Political responses to the Economic Crisis: Is it different this time?

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Responding to the financial and economic crisis that began in 2007-2008 – commonly called the Great Recession – has been the most pressing and challenging priority for most governments, in particular in advanced capitalist countries of Western Europe and North America that have experienced the most severe economic downturn since the 1930s. In this issue of the SPSR, we asked a set of prominent scholars to discuss and revisit several of the key existing results and expectations in comparative political economy in light of the turn of events observed so far. Whereas it is still too early to come up with a full understanding of the political dynamics in motion, this set of contributions provides a series of interesting observations and results that should stimulate further debate and research. In the remainder of this introduction, we both announce things to come and put them into context.

Different from what: Which comparative perspective?

In the midst of efforts to avoid a global economic plunge in 2008-2009, policy makers and analysts alike were quick in gauging the turn of events with the benchmark of the Great Depression that started with the financial crisis in the United States in 1929. Later, with things evolving less dramatically than in the 1930s, the comparison was not dropped but been framed as a difference between a Great Recession and a Great Depression. For policymakers, and in particular central bankers, this has first been a very powerful catalyst for action (it suffices to count the number of references to the Great Depression in the communiqués of the G20), and later a source of self-congratulation for their handling of the 2008-2009 events. Yet, one may discuss from a "colder" analytical viewpoint if the Great Depression benchmark is the most appropriate point of comparison. What makes it an obvious reference point is both the extent of the shock and its diffusion from a financial crisis in the United States to a financial crisis in Europe and then turning into a worldwide economic crisis with severe falls in national output and demand as well as in international trade flows. For many macroeconomists, this has been a strong enough reason for comparison and even some renewed celebration of the work of the late Charles Kindleberger (DeLong and Eichengreen 2012). With the exception of Johannes Lindvall, contributors to this debate either prefer other points of historical comparison for a small set of countries (in particular the countries studied by Peter Gourevitch in his *Politics in Hard Times*) or prefer to work with longer time series for OECD or European countries, explicitly or implicitly recognizing that too much has changed, nationally and internationally, to warrant a focus on the Great Depression. In a quest of how governments respond to big and widely spread economic shocks, Jonas Pontusson and Damien Raess argue that the benchmark should be the international recession of 1974-76 and structural economic problems in the second half of the 1970s. For Peter Hall, any work on the crisis should first acknowledge how different varieties of capitalism have formed over decades, both in normal times and in times of crises. David Rueda and Ben Ansell consider the crisis in the perspective of policy evolution and preference changes since the early 1980s. Lastly, Hanspeter Kriesi, while responding to Lindvall's contribution, puts the current crisis in

the larger context of votes under conditions of economic recessions. The variety of comparative frameworks used by contributors to this debate is illustrative of richness of work by political scientists but of course does not lead to the same kind of scientific cumulation (leaving aside whether this is a good or a bad thing) as can be observed in some domains of macroeconomics. This should serve as an important caveat for our discussion below.

Yes it is different

Given the dominance of supply-side macroeconomics in the eve of the crisis, the relative uniform choice of fiscal stimulus and financial bailouts among countries studied by the contributors to this debate came out as a key difference from the reactions to the crises in the 1970s and 1980s. At that time, as argued by Pontusson and Raess, the dominant choice was selective industrial interventions in favor of some sectors, which included trade protectionist measures as well as currency devaluation. Whereas it is too early to be certain that the protectionist temptation will be avoided (Evenett 2012), it is indeed remarkable how limited trade distorting measures have been so far compared to the range of "innovative" barriers implemented in the 1970s-1980s, such as for instance "voluntary" export restraints in the automobile and electronic sectors.

For Pontusson and Raess, sources of this first major difference are to be found in a more permissive macroeconomic situation marked by low inflation, more binding international constraints with the World Trade Organization, and the decrease of the power of organized labor as well as of the interest of organized business. All the more remarkable, according to Pontusson and Raess, the current emphasis on financial bailouts has been facing less political resistance (in the short term at least) than selective industrial policies in the 1970-1980s.

