have enhanced the interchange between civil society and public institutions. Internetization has influenced the scope and substance of economic governance in a profound and indelible manner. There is no denying that public expectations of government performance are currently held to a higher standard than at any time in the past. The invasive nature of modern technology has resulted in a public demand for government disclosure regarding a government's vision, policies, strategies, performance and actions (Passaris, 2008).

In building a more contemporary, resilient and effective form of economic governance for the new economy of the 21st century we need to be guided by the enabling principles and the empowering features of creative destruction. As the 21st century unfolds, it is becoming increasingly clear that the evolution of economic governance will be directly consequential to the emergence of the new global economy, the aftershocks of the global financial crisis of 2008 and the protracted Great Recession.

Those three events have revealed the structural deficiencies in the contemporary economic governance skyline. In tandem, the scope and substance of economic policy will require a re-orientation, renewal and redesign for the purpose of modernizing its global outreach and effectiveness. Furthermore, economic governance in the contemporary context requires periodic stress tests and performance reviews.

The pursuit of economic governance in the 21st century requires a new vision, a modern mandate and a proactive strategy. I propose four principles to guide the process of redesigning economic governance. The ingredients for the redesign of economic governance can be summarized as the 4E's of economic governance. This checklist includes efficient, effective, endurable and empowering.

Efficient refers to the contemporary expenditure constraints for implementing economic governance and the pursuit of a cost-effective formula. Effective refers to the efficacy of economic governance institutions, the machinery of economic governance and economic policy to achieve the desired outcomes. Endurable refers to the resilience of institutions of economic governance to withstand external economic shocks and deter digital vulnerability in the contemporary age of globalization and electronic connectivity. Empowering economic governance is the measure of building bridges and forming partnerships for the purpose of achieving the economic goals and aspirations of civil society.

The redesign of economic governance should adhere to a new dynamic in the form of the confluence of government, the private sector and non-governmental organizations in redefining the scope and substance of its mission. This triangular model of economic governance can serve as a purposeful catalyst for forming effective partnerships that contribute to positive change and better outcomes. Finally, the structural qualities and resilient infrastructure of a revitalized governance model must be able to withstand the future economic shocks and interface effectively with the new global economy of the 21st century.

Open government

Open government should play a prominent role in charting a new course for economic governance in the 21st century. The philosophical foundation for open government is based on the premise that the mission of good governance is enhanced by allocating a bigger role for civil society in the decision making process. Open government, in its contemporary context, requires the active engagement of civil society, unfettered access to government information and the empowerment of digital technology. Indeed, in the modern context the elixir and sustainability of open government rests with the innovative use and adoption of state-of-the-art internet based technologies.

All of this translates into making government information more accessible and user- friendly. In addition, using innovative forms of electronic platforms for engaging and consulting with civil society through social media platforms and electronic outreach is a significant advantage. There is no denying that in the modern context, internetization plays an essential role in facilitating the process for a more open, transparent and participatory form of government in the 21st century.

The information technology and communications revolution has become a significant enabler for open government. It has facilitated the process of transparency, participation and accountability in an indelible manner. The digitalization of government documents, accessibility of statistical data and electronic communication between civil society and the government has facilitated an unprecedented level of connectivity.

Open government can have a positive and constructive impact on economic governance. The element of transparency is vital for informed and purposeful economic decisions. This takes the form of the public scrutiny of economic policies, guidelines, directives, data and analysis. It empowers the implementation of evidence based public policy, informed business decisions and visionary entrepreneurial initiatives.

In the modern context, the Open Government Partnership was formally launched on September 20, 2011.The mission of this new multilateral initiative is directed to secure concrete commitments from governments to promote transparency and accountability, empower citizens, fight corruption and harness new technologies to enhance governance. All member countries are obliged to sign the Open Government Declaration which succinctly states:

> "We commit to promoting increased access to information and disclosure about governmental activities at every level of government… We value public participation of all people, equally and without discrimination, in decision making and policy formulation. Public engagement, including the full participation of women, increases the effectiveness of governments, which benefit from people's knowledge, ideas and ability to provide oversight... New technologies offer opportunities for information sharing, public participation, and collaboration. We intend to harness these technologies to make more information public in ways that enable people to both understand what their governments do and to influence decisions" (Open Government Partnership, 2011, pp.1-2).

