RESEARCH STATEMENT
Jana Grittersová

My research integrates international and comparative political economy, international economics, and business finance. I have developed an active interdisciplinary research program that centers on the political economy of international finance. My published and ongoing research explores the political economy of exchange rate policy, the sources of government credibility in international markets, the implications of the structure of banking sector ownership for government economic policies, the determinants of variation in financial development across countries, and the politics of fiscal austerity.

My work has advanced our understanding of how different types of banks, differentiated by ownership type—state-owned, private domestic and foreign—influence the economic policies of governments. My research thus challenges much of the relevant literature that treats financiers as a homogenous societal group. My scholarship offers a novel account of reputation formation in international relations by arguing that governments can borrow credibility from foreign banks. Finally, in contrast with the conventional focus of the literature on financial globalization on international risk sharing and efficient allocation of global capital, my work demonstrates the benefits of global banks for outcomes in emerging markets. As such, it provides us with a window into some of the most intense political struggles that lie at the heart of financial globalization. In sum, my research bridges political science and economics by exploring the role of financial firms not only as rent-seeking interests, but as stakeholders in economic governance. This academic agenda has inspired me to embrace methodological pluralism, blending elements of advanced statistical modeling and comparative analysis.

Book

I am completing revisions to a book manuscript entitled *Borrowing Credibility: Foreign Financiers and Monetary Regimes*, which represents the culmination of my research to date. *Borrowing Credibility* reveals how reputable multinational banks contribute to reputation in countries whose histories and institutions are too new or weak to provide adequate signals about the credibility of their chosen policies. The book focuses on the credibility of monetary regimes, which is central to understanding inflationary expectations and currency crises. Countries with credible monetary regimes borrow at lower interest rates in international markets and are less likely to suffer speculative attacks and currency crises. I argue that when reputable multinational banks, headquartered in Western Europe and North America, locate branches and affiliates within a country; this serves as a signal of the host government's commitment to stable monetary policy. The presence of multinational banks also provides an enforcement mechanism, thus gives assurance to financial markets that the announced policies will be carried out. The theory proposed in this book is thus concerned with both actual changes in government behavior in countries trying to gain legitimacy on the international stage, and with changes in how these countries are perceived as a function of the presence of foreign banks. The theory specifies novel mechanisms through which multinational banks affect credibility outcomes. Multinational banks increase transparency in local financial systems, allowing better motoring of economic policies. These banks can improve regulatory quality and enhance the soundness of the financial system of their hosts. Finally, multinational banks act as international lenders of last resort. This argument challenges dominant theories of international reputation building depicting reputation as a result of either established domestic institutions (such as autonomous central banks), or the depth of international integration. It also challenges the claim that reputation can serve as a substitute for commitment mechanisms, assuming that policymakers in their efforts to preserve their reputation stick to their commitments. By contrast, I argue that many countries have little reputation to protect.

The book combines quantitative analysis of 80 emerging markets with extensive case studies of credibility building (employing over 120 field interviews) in the transition countries of Eastern Europe (Bulgaria, Estonia, the Czech Republic, Poland, and Ukraine), Argentina in 2001, and the global financial crisis of 2008. Although my book builds upon ideas developed in my dissertation and previous studies, the research question, the book's basic structure, and the empirics are new points of departure.

The Political Economy of Exchange Rate Policy

My research on exchange rate policies has led me to a number of research projects at various stages of development examining the connection between interest groups and institutions and the choices of exchange rate regimes. The recognition my work on monetary regimes has garnered is demonstrated by the fact that I was invited to write a review essay, "Exchange Rates in Transition Economies," published in the *Handbook of the International Political Economy of Monetary Relations* (Edward Elgar, 2014), edited by Thomas Oatley and W. Kindred Winecoff. To my knowledge, my chapter is the first comprehensive survey of the vast scholarship in Economics and Political Science on the monetary and exchange rate policies in formerly centrally planned economies. I argue that the scholarship on exchange rates in transition countries has developed a more nuanced understanding of interest group politics than existing literature on the politics of exchange rates, reinforced the importance of institutions, and exposed the limits of European integration in exchange rate area. The chapter urges scholars to provide stronger micro-foundations, to develop a more dynamic approach to studying monetary institutions, and to trace causality back in time to examine how historical legacies influence institution building.

