

How (and Why) Is This Time Different? The Politics of Economic Crisis in Western Europe and the United States

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Abstract

This article compares government responses to the Great Recession of 2008–2009 with government responses to recessions and other economic challenges in the period 1974–1982. We focus on five countries: France, Germany, Sweden, the United Kingdom, and the United States. Across these countries, we observe two broad shifts in crisis responses. First, governments have in the recent period eschewed heterodox crisis policies and relied more exclusively on fiscal stimulus. Second, tax cuts have become a more important component of fiscal stimulus while spending cuts have featured more prominently in governments' efforts to consolidate their fiscal position. We argue that crisis responses reflect the interests and power of domestic actors as well as external constraints and the nature of the economic problems at hand.

INTRODUCTION

Economic crises provide a window into the changing dynamics of advanced capitalist political economies. This article presents an overview of how American and Western European governments responded to the “Great Recession” of 2008–2009 and a broad-based assessment of how government responses to this recession compare to government responses to the “Long Recession” of 1974–1982. Our discussion considers the experiences of five countries: France, Germany, Sweden, the United Kingdom, and the United States. We focus on these cases because of their intrinsic interest and because they figure so prominently in the comparative political literature, notably in Gourevitch’s (1986) seminal historical-comparative study of “politics in hard times.”¹

Triggered by a sharp increase of oil prices, the international recession of 1974–1976 marked the beginning of an extended period of economic stagnation, high inflation, rising unemployment, and industrial adjustment problems that lasted through the recession of 1980–1982. In what follows, we engage two kinds of cross-temporal comparison: first, a narrow comparison of macroeconomic policy responses to the recessions of 1974–1976 and 2008–2009; and second, a broader comparison of economic and social policies over the entire period 1974–1982 with policy initiatives that governments have introduced since 2007. On the basis of both comparisons, we argue that government responses to crisis have been much more uniform in the recent period than they were in the 1970s.

Some governments responded to the recession of 1974–1976 by engaging in strongly expansionary fiscal policies, but others adopted a more cautious approach to macroeconomic management. During the recession of 1980–1982, monetary policy tended to be procyclical, and some countries engaged in procyclical fiscal policies as well. At the same time, governments erected new barriers to trade and engaged in a diverse set of targeted interventions to deal with the adjustment problems of particular industries in the second half of the 1970s. Some governments also resorted to devaluation as a means to promote the competitiveness of domestic producers in the 1970s and early 1980s.

The menu of policy options that policy makers considered in response to the Great Recession was much narrower than the menu they considered in 1974–1982. In all five countries, government responses to the Great Recession can be characterized as “liberal Keynesian,” combining tax cuts and some spending increases with monetary easing, while resisting protectionist measures and eschewing targeted interventions as well as devaluations. (Massive bailouts of financial institutions represent a special case to which we shall return.) The fiscal stimulus at the core of government responses to the Great Recession was short-lived and arguably less than it should have been, but it was remarkably uniform. Another important contrast is that governments did less to compensate the unemployed in 2008–2010 than in 1974–1982. We argue that crisis responses in 2008–2010 represent a retreat from “social Keynesianism” as well as a retreat from more interventionist or “heterodox” policies. This dual retreat is most apparent in the Western European cases. To some extent, the story of the Great Recession is a story of convergence on the “American model of crisis management.”²

Our main objective is to conceptualize and describe shifts in crisis responses since the 1970s, but we also look into explanations for these shifts. We do not conceive this as an exercise in comparing and contrasting policy responses to a common external shock. To the contrary, we emphasize differences between the economic and political problems confronting governments in

¹Our effort to situate the current crisis in historical perspective also draws on Hall (2012).

²The US response to the recession of 1980–1982 was decidedly non-Keynesian, but this was arguably a unique episode and, in any case, the recession of 1980–1982 was much less severe than the recessions of 1974–1976 and 2008–2009.

1974–1982 and 2008–2010, treating these differences as indicative of long-term changes in the political economy of advanced capitalism. The role of financial problems constitutes an obvious difference between the Great Recession and the recessions of 1974–1982. Equally obvious, inflation was a much less serious concern for policy makers during the Great Recession. In our view, it is also important to recognize that unemployment rose less sharply in 2008–2010 than it did during the recessions of 1974–1982.

Building on Gourevitch (1986), we argue that shifts in the interests and power of economic actors must be taken into account to explain broad changes in patterns of crisis response. In particular, we emphasize the political influence of sectorally based coalitions of firms and unionized workers demanding protection or compensation in the 1970s and the absence or weakness of such coalitions in 2008–2010. This crucial contrast can be seen, in part, as a result of deindustrialization, globalization, and the decline of organized labor since the early 1980s. The growing economic and political influence of finance and the pressing concerns of middle-income voters also figure prominently in our discussion of why crisis politics have changed, and to some extent converged, in the advanced capitalist countries.

Needless to say, perhaps, the approach and argumentation of this paper is orthogonal to the varieties-of-capitalism (VofC) approach (Hall & Soskice 2001), arguably the dominant paradigm in comparative political economy over the past 10–15 years. Scholars working in the VofC tradition stress cross-national variation and have paid relatively little attention to common trends across the advanced capitalist countries. More specifically, the VofC literature argues that different sectors thrive in different varieties of capitalism, that government policies reflect the interests of dominant sectors, and that these differences in sectoral specialization and policy orientation have crystallized as a result of globalization (see, e.g., Soskice 1999, Iversen & Soskice 2012). The shifts in the politics of economic crisis relative to the 1970s that we identify in this article raise questions about these core claims of the VofC literature. It should be noted, however, that the VofC literature is primarily concerned with long-term growth policy (support for innovation, skill formation, etc.) rather than patterns of policy making during economic crises. It may be that crisis responses have converged while long-term growth policies remain divergent.

One final caveat is in order. News stories remind us daily that the recovery that began in late 2009 has been quite anemic and that the outlook for the OECD area as a whole remains precarious. In the end, the recession of 2008–2009 might very well turn out to mark the beginning of a protracted period of stagnation and successive recessions, akin to the period 1974–1982. In such a scenario, government responses will undoubtedly evolve, and cross-national diversity may become more prominent.

Our discussion is organized into four parts. First, we review standard economic performance indicators and briefly discuss differences in the economic challenges confronted by governments in 1974–1982 and 2007–2010. Second, we compare and contrast macroeconomic management and patterns of government spending, focusing on the comparison between the mid-1970s recession and the Great Recession. Third, we identify a series of more interventionist measures that governments adopted over the period 1974–1982 and argue that such measures have been much less prominent in the period since 2007. Finally, we discuss various arguments that might explain why crisis responses have changed and make the case for an interest-based approach to this question.

COMPARATIVE CRISES

For our five countries, **Figure 1** tracks annual rates of real growth in gross domestic product (GDP) over the periods 1973–1983 and 2007–2010. Reflecting increased trade and financial interdependence, the Great Recession is distinguished by a remarkable

Table 1 Change in the unemployment rate (percentage points)

	1973–1976	1979–1982	2007–2010
France	1.8	2.2	1.3
Germany	3.0	3.1	–1.6
Sweden	0.6 ^a	1.1	2.4
United Kingdom	1.7	5.3	2.6
United States	2.8	3.9	5.0

^aThe Swedish figure refers to 1975–1978.

Sources: OECD, Labour Force Statistics (MEI) Database, <http://stats.oecd.org/index.aspx?r=345004>; and OECD (1983, p. 39; 1988, p. 39) for France 1973–1983.

synchronization of business cycles across these countries: France, Germany, Sweden, the United Kingdom, and the United States all entered into recession in 2008 or early 2009 and recovered, to more or less the same extent, in 2010. By comparison to the recessions of 1974–1976 and 1980–1982, the extent of GDP contraction in 2009 is also very striking. Averaging annual growth rates over 2008–2010, and hence taking into account the pace of recovery in 2010, we find that the United Kingdom stands out as the economy most severely affected by the Great Recession (–1.2% annual growth) and Germany and Sweden as the economies least affected (–0.1%). Over these three years, average annual growth rates for France and the United States were –0.4% and –0.3%, respectively.