New initiatives that are in concert with the principles of open government are an essential prerequisite for effective economic governance and for transforming the tepid relationship between government and civil society. At the end of the day, the Open Government initiative aims to improve public services, drive economic growth, reduce poverty and corruption, energize and diversify civil society's participation in economic governance and restore public trust in government. Indeed, restoring public trust and public engagement in governance should become a paramount objective for redesigning economic governance.

Governance architecture

Historical economic mileposts have revealed the fault lines in the architecture of economic governance. In particular, these historical economic mileposts have exposed a vacuum in the mission of economic governance and the under capacity to execute necessary policy outcomes. In consequence, the economic governance architecture requires a periodic forensic evaluation and a stress test evaluation in order to determine its efficacy for evolving contemporary challenges and opportunities.

The most recent reimagining of the economic governance architecture took place after the Great Depression. At that time the collapse of financial stability and the banking system prompted the redesign of the financial system. In effect, the evolving nature of the economic governance landscape resulted in the modernization of central banks and the banking system in order to prevent the Great Depression of the 1930s from ever happening again. But that was in the 20th century, fast forward to the aftermath of the Great Recession and a new opportunity has emerged for the reimagining of the economic governance architecture for the 21st century.

At the present time the inability of the machinery of economic governance to correct persistently high levels of unemployment requires a similar addition to the economic governance skyline. This should take the form of a new institution of economic governance in the 21st century that will be devoted to streamlining the demand and supply of labour and empowering the vital role of human capital to propel economic growth and full employment in the new economy of the 21st century.

The re-engineering of the economic governance architecture and the machinery of economic governance would require a more holistic and integrated approach between institutions of economic governance. Indeed, reimagining economic governance is about institutions that are talking to each other constantly and coordinating with each other during the different phases of formulating and implementing their policies. This does not refer solely to a policy dialogue between institutions of economic governance but also between institutions of economic governance and institutions of social governance, environmental governance, cultural governance and political governance.

Institutional governance

The mission and mandate of institutions in the redesign of economic governance takes on added importance in the context of the new global economy. The global financial crisis and its aftermath in the form of the Great Recession have spotlighted the central role of institutions on the economic landscape. In this regard, economic institutions are the bulwark and the scaffolding for a more potent approach to economic governance.

It is worth noting that the Great Recession has underlined the economic governance fault lines in regard to the institutional architecture. More specifically, the Great Recession has created a problem of structural and chronic unemployment that the contemporary economic governance architecture has proven to be ineffective in addressing. In consequence, this is one area that requires an alteration to the economic governance landscape through the introduction of a brand new institution of economic governance.

In effect, the contemporary economic landscape requires the introduction of new models and designing a new institutional architecture that is congruent with the new global economy. There is an urgent need for a new template for the role of institutions on the economic landscape of the 21st century. Indeed, the changing economic landscape requires a new vision for economic governance. The contemporary institutional landscape for economic governance was designed for the old economy of the 20th century and is no longer potent in meeting the challenges and opportunities of the new economy of the 21st century. An innovative approach towards the role and functions of institutions can serve as a catalyst for a revitalized format for economic governance that is more congruent with its mission in the 21st century.

Unemployment dilemma

The contemporary structure of economic governance is particularly ineffective in redressing the persistent problem of unemployment that has appeared in the aftermath of the Great Recession. It has exposed the contemporary vulnerability of the economic governance architecture and underlined the need for complementarity between social and economic policy.

Unemployed human resources are the singular most important loss of economic endeavour for any country. This takes on added importance in the context of the new global economy where human capital is a country's foundational economic asset. The economic costs of unemployment are numerous and multifaceted. They include a loss of income and livelihood as well as the loss of output, productivity and the goods and services to the economy as a whole. The social costs of unemployment are the loss of self-esteem and self-worth, a lack of purpose all of that leading to family break up, psychological breakdowns and many types of health consequences. The political costs which are exclusively borne by the government in power is the stigma of economic failure and a tarnished record of economic accomplishment leading to a lack of success at the ballot box and a failing attempt at re-election (Passaris, 2014C).