My research contributes to the existing literature on exchange rates by making the case for the importance of bank ownership. More specifically, I identify exchange rate preferences of banks, associated with a particular ownership type and evaluate the mechanisms of their influence. In "Bank Ownership and The Politics of Exchange Rates," I argue that governments are less willing and able to commit to fixed exchange rate arrangements in *clientelistic* financial systems dominated by state owned banks than in systems with a large presence of foreign banks. I further suggest that bank ownership influences the stability of domestic monetary system and banking regulation, which are critical to the sustainability of fixed regimes. State owned banks subject macro-economic policy to political considerations, particularly in an environment of weak financial structures. This combination of factors tends to be associated with expansive credit policies, high inflation, and monetization of budget deficits. Thus, policy-makers lack the political support to commit credibly to low inflation and are often forced to abandon fixed regimes in the face of banking and currency crises. This article not only shows that bank ownership structures vary across countries and over time but also how that this variation helps explain the puzzling heterogeneity of exchange rate regimes in twenty-five Central and Eastern European states. A companion article manuscript (in progress) develops a novel typology of financial systems in post-communist Eastern Europe and traces variation in bank ownership structures and central bank independence to patterns of national monetary and macro-economic management.

A working paper, "Devalue or Adjust: Wage Bargaining, Currencies, and Crises in European Democracies" explores the impact of national wage-bargaining arrangements on the credibility of the commitments by European governments to the European monetary cooperation of fixed exchange rates between 1979—when the European Monetary System was established—and the current Eurozone crisis. My cross-country comparative analysis of Austria, Italy, and Ireland shows that a government's effort to maintain fixed exchange rates is more successful in countries with centralized or coordinated wage bargaining structures that can moderate price growth by successfully limiting public sector wage growth. The paper also examines the impact of the global financial crisis of 2008 on collective bargaining institutions in European nations.

Credibility in International Markets
In my fellowship time at Johns Hopkins and Georgetown, I initiated the second major research program that investigates the factors that influence the perceived creditworthiness of governments by bond investors and rating agencies. Much of the research on reputation in sovereign debt markets has focused on the effects of the "democratic advantage" (i.e. democracies have greater ability to make credible commitments, thus can sell more sovereign bonds at better prices than otherwise comparable autocracies) or on the reputational costs of sovereign defaults. In a sequence of articles I explore whether foreign banks can *exogenously* infuse creditworthiness of governments with little reputation of honoring their international promises.

My article "Transfer of Reputation: Multinational Banks and Perceived Creditworthiness of Transition Countries" was published in the *Review of International Political Economy* (2014). In this article, I show that the perceived creditworthiness of many transition countries' governments by bond investors rests on a "transfer" of good reputation from prestigious multinational banks. If information about a country is scarce, financial markets rely on the reputation of prestigious multinational banks, as foreign investors. The argument is supported by quantitative analysis and further backed by evidence from three Eastern European countries: Hungary, Estonia and Ukraine.

A follow-up manuscript "Foreign Financiers and Sovereign Credit Ratings: Reputational Capital in Sovereign Debt Markets" focuses on the determinants of sovereign credit ratings, which are assessments of a government's willingness and ability to repay its debt. I test the proposition that established international banks, as foreign direct investors, provide reputational capital to host countries with weak financial systems and make their fiscal policies and commitments credible by increasing transparency on their financial and fiscal accounts, disciplining economic policies of host governments, and by mitigating the incentives and impact of bank bailouts. Examining ratings from the leading credit rating agencies (Standard & Poor's, Moody's, and Fitch), my findings indicate that the countries with high levels of foreign-bank ownership are assigned more favorable credit ratings and find it easier to obtain credit in sovereign debt markets at lower interest rates that do the countries where (unreformed) domestic banks dominate financial intermediation.

An additional manuscript "Revisiting 'the Good Housekeeping' Hypothesis: How Do Bond Investors Perceive Exchange Rate Policies of Emerging Markets?" explores how the choice of an exchange rate regime influences market perceptions of a country's sovereign (credit) risk. In their pioneering study, Bordo and Rockoff (1996) argued that the market considered adherence to the gold standard as equivalent to a "good housekeeping seal of approval," thus rewarded countries with good records of adherence with lower borrowing costs. Using contemporary data and interviews with credit rating agencies and international banks, I investigate whether emerging markets reap credibility gains in international credit markets by adopting a fixed exchange rate regime and inflation targeting. I find that both hard pegs and inflation targeting, working as a binding policy rule, deliver greater credibility gains to countries with low political instability and good political institutions but not to the countries with inadequate institutions. Hence, exchange rate regime alone may not influence the perceived country risk. I further argue that the perceptions of risk by bond investors also reflect whether governments back up their actions in exchange rate policy with official declarations. I find that countries displaying fear of floating (that is, proclaim float but intervene to keep a stable exchange rate) tend to be rewarded with lower borrowing costs. I will present this paper at the annual meeting of the International Political Economy Society this coming November.