The recession of 1974–1976 is comparable to the Great Recession in the sense that GDP growth decelerated very sharply in 1974–1975 and recovered rather uniformly in 1976. The most obvious exception to this pattern is Sweden, which proactively engaged in expansionary policies to “bridge over” the interactional recession. However, this effort ultimately failed, and Swedish growth turned negative in 1977. The international recession of the mid-1970s also hit France somewhat later than Germany, the United Kingdom, and the United States. The timing of business cycles was less synchronized in the mid-1970s, but the big difference between the recession of the mid-1970s and the most recent recession is that all five countries entered the mid-1970s downturn with higher growth rates and experienced smaller GDP contractions. Looking at the 1974–1982 period as a whole, we observe a good deal of cross-national variation in growth rates. The United Kingdom performed badly by comparison to the other countries over this entire period, experiencing deeper recessions and slower growth in nonrecession years. France stands out as the country for which we observe only one year of negative growth over the period 1974–1982 (1975).

Table 1 reports changes in unemployment rates during three periods: 1973–1976 (1975–1978 for Sweden), 1979–1982, and 2007–2010. For France, Germany, and the United Kingdom, it is striking that although the recession of 2008–2009 was far more severe in terms of the contraction of GDP than the recessions of 1974–1976 and 1980–1982 it was not associated with a particularly sharp increase in the unemployment rate. In Germany, the rate of unemployment actually fell during the recession of 2008–2009. For all three countries, the recession of the early 1980s stands out as a period in which unemployment rates rose sharply, despite relatively modest output drops (or, in the French case, no GDP contraction). Sweden and the United States depart from this pattern in the sense that unemployment rose more sharply in the recession of 2008–2009 than in the recessions of the mid-1970s and early 1980s, but even in these countries, the rise of unemployment was relatively modest considering the size of the GDP contraction that occurred in 2008–2009. In the American case, the rate of unemployment rose from 4.9% in 1973 to 7.7% in 1976 while GDP contracted by 0.7% in 1974–1975 (a 4-point increase in the rate of unemployment per

Table 2 Union decline, deindustrialization, and globalization

	Union density		Tertiary employment		Trade openness	
	1980	2007	1980	2007	1980	2007
France	18.3	8.0	55.7	76.5	44.0	55.0
Germany	34.9	20.1	51.0	67.7	45.3	86.7
Sweden	78.0	73.8	62.2	76.1	60.7	96.3
United Kingdom	50.7	28.7	59.7	76.0	51.8	56.3
United States	22.3	12.0	65.9	78.8	20.8	28.7

Sources: ICTWSS Database, <http://www.uva-aias.net/208>; OECD, Labour Force Statistics, <http://stats.oecd.org/index.aspx?r=498374>; OECD, Structural Analysis (STAN) Database, <http://stats.oecd.org/index.aspx?r=498374>.

one-percentage-point contraction of GDP). By contrast, the American rate of unemployment increased from 4.6% in 2007 to 9.6% in 2010 while GDP contracted by 3.9% in 2008–2009 (a 1.28-point increase in the rate of unemployment per one-percentage-point contraction of GDP).

In comparing government responses to different crises, it is important to keep in mind that inflation, specifically consumer price increases, posed a much more serious problem in the 1970s and early 1980s than it does today. Across these five countries, average annual change in the consumer price index in 1973–1976 ranged between 6.0% (Germany) and 16.5% (United Kingdom). The corresponding figures for 1979–1982 were 5.2% (Germany) and 13.0% (United Kingdom). In 2007–2010, by contrast, the average annual growth of consumer prices ranged between 1.5% (France) and 2.9% (United Kingdom).³

A systematic discussion of how inflation was brought under control from the early 1980s onward lies beyond the scope of this article. The standard rendition of this story emphasizes the emergence of a monetarist policy consensus and institutional reforms enhancing the autonomy of central banks (e.g., McNamara 1998, ch. 6). Intensified competition associated with increased trade openness surely also played a role in the “great moderation” of consumer prices in the 1980s and 1990s. As Streeck (2011) argues, the weakening of labor’s bargaining power constitutes another important consideration in this context (see also Notermans 2000).

Unionization provides a readily available indicator of the shift of power relations in the labor market over the last two or three decades. As shown in **Table 2**, union density declined significantly in all of our five countries—indeed, across the entire OECD area—from the early 1980s to the onset of the Great Recession. In France, Germany, and the United Kingdom, as in many other OECD countries, unionization reached its peak some time between 1975 and 1980.⁴ The decline of union density can partly be attributed to deindustrialization as well as globalization (also shown in **Table 2**), but the fact that the reversal of organized labor’s fortunes coincided with the end of the postwar era of full employment deserves to be emphasized. In this respect and others, the crisis of 1974–1982 set in motion processes that altered political and economic conditions, with important implications for government responses to the Great Recession.⁵

³ OECD, Consumer Prices (MEI) Dataset, <http://stats.oecd.org/index.aspx?r=498374>.

⁴ In Sweden, unionization did not peak until 1994 (at 87.4%), according to Visser’s database (cited in the caption to **Table 2**). On the other hand, the American case is exceptional in that the decline of union density began in the 1960s.

⁵ The employment crisis of the early 1990s played a similar role in Sweden to the crisis of 1973–1983 in the other countries. For arguments and evidence linking union decline to globalization, see Slaughter (2007) and Dreher et al. (2008, pp. 139–48). Regarding deindustrialization, suffice it to note that private services are less unionized than private manufacturing in every OECD country.

It is tempting to argue that the “disproportionate” increases of unemployment during the recession of the early 1980s were engineered by politicians and central bankers committed to a monetarist agenda, but this line of argument is less relevant for explaining why the Great Recession was less “unemployment-intensive” than the recession of 1974–1976. One possible explanation is that unions have become weaker and labor markets more flexible since the early 1980s. This would imply that firms were more able to adjust wages and working hours in response to the economic downturn of 2008–2009 than they had previously been. In a similar vein, “workfare” reforms implemented since the 1980s (see Rueda 2012) have arguably increased the pressure on unemployed workers to find new jobs—and to accept less desirable jobs on offer.

The fact that unemployment did not rise as sharply during the Great Recession does not mean that people did not suffer as much as they had in the recessions of 1974–1982. To the extent that the argument about flexible labor markets is correct, workers have suffered income losses without long spells of unemployment. In any case, it is clear that the Great Recession had a huge negative impact on the value of assets—first and foremost, houses—owned by middle-income voters, affecting their capacity to engage in credit-financed consumption (see Ansell 2012, Barnes & Wren 2012).

MACROECONOMIC MANAGEMENT AND GOVERNMENT SPENDING

The existing comparative literature on responses to the Great Recession focuses primarily on fiscal stimulus. Some authors (e.g., Lindvall 2012) emphasize and seek to explain the quick and apparently consensual adoption of fiscal stimulus as the lynchpin of government responses to the crisis across the advanced capitalist countries—or, in other words, the sudden and surprising revival of Keynesianism. Other authors, notably Cameron (2012), stress the limited extent of fiscal stimulus and the quick return to fiscal austerity, especially among members of the European Union. Comparing policy responses to the Great Recession to the fiscal policy stance that governments adopted in earlier recessions provides an obvious way to adjudicate among these competing claims. We begin by comparing crisis responses in terms of the extent of fiscal stimulus and the relationship between fiscal and monetary policy. We then explore the relative importance of tax cuts and spending increases as alternative ways to stimulate aggregate demand. Finally, we compare the extent to which governments sought to compensate the unemployed in 1974–1982 and in 2008–2010.

The Size of Fiscal Stimulus

It is commonplace to distinguish between fiscal stimulus in the aggregate and fiscal stimulus due to discretionary policy measures. Year-to-year changes in the cyclically adjusted budget balance provide a rough-and-ready measure of discretionary fiscal policy. Essentially, this measure captures the change in the budget that would have occurred if there had been no loss of revenue or any spending increase due to the economic downturn. “Automatic stabilizers” account for the differences between aggregate deficit increases and cyclically adjusted increases. Although it is tempting to argue that the cyclically adjusted data provide the appropriate measure of government policy, aggregate measures are also relevant, for governments surely take automatic stabilizers into account in making fiscal policy decisions. Moreover, budgetary changes attributed to automatic stabilizers are not as apolitical as the term suggests: not to raise tax rates when tax revenues fall or to maintain existing insurance benefits when unemployment rises are political decisions that governments make.