The Great Depression of the 1930s resulted in the creation of a new economic governance institution in the form of the modern central banking system. It was designed to promote and maintain financial stability. The Great Recession of the 21st century should follow suit with the creation of a new economic governance institution with the mandate to pursue full employment.

Full employment

The persistently high levels of unemployment requires the launch of a new economic governance institution. The pursuit of good economic governance will require the creation of a new institution whose singular mission is to promote full employment. A new institution whose overarching mandate will be to promote an economic environment that is conducive to the efficient deployment of a country's human resources and their effective integration in the new economy.

The conceptual framework for this new institution can rely on the template of a central bank. This would be more conducive to embracing a long term decision making horizon and removing the politics from the vital area of human resource management. The structure of this new institution of economic governance should be non-political, at arm's length of government and devoid of any government interference. As an independent agency it will ensure that in the pursuit of full employment, politics and policy are kept far apart. This new institution is an essential machinery of institutional re-engineering in order to come to grips with a new economic governance model for the new global economy of the 21st century. It should aspire to become a catalyst for full employment (Passaris, 2011C).

The undeniable benefit of a new institution of economic governance that is directed to achieve full employment is to serve as a catalyst for optimizing the contribution of human capital assets in the most effective and efficient manner in order to maximize the country's productive capacity and standard of living.

The most persuasive argument for full employment is the importance of human capital in the structure of the new global economy. No country can achieve its full economic potential in the absence of the total utilization and optimization of its human resource capacity. In short, it is not a matter that society cannot afford the allocation of resources in the pursuit of full employment but that we cannot afford the economic and social costs of unemployment.

Furthermore, a full employment program will decrease the economic costs of unemployment and enhance the aggregate economic benefits of the effective utilization of a country's human resources. At the end of the day, the realities ofthe new global economy and the pursuit of full employment require the re-engineering of our inherited economic and social institutional architecture and the introduction of a new set of economic architecture that is more conducive to meeting the challenges and taking advantage of the opportunities of the 21st century. I am of the opinion that the time has come to propose a new institution of economic governance dedicated to the most effective utilization of a country's human resources.

Economic policy

The redesign of economic governance should take into account the complementarity between the architecture of economic governance, the machinery of economic governance and the formulation and execution of economic policy. As such institutions of economic governance should recognize the inter-dependent and multidimensional nature of public policy variables.

Public policy can no longer be segmented, compartmentalized and developed in silos. Indeed, the modern context requires elevating the mission of public policy to a completely different formulaic structure. One that embraces a multidimensional context for formulating public policy as well as a more holistic and comprehensive mission. In essence it requires the recognition of the complementarity and inter-independence between several policy axioms. These public policy variables are not independent of each other and should be implemented in concert (Passaris, 2011B).

It has become abundantly clear in the aftermath of the Great Recession that conventional economic policies are not producing the desired outcomes. The new global economy has many facets, numerous dimensions, complex challenges and intricate linkages. In this regard, a new modus operandi for economic policy is required that will contribute to the efficacy of economic policy in the 21st century.

Policy interdisciplinarity

In redesigning economic policy for the 21st century embracing a foundational axiom should ensure the application of an interdisciplinary perspective in the formulation of economic policy. In order to achieve a compelling and pragmatic presence on the contemporary economic landscape, economic governance must abandon its disciplinary isolation and insularity. It must discard its maxim of professional and intellectual silos. Indeed, it must revisit the roots of its academic heritage and develop a contemporary web of interdisciplinary outreach.

The 21st century requires a turnaround in the defiantly discipline specific direction that economics has embarked upon. Indeed, economics requires a rediscovery of interdisciplinarity which acknowledges the importance of interdependent variables and the intellectual interface of academic enquiry. Furthermore, the contemporary necessity for opening up economics to interdisciplinarity is a pertinent response to societal pressures. The contemporary challenges facing society are redefining the new parameters for academic mutation and intellectual discourse. Interdisciplinarity provides contemporary relevance and a pragmatic approach. There is no denying that civil society has become more complex and multifaceted and it is not possible to understand it from within the boundaries of one singular academic discipline (Passaris, 2014B).

