

The Politics of Recession

Andrew Gamble

Department of Politics and International
Studies

University of Cambridge

The 2008 Crash

- The consequences still unfolding
- Different from recent recessions?
- Once in a century event (Alan Greenspan)

The Outlook

- Is the worst now over?
strong recovery
shares, banks
- Is the worst still to come?
aftershocks
new bubbles
- Real comparison may be with 1930s and 1970s
decade long periods of restructuring –
ideological, political, economic

Recessions and Politics

- Interaction of the national and international
- Crises experienced as national crises, but external context often crucial
- Shifts in international power relationships
- Shifts in policy frameworks
- Shifts in regimes: perils of incumbency

Recessions as they used to be

- Business cycles treated as a force of nature:
Financial Tsunamis
- Governments not responsible
- Risks borne by private agents
- The process of creative destruction
Crises as purgative

The 1930s I

- Last time Governments did nothing
Ramsay Macdonald and Herbert Hoover
- Dramatic consequences:
Deflation, Bankruptcies, Unemployment
- Governments forced to intervene
Gold Standard suspended in 1931
Sidney Webb

The 1930s II

- Collapse of the international liberal order
National and Imperial protectionism
- Collapse of international liberalism as the dominant ideology
- International and national crises of stability and legitimacy.
The politics of security and redistribution
Regional Blocs and War

The 1970s I

- Crisis management
- First crisis of the extended state
- Precipitating event: abandonment of Bretton Woods
- Inflation and Unemployment: Stagflation

The 1970s II

- The IMF Crisis
- Balancing the financial markets and voters
- External and internal constraints
- Avoiding protectionism the priority
Discrediting of Domestic Keynesianism

The 2010s I

- Scale of crash equal to 1929-32; but risk of financial meltdown averted
- Successful intervention by Governments
Return of Keynes?
- No repeat of 1929-32
- Early signs of recovery
- Costs displaced, Pain deferred

2010s II

- Banking crisis to fiscal crisis
- The sovereign debt problem: defaults
- Political difficulties ahead
- Scale of the cuts required, potentially greater than in the 1980s
- Tax increases more likely than cuts?
- How will citizens respond to austerity?
fairness and burden sharing

Scenarios

- Assumptions about growth
- Assumptions about international power balance
- Assumptions about policy framework

Scenario 1

- V Shaped recovery
- Growth of India and China key
- US ascendancy restored
- Deeper globalisation
- Multilateral re-ordering
- Deals on climate change, economic and financial regulation, nuclear proliferation

Scenario 2

- Recovery U or W or L shaped
- Second financial crash
- China not willing or able to expand
- US withdraws
- Fragmentation, deadlocks
- Reform of international governance stalled
- Creeping protectionism
- Isolationism and resource wars

Policy Debate I

- Market fundamentalists
 - balance the budget
 - opposition to bailouts, fiscal stimulus
- Market realists
 - prevent deflation
 - protect jobs and incomes

Policy Debate II

- National Protectionists
protecting the national economy
hostility to new international agreements
- Regulatory Liberals
safeguarding the international economy
new global financial architecture

Policy Debate III

- Deflationists
 - eliminate the deficit
 - fiscal balance a requirement for recovery
- Inflationists
 - restoring conditions for growth
 - debt a lesser problem
 - investment, public spending, tax cuts