Table 3 Average annual fiscal stimulus as a percentage of gross domestic product

	Aggregate stimulus			Discretionary stimulus		
	1974–1976	1980–1982	2008–2010	1974–1976	1980–1982	2008–2010
France	0.47	0.85	1.43	n.a.	0.45	0.58
Germany	1.52	0.26	1.18	n.a.	n.a.	0.71
Sweden	0.88 ^a	1.26	1.31	0.60 ^a	0.80	0.00
United Kingdom	0.39	-0.34^b	2.50	-0.18^b	-1.31^b	1.45
United States	1.05	1.31	2.58	0.50	0.39	1.81

^aSwedish figures for the mid-1970s include 1977 (when GDP contracted).

^bNegative numbers (in boldface) mean that the government budget moved toward surplus.

Sources: OECD, Economic Outlook: Statistics and Projections Database, No. 88 (2010), http://www.oecd-ilibrary.org/economics/data/oecd-economic-outlook-statistics-and-projections_co-data-en; and OECD (1983, p. 65) for France 1973–1976.

Table 3 reports average annual change in aggregate budget balances as well as discretionary changes during 1974–1976, 1980–1982, and 2008–2010, with positive numbers indicating that government budgets moved toward deficit or, in other words, fiscal stimulus. The data confirm the conventional view that discretionary fiscal policy measures in response to the Great Recession were more expansionary in the United States than in Western Europe. Among the four European countries, the discretionary stimulus was largest in the United Kingdom and smallest in Sweden. Taking automatic stabilizers into account, the contrast between American and European responses to the Great Recession is less pronounced, and Sweden is no longer distinguished by lack of fiscal stimulus.⁶

The OECD dataset on which **Table 3** draws does not include cyclically adjusted budget data for France and Germany in the mid-1970s or Germany in the early 1980s. With this limitation, **Table 3** indicates that discretionary fiscal policy in France, the United Kingdom, and the United States was much more expansionary in 2008–2010 than in the early 1980s. In the United States and United Kingdom, discretionary policy responses to the Great Recession were also more expansionary than discretionary policy responses to the first oil crisis. The contrast is most pronounced for the United Kingdom, where discretionary fiscal policy was procyclical not only under Prime Minister Margaret Thatcher in the early 1980s but also under Labour in the mid-1970s.

With respect to discretionary stimulus, Sweden appears to be the only country that pursued more expansionary policies in the earlier recessions. Even in Sweden, however, the aggregate stimulus in 2008–2010 was larger than aggregate stimuli in the mid-1970s and early 1980s. Based on aggregate budget data, Germany stands out as the only country in which fiscal policy in 2008–2010 was no more expansionary than in the mid-1970s. Overall, the most striking feature of **Table 3** is the extent of cross-national variation in fiscal policy stances during the earlier recessions and the uniformity with which governments embraced fiscal expansion in 2008–2010.

One might well object that the preceding discussion neglects the fact that GDP contractions in 2008–2009 were bigger than any experienced in 1974–1982. Another possible objection is that the overall macroeconomic policy stance is what we should care about and that monetary policy must therefore be taken into account. In an admittedly crude fashion, **Table 4** addresses the first issue

⁶The OECD data reported in **Table 3** refer to central government budgets. This poses a problem for comparing federal and centralized states. Aizenman & Pasricha (2010) show that the effects of procyclical budget changes at the state level effectively cancelled out most, if not all, of the fiscal stimulus provided by the US federal government in 2008–2009. Because we are primarily interested in cross-temporal (within-country) comparisons, this complication is of secondary importance for our present purposes.

Table 4 Fiscal stimulus per one-percent contraction of GDP^a

	Aggregate			Discretionary		
	1970s	1980s	2008–2010	1970s	1980s	2008–2010
France	1.00 (1975)		1.53	n.a.		0.62
Germany	1.99 (1975)	–2.58 (1982)	1.89	n.a.	n.a.	0.53
Sweden	4.48 (1977)	4.37 (1981)	0.68	3.42	–2.76	0.00
United Kingdom	0.58 (1974–1975)	–0.31 (1980–1981)	1.50	–0.28	–1.19	0.87
United States	4.51 (1974–1975)	3.02 (1980, 1982)	1.98	2.15	0.47	1.39

^aThe figures for 2008–2010 are the product of dividing the cumulative change in the budget position over these three years by the contraction of GDP in 2008–2009. The figures for the 1970s and 1980s refer to years in which GDP contracted (noted in parentheses) and include the change in the budget balance for the year following a GDP contraction.

Sources: See **Figure 1** caption and **Table 3** footnote.

by relating the size of fiscal stimuli to the size of GDP contractions. For the Great Recession, we report the results of dividing the cumulative change in aggregate and cyclically adjusted budget balances over the three years 2008–2010 by the size of the contraction of GDP in 2008–2009. This calculation gives us a simple estimate of the fiscal stimulus associated with a one-percentage-point contraction of GDP. An obvious problem is that the size of the fiscal stimulus partly determines the size of the GDP contraction. A relatively small but preemptive fiscal stimulus might end up looking like a very large fiscal stimulus, but the fact that our estimates are biased in favor of preemptive stimulus efforts is not necessarily bad.

Cross-country similarities in the timing of the Great Recession make comparisons of fiscal policy across a uniform time period sensible. For the mid-1970s and early 1980s, the calculations presented in **Table 4** pertain to country-specific time periods. The figures refer to years in which GDP contracted, and, to allow for a lag in fiscal policy response, they include the change in budget balances in the year immediately following a GDP contraction. For example, the US figures for the mid-1970s are the result of dividing the cumulative change in the budget balance over 1974–1976 by the contraction of GDP in 1974–1975.

Taking the size of GDP contraction into account, the fiscal response to the Great Recession in the United Kingdom appears to have been less expansionary from a cross-country comparative perspective, but it remains strongly expansionary by comparison to how UK governments responded to the recession of 1974–1976, let alone the recession of 1980–1982.⁷ It also remains the case that the 2008–2010 aggregate fiscal stimulus was larger than the mid-1970s stimulus in France. However, adjusting for the size of GDP contraction does cast the Swedish and American cases in a different light and, to a lesser extent, the German case as well. In relation to the size of the GDP contraction, aggregate as well as discretionary stimuli were smaller in 2008–2010 than in the mid-1970s in Sweden and the United States. Adjusting for the size of the GDP contraction, the aggregate German stimulus in 2008–2010 was roughly of the same magnitude as the aggregate stimulus in 1975–1976. Comparing fiscal policies in 2008–2010 to fiscal policies in the mid-1970s, we see a clear pattern of convergence on moderate fiscal stimulus in **Table 4**: smaller stimuli in countries that relied heavily on fiscal expansion in the mid-1970s and larger stimuli in countries that eschewed fiscal expansion in the mid-1970s.

⁷The negative numbers in **Table 4** are not very meaningful. When governments responded to GDP contractions by engaging fiscal stimulus, it makes sense to suppose that the stimulus would have been larger had the GDP contraction been larger. When governments responded in a procyclical fashion, the corresponding assumption (that the move toward fiscal surplus would have been more forceful had the GDP contraction been larger) is quite dubious.

A few remarks about monetary policy must suffice for our present purposes. As indicated by OECD data on short-term interest rates (OECD 1988, p. 101; 2011, p. 374), monetary policy authorities in all five of the countries considered here responded to the Great Recession by engaging in monetary easing. The European Central Bank and the central banks of Sweden and the United Kingdom moved more slowly in this direction than the US Federal Reserve, but they cut interest rates sharply in 2009 and followed the Fed in implementing further rate cuts in 2010. In addition to cutting interest rates, central banks implemented various forms of quantitative easing, designed to stimulate bank lending. Quantitative easing became the main tool to stimulate aggregate demand as real interest rates turned negative and fiscal consolidation became the priority in 2010.