Interdisciplinarity requires economists to be fully cognizant of diverse schools of thought within their own discipline as well as developments in other related disciplines. This in addition to the emergence of new research frontiers and new academic disciplines which will require collaborative research endeavours, multidisciplinary and interdisciplinary research teams and path breaking technological techniques in response to advances in computer science and information technology. In short, economics in the 21st century must reflect an appreciation and an intellectual comfort zone with related disciplines (Passaris, 2011A).

Our contemporary challenges expose us to a multifaceted, multidimensional and an overarching reach between economics, the social sciences, the humanities and the natural sciences. In fact, solving the contemporary problems that face society will lead to mutations, linkages and variations within disciplines and between disciplines.

All of this leading to a redefinition of interdisciplinary boundaries for the purpose of building intellectual bridges, closing academic gaps and providing evidence based public policy. This is of particular importance in addressing the interdisciplinary nature of contemporary economic challenges, social problems and environmental sustainability. Interdisciplinarity will translate into improved public policies that would contribute to sustained wealth creation and multidimensional efficiencies.

In short, economics in the 21st century must embrace interdisciplinarity and reflect an informed appreciation, an academic curiosity and an intellectual comfort zone with related disciplines. In this way we can enhance the potency of economic policy and improve on its record of impacting positively on its economic outcomes.

Economic historiography

The powerful role of economic historiography should be underlined for the purpose of in informing economic policy and shaping the scope and substance of economic governance. The discipline of economics has always been in a constant state of evolution, transformation and technical refinement. Furthermore, the history of economic thought attests to the structural changes in philosophical orientation and theoretical direction that have taken place over the past centuries.

It has become increasingly clear that the formulation of contemporary economic policy lacks the benefit of historical hindsight. Contemporary economic policy suffers from a historical vacuum. It lacks an appreciation of our collective economic historiography. In consequence there is a compelling need to rediscover the value of economic history and the history of economic thought. In effect, moving forward our economic policy should correct this historical amnesia.

There are two foundational tenets that should define the historical context in economics. First, an appreciation of the history of economic thought and second, the historical context for economic events. It should be emphasized that the history of economic thought and economic history are very different and distinctive. It is a sad commentary that on both counts the historical potency of the discipline of economics is found lacking. The historical back drop has become an increasingly neglected dimension in the contemporary evolution of the discipline of economics and in constructing economic policy.

There is no denying that economic history has been undervalued as a tool of economic analysis. The intrinsic value of economic history should be rediscovered in order to enhance the potency of economics in the 21st century. Economic history is not simply about the past, it is important for the present and the future. History is a continuum from the past to the present and into the future. It preserves the past, explains the present and shapes the future.

The most penetrating observation regarding the value of economic history was offered by Joseph A. Schumpeter. In his last book, *History of Economic Analysis,* he emphasized that the proper study of economics requires three elements: theory, statistics and history. He concluded that: “If, starting my work in economics afresh, I were told that I could study only one of the three but could have my choice, it would be economic history” (Schumpeter, 1954, p.12).

The reimagining of economic policy in the 21st century should allow economic history to serve as a tool of economic research and analysis for contemporary economic issues. Economic history enables us to analyze and explain the contemporary and historical dimensions of economic life. In short, the redesign of the machinery for creating economic policy for the 21st century must reflect that history is not simply about the past, it is perhaps more important in analyzing and explaining the present and predicting the future.

Qualitative vacuum

Evidence based public policy has relied almost exclusively on a quantitative and mathematical approach. At the same time it has neglected the valuable contributions of the qualitative dimension and its associated tool kit. Economic policy in the 21st century should resolve the contemporary quagmire regarding the focus of economics predominantly on the quantitative rather than the qualitative.

The emergence of the new global economy, the financial crisis of 2008 and particularly the Great Recession have accentuated the disciplinary limitations of the quantitative approach. Indeed, they have underlined the constraints associated with the extensive use of the mathematical approach in the study and application of contemporary economics

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At the same time, the quantitative focus has been criticized as being falsely scientific with no role for human intentionality or choice. It has been disparaged for understating the economic narrative, adopting simplistic assumptions and skewing economic theory. It has also been suggested that quantification has resulted in unrealistic models of individual human behaviour in the genre of rational, self- interested, utility maximizing *homo economicus*.