The Variety of Financial Systems

My third research program explores the determinants of cross-national differences in financial system development in both rich industrialized and developing countries. In a series of papers I study why contemporary financial arrangements differ across nations, and why these differences persist over time. My contribution to the interdisciplinary research program on financial development and growth has emphasized the importance of the character of non-market coordination. Continuing and building upon this theme, I also explore the implications of this variation in financial development structures for inequality.

In my article "Non-Market Cooperation and the Variety of Finance Capitalism in Advanced Democracies" that appeared in the *Review of International Political Economy* (2014), I provide a new form of coalitional argument for the continued resilience of bank-based systems of national finance in advanced democracies in the face of financial globalization. I find that the degree of strategic coordination through extra-market institutions contributes to a country's domestic banking development but is less conducive to the development of its securities markets. Non-market coordination protects the economic system from class and sectoral pressures and promotes collaboration among state agencies, financiers, managers, and labor organizations. My contribution to the study of varieties of capitalism has also sought to highlight the emergence of an *asymmetric* form of corporatist arrangements, whereby banks play a crucial role in defining the new rules of financial governance.

In "Varieties of Financial Capitalism, Crisis, and Adjustment: Plus Ça Change, Plus C'est La Même Chose" published in the volume *Power in a Complex Global System*, edited by Lou Pauly and Bruce W. Jentleson (Routledge 2014), I extend these insights and show that coordinating institutions have not only helped corporatist countries cope with financial globalization by compensating societal groups through bank-centered finance and cross-shareholding, but also with the recent financial turmoil and post-crisis stabilization. I argue that the global financial crisis of 2008, caused primarily by the excesses of deregulation and securitization of subprime US residential mortgages, underlined the weaknesses of market-based financial systems. Variation in the intensity of the crisis and in national policy responses reflected differences in national models of financial capitalism. One interesting implication of this study is that it demonstrates that the extent and character of state interventions in the economy as a response to the crisis served to reinforce the particular institutional features of the pre-existing models as opposed to undermining them.

"The Politics of Privatization, Quality of Governance, and Banking Systems in Transition" extends the influential interest group approach to financial development put forward by Rajan and Zingales, by arguing that the variation in institutional structures of national financial governance is a function of a variation in mode of divestiture of state assets in banks and industries. I find evidence in favor of the openness to foreign investment hypothesis: countries that allow foreigners to assume the role of strategic investors in banks and industries via the asset-sale method of privatization tend to be associated with more developed legal institutions of governance and better creditor rights protection that countries that delay privatization or use insider privatization schemes. The article's principal claim rests on the premise that the direct sales path to private markets enhances the development of financial system by reducing the ability of incumbent interest groups to control and manipulate the banking sector. This is important because it shows that privatization to a foreign buyer produces significant indirect benefits for development of local credit and capital markets.

I am also engaged in a collaborative project (with Matthew C. Mahutga, UCR, Sociology) to broaden our understanding of the implications of the governmental participation in finance by examining heterogeneous impact of state-owned banks on inequality across countries. Here we argue that the impact of state-owned banks on equality of opportunity depends on political transparency, but in counter-intuitive ways. In a lead-authored article manuscript "State Owned Banks and Equality of Opportunity: Does Political System Transparency Matter?" (under review), we find that extreme levels of government opacity reduce the negative impact of state-owned banks on equality of opportunity to the point of reversal. Hence, state owned banks may decrease inequality of opportunity in extremely opaque countries. In non-transparent political regimes, national governments must lower barriers to economic activity (e.g. restrict the entry of new firms) to signal the credibility of their policies and minimize the costs of low transparency, such as reduced capital flows and poor credit ratings. This finding has also implications for scholarship on the role of political institutions in economic performance by demonstrating that it is not the constraints imposed by domestic institutions that lead opaque governments to provide better equality of opportunity; rather these governments choose to create a better business climate to gain legitimacy in the eyes of international audiences.

In addition to the academic research, I have also written an opinion essay "Can Eastern Europe Escape the Eurozone Crisis," published in *EurActiv* (2012), an influential periodical dedicated to the European Union affairs, in which I call for a new model of financial development and growth in emerging Europe. This essay has been reprinted in five other outlets.

The Politics of Fiscal Austerity

I have begun a new research program exploring the political implications of fiscal austerity policies that involves collaborative research with my graduate students. A lead-authored article manuscript (with Indridi Indridason and two UCR graduate students, Christina Gregory and Ricardo Crespo) "Austerity and Political Extremism: The Electoral Consequences of Fiscal Reforms" focuses on the electoral consequences of austerity policies. We argue, counter to the common wisdom, that policies of retrenchment in the government budget actually reduce support for radical right- and left-wing parties in advanced democracies. Our argument rests on the recognition that austerity policies force traditional left-right politics to the forefront of political debate with the traditional mainstream parties having a stronger ownership over economic issues. We also find that austerity policies affect the electoral performance of right- and left-wing extremist parties differently depending on whether these policies are based upon spending cuts or tax increases.