The story of monetary policy in the 1970s and early 1980s is more complicated. In all five countries, short-term interest rates at the onset of the recession of 1974–1976 were much higher than they were at the onset of the recession of 2008–2009. Monetary policy became noticeably more expansionary in France, Germany, and the United States in 1975, but high interest rates persisted in the United Kingdom through the mid-1970s recession, and Swedish monetary policy was procyclical during the GDP contraction of 1977. Germany is the only country where short-term interest rates were lower in 1979 than they had been in 1974, but this development can hardly be seen as an effort by the Bundesbank to stimulate the economy. As Scharpf (1991, ch. 7) demonstrates at some length, the Bundesbank acted consistently to offset the effects of expansionary fiscal policy initiatives in the second half of the 1970s. This use of monetary policy to offset the inflationary effects of fiscal stimulus became a common policy pattern during the recession of the early 1980s. Strikingly, short-term interest rates increased to all-time high levels in all five countries as these economies entered a new recession in 1980–1981.

Whereas taking the size of GDP contractions into account makes Swedish and American policy responses to economic downturns in the mid-1970s look more expansionary relative to 2008–2010, taking monetary policy into account makes them look less expansionary. Overall, what distinguishes the Great Recession from the experience of the mid-1970s as well as the early 1980s is the uniformity with which governments responded to recession by engaging in fiscal expansion and the absence of offsetting monetary policies.

Taxes and Spending

The preceding discussion of fiscal policy responses is limited in that it focuses on the size of budget deficits and rests on a narrow conception of Keynesianism. Even without deficits, fiscal policy might stimulate aggregate demand to the extent that it redistributes income from individuals (households) with high savings propensity to individuals (households) with lower savings propensity—in other words, to the extent that it redistributes income from the rich to the poor. From this perspective, the critical question becomes, was the Keynesianism of 2008–2010 more or less redistributive than the Keynesianism of the 1970s? One way to approach this question is to consider tax cuts and spending increases as alternative fiscal responses to economic downturn, on the premise that tax cuts tend to be less redistributive than spending increases in such circumstances. As a first stab at this kind of analysis, **Table 5** shows year-on-year changes in aggregate government revenues and expenditures over the periods 1974–1977 and 2008–2010.

Focusing on years in which the aggregate fiscal stimulus exceeded 1% of GDP (the shaded cells), we note first that the United States is the only case in which fiscal stimulus involved decreasing revenues as well as increasing expenditures in the mid-1970s. In all four of the European cases, spending growth accounted for all of the aggregate fiscal stimulus in years when the stimulus exceeded 1% of GDP. The same holds for Germany in 2008–2009. However, aggregate fiscal stimulus during the Great Recession involved a mix of tax cuts and spending increases in France,

Table 5 Year-on-year changes in aggregate government revenues and expenditures^a

		1974	1975	1976	1977	2008	2009	2010
France	revenues	0.8	0.9	2.2	-0.1	0.0	-0.9	0.4
	expenditures	1.2	3.8	0.5	0.2	0.6	3.3	0.0
Germany	revenues	0.4	0.1	1.9	0.5	0.2	0.6	-1.1
	expenditures	3.1	4.0	-0.3	-0.4	0.3	3.7	-0.9
Sweden	revenues	0.7	2.0	4.9	2.1	-0.6	0.3	-1.5
	expenditures	2.3	0.4	3.4	7.0	0.7	3.5	-2.1
United Kingdom	revenues	4.5	0.3	-0.4	-1.3	1.4	-2.3	0.3
	expenditures	4.5	1.4	-0.2	-2.8	3.3	3.7	-0.2
United States	revenues	0.6	-1.8	0.7	0.3	-1.3	-1.7	0.7
	expenditures	1.4	2.4	-1.2	-0.9	2.2	3.2	0.1

^aFor years in which the aggregate budget balance moved in the direction of deficit, the figures are bold. For years in which this aggregate stimulus exceeded 1% of GDP, the cells are shaded.

Sources: OECD, Economic Outlook: Statistics and Projections Database, No. 89 (2011), http://www.oecd-ilibrary.org/economics/data/oecd-economic-outlook-statistics-and-projections_co-data-en; and OECD (1983, p. 64) for France 1973–1977.

Sweden, and the United Kingdom as well as the United States. In the Swedish case, the contribution of tax cuts to the total stimulus in 2008–2009 was quite small, but a further marked reduction in government revenues occurred as the economy began to recover and the government implemented spending cuts to restore fiscal balance in 2010. Similarly, the German government cut spending while allowing tax revenues to fall in 2010. Overall, then, we observe a fairly clear and consistent embrace of tax cuts as a vehicle to achieve fiscal stimulus in the four European cases.⁸ However, governments appear to have relied more heavily on spending cuts to restore fiscal balance in 2010–2011 than they did in the 1970s.

The Swedish case illustrates the shift from social Keynesianism to liberal Keynesianism most clearly. In the 1970s, Swedish governments used spending increases to stimulate the economy during downturns and tax increases to restore fiscal balance during upturns in the economy. Spending increases were part of the response to the Great Recession of 2008–2009, but tax cuts were also used to stimulate growth this time around, and the first phase of fiscal consolidation relied entirely on spending cuts.

Unemployment Compensation

Closely related to fiscal policy choices, compensation to the unemployed represents another dimension on which the experience of the Great Recession can be contrasted to that of the 1970s. The best indicator of this type of policy response that is available for both time periods is the OECD's summary measure of gross replacement rates in unemployment insurance, averaging replacement rates for two earnings levels, three family situations, and three durations of unemployment. **Figure 2** tracks the evolution of unemployment-benefits generosity measured in this manner over the period 1973–2009. In the Swedish case, we observe a sharp

⁸It is likely that the contrast between the mid-1970s and 2008–2009 would be even starker if the analysis were restricted to discretionary fiscal policy measures. According to OECD (2009) estimates, tax cuts accounted for the entire discretionary stimulus introduced by the UK government in 2008–2009, whereas they accounted for 33% of the discretionary stimulus in France, 53% in Sweden, 54% in the United States, and 57% in Germany. We have not found any comparable figures for the mid-1970s.

increase in unemployment compensation between 1973 and 1975. The primary reason is that the duration of unemployment benefits was extended from 30 to 60 weeks in this period. This reform was not conceived as a direct response to the international recession, but it reflected growing concerns about the slowdown in employment growth that began in the late 1960s.⁹ As **Figure 2** shows, the generosity of Swedish unemployment insurance increased further between 1975 and 1979 and again in the early 1980s. We also observe increases of unemployment compensation in France, the United Kingdom, and the United States in response to the recession of the mid-1970s and a further increase in France in 1979–81. With the most generous system to begin with, Germany is the only country in which the government did not respond to the recession of the mid-1970s by increasing compensation to the unemployed.

Turning to the experience of the Great Recession, we observe a big increase in unemployment-compensation generosity in the United States between 2007 and 2009, due to 2008 legislation extending the duration of unemployment benefits. Unemployment compensation also increased in Sweden as a result of the elimination of waiting days and the relaxation of work-history requirements (Chung & Thewissen 2011, p. 364), but this increase followed sharp cuts that the new Center-Right government had introduced in 2006–2007 (see Kjellberg 2009). In France and Germany, the overall generosity of unemployment insurance remained constant in 2007–2009, at levels that had also been cut back significantly in the early 2000s. In the United Kingdom, finally, the long decline of unemployment-insurance generosity that began under Thatcher in the early 1980s continued through the Great Recession.

In addition to increased generosity of benefits, the coverage of unemployment insurance increased in all but one of our five countries over the period 1974–1982. The exception is France, where coverage remained essentially constant at slightly less than 80% of the labor force. From 1970 to 1985, the share of the labor force covered by unemployment insurance increased from 89% to 94% in Germany, from 66% to 100% in Sweden, from 84% to 95% in the United Kingdom, and from 79% to 100% in the United States (SCIP database; see footnote 9). Although we lack comparable data for the more recent period, none of these countries seems to have responded to the Great Recession by expanding the coverage of unemployment insurance (if only because coverage was already very high). With the notable exception of the United States, the story of unemployment compensation during the Great Recession is essentially a story of governments sticking with benefit cuts previously introduced.

“HETERODOX” POLICY RESPONSES

The experience of the Great Recession is distinguished not only by the presence of a uniform macroeconomic policy pattern, but also by the absence of other kinds of crisis responses that were common, though not uniformly adopted, during the Long Recession of 1974–1982. In this section, we review these alternative policy responses that governments adopted in 1974–1982 and discuss, briefly, financial bailouts during the Great Recession.