A second important novelty of the current responses is the weakness of efforts by governments to compensate the unemployed. For Pontusson and Raess, thus, the Keynesian responses are liberal in nature rather than social, with a focus on the financial assets of voters more than on their jobs. They rejoin Ansell's argument that the crisis is marked by what he calls the "asset dominance" politico-economic model under which policymakers focus on the provision of credit during good times and the stabilization of asset prices and provision of liquidity in bad times. The current crisis is not the cradle of this model but it is its first major test for a situation of bad times and so far it seems to hold empirical scrutiny. In particular, there has been less support for social insurance programs in countries with significant house price appreciation, and in case of bursts of real estate bubbles no striking return to the model of "employment dominance." For Rueda, the absence of generous social policy responses is above all a manifestation of the dualization of labor markets between workers with highly protected jobs, so-called "insiders", and "outsiders," including a large pool of holders of precarious jobs. Unemployment has so far mostly hit the outsiders (i.e. immigrants, the young, and unskilled workers), which has been met with weak social policy responses in countries with high levels of market segmentation. Those countries include some of those currently most affected by the crisis, in particular Spain, Portugal, and Greece. In contrast, countries in which the social policy responses have been relatively the most reactive include countries with lower levels of labor market segmentation such as the USA, UK, New Zealand and Australia. An open question, however, is whether this combination of high dualization and low social policy responsiveness is politically sustainable and if not how long it will take to revert it.

No it is not

Whereas contributors to this debate do identify changes in governments' policy responses, a focus on electoral behavior reveals continuity, rather than change, with previous episodes. For Kriesi, electoral processes in 30 European countries since 2008 strongly confirm the major finding of the literature on economic voting that incumbents are voted out in elections in times of economic recessions. Given that the recession is particularly severe, and in most countries clearly attributed to governments, the effect on incumbents has been particularly strong and fast. In countries with more than one electoral process since 2008 and ongoing acute economic slump, the interesting result is the tendency to choose outside of main parties, including radical, "anti-parties" or to abstain. Similarity is also the main conclusion of the contribution by Lindvall, albeit from a different angle. Using the comparison with the Great Depression, he argues that who governs matters and that there is a distinctive pattern of success between the left and the right. Based on data for 20 democracies in the 1930s and 2000s, Lindvall contends that the political right fares relatively well during a first phase of the crisis (up to three years after the start of the crisis) but that in a second phase the left begins to significantly benefit from sharp economic downturns. This shift occurs when the pivotal middle class voters begin to be personally affected by the crisis. If his results hold, this would tend to indicate that the dominance of the asset model and the combination of dualization and low social policy responsiveness discussed by other contributors are unlikely to last very long.

Looking at political responses beyond the electoral arena does not reveal much difference either according to Kriesi. In hard times, individuals resort to all available institutionalized channels, including the use of referenda, as well as to the protest arena. Clearly European democracies had not been used to see as much, and sometimes as violent, protests against governments' austerity measures but such processes have been both frequent and very diffused in developing countries in the last twenty years, notably when austerity is associated with the intervention of international institutions. Given the extent of changes brought by such processes outside of the developed world, there is a legitimate concern about the turn of events in European countries with less firmly established channels or platforms of political contestation. This makes all the more important the need outlined by Hall for the European Union to go beyond the mythology of European Monetary Union as a supply-side mechanism to enforce convergence on deeply different capitalist economies. The crisis, from this perspective, has reinforced the validity, relevance and importance of the dichotomy between coordinated market economies and mixed market economies. Such a dichotomy will remain for a long time, and therefore Southern European, as well as many Central and Eastern European, cannot prosper under the same monetary roof as their Northern counterparts by only emulating Northern recipes. The convergence of responses discussed above is from this perspective to be lamented rather than celebrated, at least in the context of the Eurozone. Another policy difference is needed, namely the build-up of a transnational fiscal coordination to allow for the synchronic prosperity of different varieties of capitalism in Europe.

In sum, the contributions to this debate highlight that there is no simple answer to the question of whether the political responses to the current crisis are different from previous episodes of severe economic recessions. They do reveal however that much is still to be done in our understanding of the political dynamics, for instance on issues such as the choice of specific tax and budgetary policies for balancing budgets, as well as the specific effects of an increased interdependence at the international level of the array of domestic choices available to governments. This second dimension will be the focus of a second round of contributions that will appear in the next, or next but one, issue of the SPSR.

References

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