Building on these findings, I have two additional projects (with Indridi Indridason and Brian Williams) that deepen my work on fiscal austerity and debt by focusing on their implications for public opinion. In the first project, we investigate the impact of fiscal austerity on several dimensions of public opinion that include trust in national, regional and local governments as well as attitudes towards parliaments and political parties. The literature has yet to show whether austerity policies are associated with declining trust in the institutions of representative democracy. We further examine whether it matters for public opinion whether fiscal consolidation is spending-based or taxed-based. Turning to public perception of government debt, the second project will investigate whether high government debt, both domestic and foreign, may drive public opinion. We will thus examine the effects of government spending on public opinion. This project will offer insights into whether the public is fiscally conservative and perceive the austerity as necessary to restore fiscal sustainability.

Other Publications

In addition to my research related to international finance, I evaluated international influences on democratic development in my article "International Dimensions of Democratization in Slovakia and Croatia" (lead article in *Journal of South East European & Black Sea Studies, 2013).* This study extends the existing literature by applying a path dependence approach associated with the work of Collier, Mahoney, Thelen, and Pierson to studying external influences on democratic outcomes. The focus here is on the critical moments in a country's trajectory, emphasizing the power of agency to build democracy despite unfavorable initial conditions. The article shows that external actors have the greatest influence during the crucial moments on the road to democracy—"critical junctures"—by eliminating and delegitimizing support for the authoritarian alternatives and helping to build a domestic consensus on a democratic course. My earlier work on the impact of the European Union on Central and East European states and on national sovereignty resulted in two articles in peer-reviewed *International Issues & Slovak Foreign Policy Affairs.*

Furthermore, prior to coming to UCR, I conducted research on transatlantic economic and political relations that resulted in my (peer-reviewed) monograph *The Redefinition of the Transatlantic Partnership* (2001) and an article in *International Issues & Slovak Foreign Policy Affairs* (2000). My work on central bank independence appeared in two articles in the premier Slovak central banking journal, *Biatec* (2001).

New Projects

I am currently at work on several new projects that build upon and extend my previous work in different ways. My future plans involve broadening my research on global banks by examining their role in international financial governance. My article manuscript "Rethinking International Financial Governance: Private Bankers and the Vienna Initiative" (in progress) examines how private, public, national, and multinational stakeholders in the pan-European financial system overcame the collective action problems that traditionally constrain the provision of public good of international financial stability. I extend Broz "joint products" argument to transnational finance to explain the voluntary collective action behind the 2009 Vienna Initiative, whose goal was to avoid uncoordinated withdrawal of capital and to guarantee regional financial stability in emerging Europe.

I argue that private multinational banks were unable to realize a private benefit (bailouts) without contributing to the associated public good (international financial stability) and thus pledged to maintain cross-border exposures and pushed for coordinated response.

Having devoted several of my research projects to the implications of foreign bank presence for emerging markets, another extension to this research agenda is to examine what explains the decision of foreign banks to invest in a particular country. In another manuscript in the works (with Pablo Pinto, University of Houston), provisionally entitled, "National Leadership and Foreign Direct Investments," we explore whether education and professional background of leaders matter for foreign investments in banking and industry by looking at 30 years of data on profession and education of over 500 political leaders from 72 countries. The paper tests the argument that to the extent that political agency matters, the education and background of leaders in economics and finance should be perceived as sources of credible commitments to foreign investors because their training signals technical expertise, knowledge, and consistency.

Furthermore, I have plans to explore the existing public opinion data on trust in banks in transition countries before and after the global financial crisis, thus shedding light on how the crisis reshaped trust in both domestic and foreign banks. Trust in banks is of a paramount importance to people's decisions about using financial services. A drop in citizen's trust in banks can trigger banking panics and financial crisis. In contrast, high trust in financial institutions can enhance the perceived credibility of post-crisis reforms and facilitate economic recovery. This project will also explore whether the changes in trust represent a temporary post-crisis phenomenon or whether the global financial crisis has a lasting effect on the level of trust.

Finally, I am now in the early stages of planning my next book project. The projected book will be a systematic comparative analysis of global banking during the two periods of globalization—the pre-1914 global wave and the period of the international banking revival after the 1960s. The book will examine the dilemmas associated with the relationship between global banking and national government policies. The underlying challenge is to reconcile the fact that international banks, as vehicles for international capital flows, operate on a global scale and the authority of governments and central banks is defined at the national level.