Trade Barriers

The absence of protectionist responses distinguishes the recent period not only from the 1930s, but also from the 1970s. With respect to the 1970s, the contrast pertains primarily to nontariff

⁹The Social Citizenship Indicator Program (SCIP, <https://dspace.it.su.se/dspace/handle/10102/7>) database contains data on the duration of benefits and other features of unemployment insurance over the period 1930–2000. According to this dataset, the duration of unemployment insurance remained constant in France, Germany, the United Kingdom, and the United States over the period 1970–1985 (52 weeks in France, Germany, and the United Kingdom, 26 weeks in the United States).

barriers to trade. With the notable exception of agriculture, the Kennedy Round of negotiations under the General Agreement on Tariffs and Trade (GATT) led to a significant reduction of tariff barriers during the 1960s and early 1970s. Among member states of the European Community, all tariffs had been effectively eliminated by 1968. The US and European governments maintained their commitment to tariff liberalization, but protectionist forces gained strength in the wake of the first oil crisis in 1973–1974 (see Milner 1988; also Katzenstein 1985, pp. 39–44). The United States, the United Kingdom, and the European Community imposed antidumping duties on foreign imports and introduced other nontariff barriers to trade. As a result of changes in government procurement practices and regulation of product markets, nontariff barriers to trade among member states of the European Community also increased in the 1970s.

According to Page (1981, p. 29), the share of manufactured imports affected by nontariff barriers imposed by the US government increased from 5.6% in 1974 to 18.4% in 1979. The corresponding figures for the other four countries considered were lower than the US figure in 1974 but also increased sharply in the following five years. In 1979, the share of manufactured imports affected by nontariff barriers ranged between 16.0% in France and 19.4% in Sweden. Considering the differences in economic structures and political-economic arrangements among these countries, the uniformity of the rise of nontariff protectionism in the 1970s is striking. For the more recent period, Kee et al. (2010, p. 25) report that the share of total EU imports affected by antidumping duties increased by 0.38%, and the share of total US imports affected by antidumping duties increased by 0.16% from 2008 to 2009. Although these figures refer to only one form of nontariff protection and pertain to a much shorter time period, they provide at least some empirical evidence for the commonly held view that protectionism has been a much less important feature of recent crisis responses than it was in the 1970s.

Devaluation

Like protectionist measures, currency devaluation provides a tool for governments to alter the terms of trade in favor of domestic producers. The absence of competitive devaluation from the menu of policy choices considered by governments represents another conspicuous feature of the period since 2007. To be sure, the United States and the United Kingdom have prioritized domestic demand stimulus over currency stability and have allowed currency depreciation to occur, but allowing currency markets to set exchange rates hardly qualifies as an export-led recovery strategy. By contrast, several countries pursued, or at least considered, such a strategy in the period 1974–1982.

Among the countries considered in this article, Sweden deployed the devaluation option most frequently. When the international recession caught up with Sweden, the Center-Right coalition government devalued the currency in October 1976 and twice in 1977. An aggressive final devaluation became the key element of the recovery strategy that the new Social Democratic government adopted in 1982 (see Scharpf 1991, ch. 6; Pontusson 1992a). At the other end of the spectrum, Germany adopted a hard currency policy in the early 1970s and stuck with this policy through the economic difficulties of the 1970s and early 1980s. In France, Center-Right governments in the second half of the 1970s followed the German lead, but the new Socialist government of 1981 engaged in three successive devaluations before the socialist U-turn of 1983 (Oatley 2012, pp. 262–63). Finally, the UK devaluation of 1976 was forced on the Labour government by currency speculation and a bailout agreement with the International Monetary Fund (IMF), but it deserves to be noted that speculation against the pound was partly triggered by signals indicating that the government was contemplating a devaluation (Scharpf 1991, pp. 80–82).

Industrial Policy

European governments and, to a lesser extent, US governments engaged in various selective interventions to deal with the economic difficulties of specific industrial sectors in the 1970s. In this respect, too, the recent experience has been strikingly different.

The most readily available quantitative indicator related to the industrial policy domain is government subsidies to nonfinancial corporations (“industrial subsidies”), measured in percent of GDP. **Figure 3** tracks this indicator over 1973–1983 and 2007–2010. In the United Kingdom and Sweden, the oil crisis of 1973–1974 precipitated a sharp increase in industrial subsidies. In the UK case, this development proved transitory. Even prior to the IMF agreement of 1976, the Labour government began to cut public spending, and industrial subsidies were an easy target for such efforts. In Sweden, industrial subsidies continued to rise relative to GDP through the recession of 1980–1982. We also observe an increase, though less pronounced, in industrial subsidies in France and Germany in the mid-1970s (in the French case, from 1.8% of GDP in 1974 to 2.2% in 1977, and in the German case, from 1.9% in 1974 to 2.3% in 1978). In the 2008–2010 crisis, by contrast, government subsidies paid out to nonfinancial corporations increased modestly in France and Germany and remained essentially unchanged in Sweden, the United Kingdom, and the United States.

Industrial policy does not necessarily take the form of government subsidies. As Zysman (1983) stresses, French industrial policy in the 1970s relied heavily on selective intervention in the allocation of long-term credit by private and para-public financial institutions. Across Western Europe, state ownership also served as an instrument of industrial policy in the 1970s and 1980s. In Sweden, the Center-Right coalition government of 1976–1978 nationalized more industry (primarily steel and shipbuilding) than the Social Democrats had done in the previous 44 years (see Pontusson 1992b). In the United Kingdom, the most prominent case of nationalization was the restructuring of British Leyland as a fully state-owned company in 1975, but other nationalization measures were also undertaken by the Labour governments of 1974–1979. In France, Center-Right governments nationalized the steel industry and took a major stake in the Dassault aircraft company in the late 1970s, and the socialist government of 1981 engaged in extensive nationalizations as part of its early recovery program (Hall 1986, pp. 85–93). Even in Germany, state enterprise expanded in the 1970s, though without any political fanfare (Esser 1988, p. 64).

With the notable exception of the Obama administration’s bailout of General Motors and Chrysler, involving significant ownership stakes temporarily assumed by the federal government, we are not aware of any important instances of direct government intervention in the industrial sector during the Great Recession.¹⁰

Employment Protection

As documented by Allard (2005), new laws and regulations that restricted the ability of employers to fire individual workers or engage in collective dismissals were introduced in all four of our European cases during the 1970s. The US case is distinguished by the limited extent of employment regulation in 1970 and the absence of any significant changes in the course of the 1970s. In Germany, the strengthening of employment protection in the 1970s preceded the oil crisis of 1973–1974. In Sweden and the United Kingdom, new labor laws were adopted in 1974–1975. Like the Swedish reform of unemployment insurance in 1974, these legislative initiatives were

¹⁰The *Economist* of August 5, 2010, featured a long article on the “global revival of industrial policy,” considered, of course, to be an ominous development. It is telling that most of the examples cited in the article are Chinese.

not conceived as a direct response to the international recession, but they reflected rising worries over job insecurity, particularly among unionized workers in declining industrial sectors, such as coal, steel, and shipbuilding (see Pontusson 1992b, pp. 3–4; Rueda 2007, pp. 137–39). In the French case, finally, Allard’s coding indicates a gradual strengthening of employment protection from 1975 through the early 1980s.¹¹ None of these five countries has reinforced employment protection since 2007. It is particularly noteworthy that the Great Recession did not precipitate any changes in the extensive deregulation of temporary forms of the employment that France, Germany, and Sweden undertook in the 1990s and early 2000s (see OECD 2004, pp. 113–15).