The quantitative approach has made economics more model driven and hence less responsive to variables that have an implicit qualitative focus. Mathematical formulation requires a degree of abstraction and technical rigidity that in consequence has contributed to the observation that the contemporary constructs of the economic models bear little resemblance to the real world and do not adequately reflect the economic passion for developing a road map towards achieving the eternal human ambition for economic prosperity, improving the quality of life and personal fulfillment.

In his seminal article entitled "Toward a Newer Economics", William Baumol underlines that:

> "There can hardly be any argument with the proposition that the use of mathematical methods has not solved all problems in economic analysis, and that some problems lend themselves more readily to statistical, experimental, historical or other lines of attack. While formal mathematical theory has made invaluable contributions in fields where its success might have caused considerable surprise in an earlier day – fields such as public finance and industrial organisation – each of these areas surely still leaves considerable scope for other research procedures. And there are still other areas, for example, labour economics, in which this is probably even truer. The trouble is that if individuals are not respected for the pursuit of alternative approaches, if only those whose writings are pockmarked by algebraic symbols receive kudos, one can expect a misallocation of resources like that which always results from a distortion of relative prices" (Baumol, 1991, p. 2).

All of this brings into question the degree to which abstraction necessitated by mathematical rigour has resulted in a marked decline in the pertinence and potency of contemporary economic policy. There is an urgent need for a broader vision emanating from econometric technicians (the economic version of statistics known as econometrics) to become more inclusive of the qualitative variables that embrace the economic issues that confront us in the 21st entury and the remedial economic policies that are proposed.

The quagmire between contemporary relevance and scientific rigour should be resolved by adopting an intellectual compromise. Mathematical sophistication and rigidity must be tempered in order to embrace the qualitative dimension of contemporary economic issues. This will undoubtedly enhance the role that economists will play in the 21st century by becoming more relevant and responsive to economic, social, political and cultural public policy issues.

This balance between quantitative rigour and qualitative realism must become a central feature of economic policy in the 21st century. Economic policy should be cognizant of the limitations of the quantitative approach and at the same time open the door to the qualitative interpretation of contemporary economic models.

In short, the Great Recession revealed that mainstream economics was hampered by unrealistic assumptions, model failings, errors of judgement and a very narrow and filtered focus. In consequence, it was ineffective in addressing structural change in the new global economy and analyzing the qualitative issues of relevance on the economic landscape. Krugman summarized the state of economics in the aftermath of the global financial crisis in this manner:

> "...the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth…..the central cause of the profession's failure was the desire for an all-encompassing, intellectually elegant approach that also gave economists a chance to show off their mathematical prowess" (Krugman, 2009, p. 36).

Conclusion

Three recent economic events have revealed the fault lines in the modern constructs of economic governance. First, the profound structural changes that heralded the advent of the new global economy. Second, the devastating consequences of the global financial crisis of 2008.Third, the prolonged Great Recession that followed the global financial crisis and was accompanied by high unemployment and diminutive economic growth.

There is no denying that the global financial crisis of 2008 and its aftermath have triggered a wakeup call in regard to the deficiencies in economic governance. Indeed, the recent cataclysmic financial and economic crisis should become the catalyst for redesigning our economic mission, realigning the scope and substance of economic governance and creating an institutional architecture that is congruent with the new global economy of the 21st century. Furthermore, the Great Recession has triggered a transformational course for economic governance in the 21st century.

The mission and mandate of economic governance and its accompanying institutional architecture requires a structural realignment in order to conform to the realities of the new global economy of the 21st century. This requires modernizing economic governance, creating a new vision and adopting an alternative conceptual framework for economic governance.

In designing a new template for economic governance this paper has proposed a checklist that includes four principles. These are efficient, effective, endurable and empowering economic governance. The redesign of the economic governance architecture may result in the restructuring of existing institutions through a process of renewal and institutional innovation. It may also take the form of designing new economic institutions with the purpose of becoming more synergistic with the structural changes brought about by the new global economy.

The elements that have contributed to a modern blueprint for economic governance include an interdisciplinary approach, embracing a global mindset and unleashing the power of economic historiography. In addition a new economic governance construct should supplement the quantitative focus of evidence based economic policy with a qualitative dimension. At the end of the day, all of this will create an economic governance ecosystem that is congruent with the new global economy of the 21st century.

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