Employment subsidies might be seen as an alternative form of employment protection (with taxpayers rather than employers bearing the costs involved). In response to the downturn in 2007–2008, the German government expanded an existing scheme whereby workers whose working hours were reduced would be eligible for partial unemployment benefits, offsetting wage losses associated with working-time reduction, and the French government introduced a similar scheme. It is commonplace to cite these schemes as indicative of a distinctively European response to the Great Recession and as the reason why the Great Recession did not generate a sharp increase of unemployment in Western Europe (e.g., Schmitt 2011; also Chung & Thewissen 2011). At least in the German case, subsidized short-time work might also be interpreted as a form of industrial policy, for the program was in practice targeted to manufacturing.¹²

Subsidization of short-time work undoubtedly contributed to Germany’s strong employment performance during the Great Recession, but Reisenbichler & Morgan (2011) argue convincingly that other features of the German labor market, the internal flexibility of firms (working-time accounts) and opening clauses in collective agreements, played a more important role in the German “employment miracle” of 2008–2009 (see also OECD 2010, pp. 74–75). It also deserves to be noted that the rise of unemployment since 2007 has been relatively modest even in countries that have not engaged in extensive employment subsidies. Most importantly for our present purposes, short-time work schemes are by no means a novel policy response. France and Germany also used such schemes to combat unemployment in the mid-1970s and early 1980s.¹³ In Sweden, governments subsidized employment by other means, including subsidies to build up inventory. In marked contrast to the 1970s, the Swedish government refused industry requests to extend partial unemployment benefits to workers on reduced hours in 2008–2009.¹⁴

Financial Bailouts

The massive bailout of financial institutions that all these countries undertook in 2007–2009 might be seen as the equivalent of 1970s industrial policy. **Table 6** provides data on the extent of funds that governments have recently provided to the financial sector in the form of recapitalization of

¹¹Encompassing the regulation of fixed-term employment contracts, Allard’s (2005) summary measure of the strictness of employment protection is based on the same criteria as OECD measures for the period since 1985. On Allard’s scale, employment protection increased as follows from 1970 to 1979: from 1.0 to 2.2 in France, from 1.4 to 2.9 in Germany, from 1.4 to 3.4 in Sweden, and from 0.5 to 1.6 in the United Kingdom. (The US score is 0.1 in 1979 as well as 1970.)

¹²In 2009, 3.2% of all German employees and 14% of manufacturing employees received public subsidies for short-time work. The total subsidies involved amounted to 0.22% of German GDP. The French scheme was smaller, with 0.8% of all employees receiving subsidies amounting to 0.02% of GDP (OECD 2010, p. 52).

¹³According to Abraham & Houseman (1993, p. 87), the share of German industrial workers on short-time work was 7% in 1975 and 6.5% in 1982–1983.

¹⁴Chung & Thewissen (2011, pp. 363–64) point out the Swedish Center-Right government cut payroll and corporate taxes to minimize layoffs and stimulate job creation during the Great Recession, but they are wrong in construing these macroeconomic measures as the continuation of a “social democratic activation strategy.”

Table 6 Cumulative government support^a of the financial sector as a percentage of 2008 gross domestic product

	Recapitalization ^b	Guarantees ^c	Total
France	1.4	16.4	17.8
Germany	3.8	17.0	20.8
Sweden	2.1	47.5	49.6
United Kingdom	3.9	54.5	58.4
United States	5.2	11.0	16.2

^aPledged amounts based on official announcements as of August 2009.

^bRecapitalization (capital injections) includes purchases of shares by the governments in the banking sector.

^cState guarantees on bank liabilities.

Source: IMF (2010, p. 42).

banks and government guarantees on bank liabilities.¹⁵ When loan guarantees are included, the United Kingdom and Sweden stand out as the two countries that have provided the most support to the financial sector.

The questions of how different governments negotiated the policy trade-offs involved in financial bailouts and what conditions they attached to their support for the financial sector lie beyond the scope of this article (see Weber & Schmitz 2011). One thing seems clear: in none of our five countries did governments articulate structural reform of the financial sector as a policy goal during the bailout of financial institutions in 2007–2008. To the extent that policy makers recognized the need for structural reforms, they were willing to postpone any legislation in this realm for the sake of rapidly implementing short-term measures they considered essential to restoring the provision of credit to households and companies. The contrast with selective state interventions in the 1970s is striking, for at that time the commitment of public resources invariably involved some plan (perhaps ill conceived) to restructure the sectors or firms involved.

An obvious question is whether financial bailouts prevented governments from undertaking other policy initiatives in response to the Great Recession. We return to this question below. Suffice it to note, at this point, that most of the support for the financial sector documented in **Table 6** does not show up in national accounts as current spending and consequently is not part of the estimates of fiscal stimuli presented above. In this sense, fiscal stimuli and financial bailouts can be treated as independent policy choices.

EXPLAINING CROSS-TEMPORAL AND CROSS-NATIONAL VARIATION

To summarize, the overall pattern of crisis responses in 2008–2010 represents a twofold shift relative to crisis responses in 1974–1982. On the one hand, governments have eschewed heterodox responses and relied more heavily on expansionary macroeconomic policies. On the other hand, they have relied more heavily on tax cuts and monetary easing in their macroeconomic efforts to rekindle growth and have avoided new social policy initiatives. What might a compelling explanation of this twofold shift in government responses to economic crisis look like? An important premise of the following discussion is that we ought to aspire to an explanatory framework that can account for cross-national variation in responses to the Great Recession as well as cross-temporal shifts in crisis responses.

¹⁵We have not been able to identify consistent, cross-national data on other government support measures, such as the purchase of troubled assets (i.e., impaired asset relief measures) and the provision of liquidity by central banks.

An extensive body of research in comparative political economy demonstrates that Left and Right governments make different policy choices with a good deal of consistency. There can be little doubt that the Obama administration pursued more expansionary policies in 2008–2010 than a Republican administration would have done. In particular, the dramatic increase in unemployment compensation that occurred in the United States between 2007 and 2009 can be seen as a direct result of Democratic electoral gains in 2008. There can also be little doubt the shift to fiscal consolidation under the new government of David Cameron was quicker and more decisive than what would have happened had Labour prevailed in the UK election of 2010. Going back to the 1974–1982 period, conservative election victories in the United Kingdom and the United States in 1979–1980 and socialist victories in France and Sweden in 1981–1982 clearly had important policy consequences.

It seems equally clear, however, that shifts in the partisan composition of governments cannot explain the contrasts between crisis responses in 1974–1982 and 2008–2010 that we document in this article, for the contrasts remain if we restrict ourselves to comparing responses by governments of the same partisan color. In France, the Center-Right held power when the Great Recession as well as the Long Recession began, and so did Labour in the UK case. The Obama administration can be compared to the Carter administration of 1976–1980, and the Swedish Center-Right coalition government since 2006 can be compared to Center-Right coalition governments in 1976–1982. Simply put, policy choices have an important partisan component, but the partisan composition of governments does not provide any simple, straightforward explanation of why the menu of policy options has changed.

It is tempting to attribute changes in the menu of policy options to constraints associated with globalization and the deepening of European integration since the early 1980s. European integration seems particularly relevant because the convergence on macroeconomic expansion as the modal crisis response largely involves a retreat from heterodox crisis responses in our four European cases. The first and most obvious argument is that the euro has made it impossible for countries to pursue devaluation as a crisis response. The absence of the devaluation option is critical to the experience of Ireland and Southern Europe (see Armingeon & Baccaro 2012), but it is less obviously relevant to the experience of our five countries. Being outside the euro zone, Sweden and the United Kingdom had the option to devalue—as did, of course, the United States—yet this option was not considered. The German commitment to a hard currency was well established prior to the introduction of the euro, and there is no reason to believe that German policy would have been different in 2008–2010 had the mark still existed. At best, the single currency might be invoked to explain why France devalued in 1981–1982 but not in 2008–2009.

EU trade and competition policy can be invoked to explain the absence of protectionist measures, including industrial subsidies and the expansion of state enterprise, during the Great Recession. It should again be noted that, in marked contrast to the 1970s, it is the United States that has recently engaged in the most direct government interventions in the restructuring of manufacturing companies. On the other hand, the United States also appears to have eschewed the erection of nontariff barriers since 2007. This suggests that the external constraints on protectionist responses derive from legal obligations embedded in the global trade regime (the World Trade Organization) as well as the European Union. In addition, such legal obligations ought to be “endogenized.” These obligations are, after all, the result of government choices made in the recent past.

Yet another argument about external constraints concerns the fiscal policy implications of the euro and, more specifically, the Stability and Growth Pact. As noted above, Cameron (2012) invokes the Stability and Growth Pact to explain why EU member states engaged in less fiscal expansion than the United States during the Great Recession. More broadly, Cameron suggests

that trade openness made EU members worry about “leakage,” i.e., that their expansionary policies would benefit producers in other countries, especially countries that pursued less expansionary policies and thereby gained a competitive edge. The constraints of the Stability and Growth Pact pertain to members of the euro zone, yet Sweden (outside the euro zone) clearly pursued less expansionary fiscal policies than France and Germany during the Great Recession. It is also clear that at least one euro state, France, pursued a more expansionary policy in 2008–2010 than it did in pre-euro recessions.

The broader argument about trade openness as a constraint is consistent with cross-national variation in the extent of fiscal stimulus during the Great Recession. The most trade-dependent of our five countries, Sweden, pursued the least expansionary macroeconomic policies, and the least trade-dependent country, the United States, pursued the most expansionary policies. Trade openness might also be invoked to explain why German policy was less expansionary than UK policy during the Great Recession and why Sweden and the United States pursued less expansionary policies in response to the Great Recession than they had done in response to recessions in the mid-1970s. Yet this line of argument leaves us with the following puzzle: despite increased trade openness, macroeconomic policy in France and the United Kingdom was clearly more expansionary during the Great Recession than it was during the recession of 1974–1976.

The data presented above show that the United States pursued more expansionary macroeconomic policies than the continental European countries in the recessions of 1974–1976 and 1980–1982 as well as the recession of 2008–2009. It is also noteworthy that the United States, the United Kingdom, and other “liberal market economies” pursued more expansionary macroeconomic policies in the 10–15 years leading up to the Great Recession (see, e.g., Pontusson 2005, pp. 96–98). Iversen & Soskice (2012) attribute the deflationary bias of macroeconomic policy in Germany and other continental European countries to the needs of export-oriented manufacturing industry. Alternatively, the bias against macroeconomic expansion in these countries might be attributed to the fact that well-developed systems of social protection cushion the impact of unemployment and thus allow policy makers to focus on long-term growth. This argument about the implications of social protection for the politics of macroeconomic management can be seen as complementary to Iversen & Soskice’s argument about the dominance of export-oriented manufacturing, but it has the advantage of shedding some light on why the four European countries embraced macroeconomic stimulus to a greater extent in 2008–2010 than they did in the 1970s. As indicated above, and documented further by Rueda (2012), these countries undertook significant welfare reforms in the 1990s and early 2000s (in the case of the United Kingdom, starting in the 1980s). Arguably, welfare-state retrenchment has increased the (electoral) pressure on governments to respond to recessions by engaging in macroeconomic expansion.

The obvious question is why electoral considerations have not led European governments to boost compensation for the unemployed or to improve employment protection in the recent period. The decline in the political-economic clout of organized labor is surely an important factor. In addition, it should again be noted that the rise of unemployment during the Great Recession was relatively small by comparison to the recessions of 1974–1976 and 1980–1982. As Ansell (2012) suggests, pivotal voters in the middle of the income distribution have been more affected by the decline of house prices than by the rise of unemployment. The emphasis on tax cuts in the stimulus packages adopted in 2008–2009 can be seen as a response to the concerns of these voters.

In addition, the inflationary environment of the 1970s obviously constrained the ability of governments, particularly British Labour governments, to pursue expansionary macroeconomic policies. The absence of inflationary pressure in 2008–2009 meant that policy makers did not have to worry much, in the short run, about the possible downsides of engaging in deficit spending and

monetary easing. In contrast, policy makers in the 1970s could count on institutionalized wage bargaining to sustain aggregate demand during economic downturns.

Another background factor that seems potentially relevant to the way governments negotiate the choice between macroeconomic expansion and more selective interventions concerns the extent of cross-sectoral variation in the decline of economic activity. We have no systematic data on this, but the impact of the Great Recession appears to have been much more evenly spread across sectors and regions than the impact of the recessions of 1974–1976 and 1980–1982. Throughout the period 1974–1982, a small number of important industrial sectors struggled to remain viable while other parts of these economies were doing quite well. Especially in an inflationary environment, it made sense for policy makers to address sector-specific adjustment problems through selective intervention rather than boosting aggregate demand.

Returning to the absence of protectionist responses to the Great Recession, what distinguishes the recent period is first and foremost the absence of protectionist pressures—rather than the ability (or willingness) of governments to resist such pressures. Although contemporary welfare states mitigate social dislocations associated with globalization (Katzenstein 1985), it is by no means obvious that welfare states provide greater protection to workers exposed to international competition today than they did in the 1970s. It seems more plausible to argue that expectations have changed and that workers have become more accepting of the insecurity associated with economic openness. The “globalization of consumption” might also be a relevant consideration in this context (Baker 2005). Arguably, the sheer increase in import penetration for our five countries between the 1970s and today is associated, as both cause and effect, with a more consumerist orientation and widespread hostility to economic protectionism, especially among middle-class voters.

The politics of organized interests deserves special emphasis in explaining the retreat from protectionism and industrial policy. In the 1970s, these forms of crisis management were a direct response to the mobilization of cross-class coalitions based in particular sectors and, often, particular regions. The crisis of the 1970s accelerated the decline of industrial sectors characterized by geographical concentration, high levels of asset specificity (of capital as well as labor), and high unionization. Especially in countries with majoritarian electoral rules (France, the United Kingdom, and the United States), regional concentration enhanced the electoral influence of workers in sectors adversely affected by the combination of slow economic growth and foreign competition. The growth of service employment across all of these countries since the 1970s emerges as a critical background factor in this context. Not only are services less unionized, as noted above, but they also tend to be less regionally concentrated than manufacturing industries.

Following Milner (1988), the absence of protectionist pressures akin to those of the 1970s can also be seen as a consequence of profound changes within business. As the internationalization of production and the cross-border movement of goods and services proceeds, a larger swath of business prefers an open economy. Whereas exporters oppose import barriers out of fear of retaliation by foreign governments, multinational companies fear the disruption of intrafirm trade or foreign sourcing networks, or restrictions of market access and, in the extreme, expropriation. In addition, the growth of financial markets, especially in continental Europe, has arguably made it easier for capitalists to exit sectors adversely affected by international competition. The business allies of unionized workers seeking protection or compensation simply are not there any more.

As noted above, financial bailouts represent the most obvious exception to the retreat from targeted crisis responses. The Great Recession originated in the financial sector and finance was the sector most severely hit by the crisis, especially considering the huge profits and salaries racked up in finance over the previous 10–15 years. The bailout of large financial institutions was motivated by concerns about the economy-wide implications of their failure, but there is surely

also a more political story. The rescue of the financial sector in 2007–2008 can to some extent be seen as analogous to the rescue of the steel and other declining industries in the 1970s. As unions and other organized constituencies have declined and money has become increasingly important to electoral competition, the financial sector has become a very important political force in the United States and the United Kingdom (Hacker & Pierson 2010, McCarty 2012, Barnes & Wren 2012). Although we have less detailed evidence on this, the political influence of the financial sector also appears to have increased in France, Germany, and Sweden over the past two decades.

Did support to ailing financial companies crowd out other forms of public spending during the Great Recession? The data presented above do not allow us to address this question systematically, but it is noteworthy that Sweden and the United Kingdom, the two countries that provided the most extensive support to the financial sector in 2007–2009 (see **Table 6**), appear to have been more reluctant to boost domestic demand through public spending than the other three countries and quicker to impose spending cuts when the economy showed signs of recovery. In France and Germany, which committed fewer resources to the financial sector during the Great Recession, cutting public spending was a lower priority in 2010–2011.

CONCLUSION

It is commonplace in comparative political economy to link Keynesianism to the postwar expansion of the welfare state, full employment, and strong unions, and to argue that the Long Recession of 1974–1982 marked the end of the “Keynesian era” (e.g., Skidelsky 1979, Scharpf 1991). Our discussion suggests that this metanarrative needs to be corrected. There is a liberal as well as a social variant of Keynesianism. Whereas social Keynesianism emphasizes public spending and redistributive measures to sustain long-term prosperity, liberal Keynesianism focuses on demand stimulation during economic downturns and favors tax cuts over spending increases. As illustrated by the experience of the Great Recession, liberal Keynesianism is far from dead. To the contrary, welfare-state retrenchment and political-economic liberalization across the advanced capitalist countries over the past 15–20 years have rendered liberal Keynesianism the modal response to economic crisis.

As social Keynesianism is less “market-conforming” than liberal Keynesianism, it might be said to have an affinity with the heterodox crisis responses that various governments entertained, and sometimes implemented, during the 1970s and early 1980s. It is also commonplace in the comparative political-economy literature to conceive these heterodox crisis responses as an expression of the strength of labor and the Left in the 1970s. Our discussion suggests that this metanarrative needs to be corrected as well. Although European socialists and left-wing social democrats pushed for more interventionist economic strategies, the main political force behind the protectionist measures and industrial policy initiatives of the 1970s was an essentially defensive coalition of labor and business in declining industrial sectors.

The current recovery is precarious, and hard times are likely to persist into the foreseeable future. In such a scenario, liberal Keynesianism becomes a less viable governing formula, opening up the possibility of a return to more protectionist crisis responses but also the possibility of political realignments that might favor new, more progressive policy initiatives of a social Keynesian complexion.

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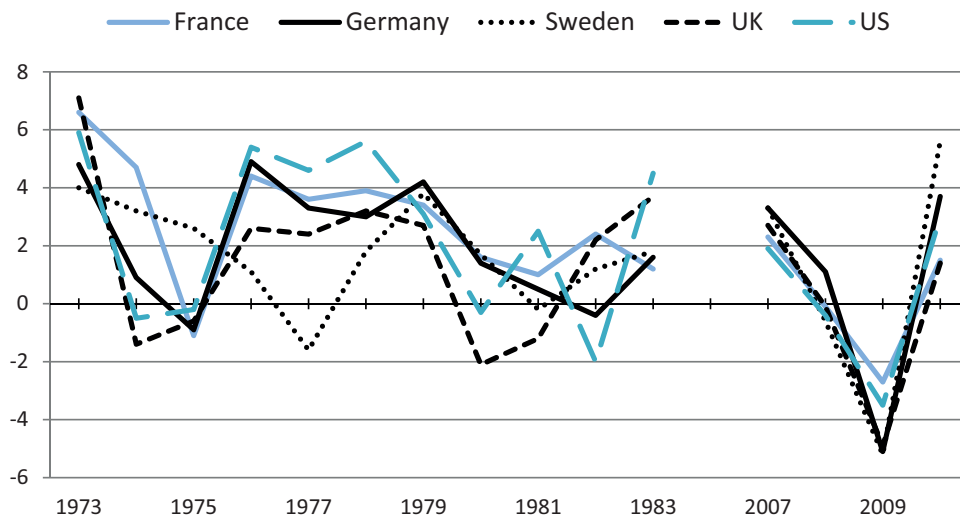


Figure 1

Annual growth of real gross domestic product in five countries during 1973–1983 (*left*) and 2007–2010 (*right*). Source: Organisation for Economic Co-operation and Development (OECD), National Accounts, <http://stats.oecd.org/index.aspx?r=345004>.

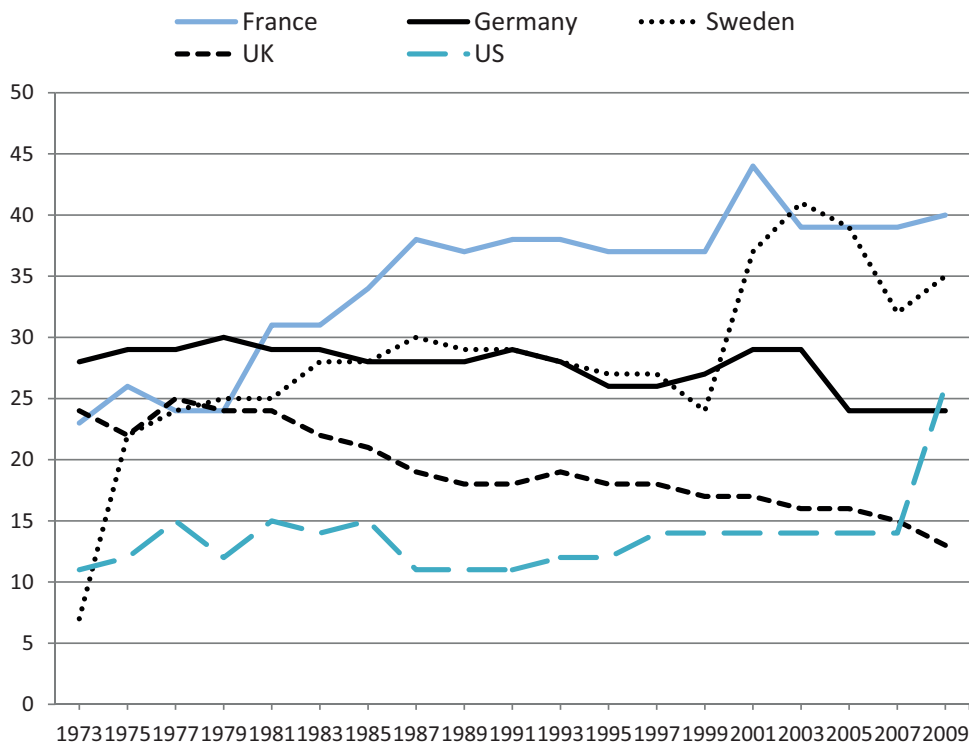


Figure 2

Generosity of unemployment benefits, 1973–2009 (OECD summary measure). Total benefit payable in a year of unemployment for a 40-year-old worker, average for three family and income situations (i.e., single person, married person with a dependent spouse, married person with a spouse in work), two levels of previous earnings in work (i.e., average earnings and two-thirds of average earnings), and three durations of unemployment (i.e., first year, second and third years, and fourth and fifth years of unemployment). The data are gross replacement rates, i.e., they are not adjusted for the effects of taxation. (See Martin 1996, p. 101.) Source: OECD, Tax-Benefit Models, <http://www.oecd.org/els/social/workincentives>.

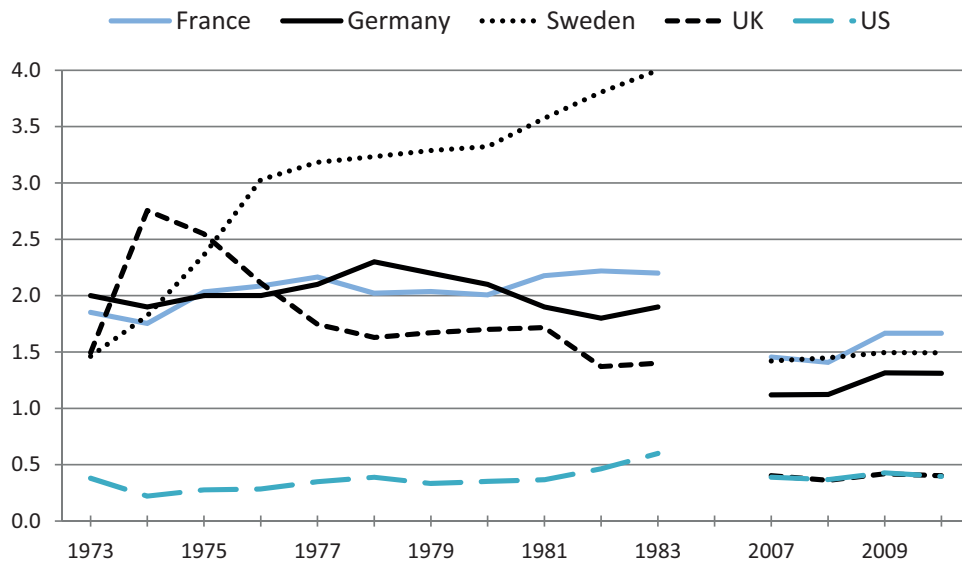


Figure 3

Industrial subsidies as a percentage of GDP, 1973–1983 (*left*) and 2007–2010 (*right*). Subsidies are defined as current unrequited payments that government units make to enterprises on the basis of the levels of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. Included are transfers to public corporations and other enterprises that are intended to compensate for operating losses. Sources: OECD, Economic Outlook: Statistics and Projections Database, No. 60 (1996) for Germany 1973–1977; No. 88 (2010) for the other countries and years. http://www.oecd-ilibrary.org/economics/data/oecd-economic-outlook-statistics-and-projections_co-data-en.



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Errata

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