Chapter 1 | Coping with Crisis: An Introduction

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THE CHINESE IDEOGRAPH for *crisis* combines the image of danger with the image of opportunity. This makes good sense. Crises are surely periods of peril, but they also facilitate change. This simple observation is the essence of the punctuated equilibrium model in economics. It is also the foundation of the social science literature on critical junctures. Whether they take the form of wars, depressions, deep recessions, or natural disasters, crises give leaders the opportunity to turn policies, and sometimes polities, in new directions.

Thus, crises threaten but they also enable, and the economic crisis that erupted in 2007 and 2008 was no exception. When the toxic assets of the U.S. mortgage market began to weaken financial institutions in the United States, Ireland, Germany, and Britain in 2007, policymakers in each state swiftly crafted a variety of policy reforms. Ruling party ideology proved a poor predictor of what transpired as the staunchly pro-market Bush administration engineered the largest government intervention in capital markets in U.S. history. Yet, on this occasion, as on so many others, reform opportunities were neither unconstrained nor uniformly utilized. As the financial crisis spread and morphed into the Great Recession, different governments responded in different ways, reacting to a mix of domestic and international pressures and incentives.

What forms did government responses take? How might they best be explained and who, if anyone, has seized the opportunity for change thus far? The essays in this volume address these questions from a variety of perspectives. Taken as a whole, the volume maps the varied nature of national responses, sheds light on the extent to which policies were shaped by international actors and international coordination and explores how

responses were affected by institutional complementarities, party politics, and organized interests. This opening chapter previews what lies ahead and sets government responses to the Great Recession in historical perspective through a comparison with government responses to the global economic crisis running from 1974 to 1982. The Long Recession, as we shall call it here, provides an appropriate comparison for the contemporary crisis, for it too was an extraordinarily sharp economic downturn that called into question core features of prevailing growth models in the advanced industrial (or postindustrial) economies.

Although our authors were not constrained by a single analytic framework, the collection as a whole highlights three major themes. The first is that international institutions have generally failed to play the ameliorative role that many envisioned: international financial institutions proved incapable of preventing the U.S. mortgage crisis from becoming a global recession; the EU failed to take the early measures that might have prevented the crisis from growing worse, and its inability to foresee and then forestall a series of sovereign debt crises has severely curtailed the autonomy of decision-making in debt-ridden member states and generated political disenchantment with the European project in general. The collection's second theme emerged when we, as editors, set the policy responses outlined by our authors in historical perspective. Comparing the responses to the Great Recession with the responses to the Long Recession of the 1970s and early 1980s, we found that the contemporary menu of policy choices had not only narrowed considerably but also changed in content. The third theme is that economic policymaking between 2008 and 2011 is only partially explained by the factors invoked to explain economic policymaking in better times and in previous crises: the institutional complementarities of liberal versus coordinated market economies, the ideology of ruling parties, and pressures from traditional interest associations carry less explanatory weight than the current literature in comparative political economy would lead us to expect.

Our themes have been shaped, no doubt, by our project's regional and temporal boundaries. Geographically, the volume deliberately focuses on advanced capitalist democracies. Its essays trace and explain policy responses in the EU, Britain, France, Germany, Greece, Ireland, Japan, Portugal, Spain, the Nordic countries, and the United States, and include references to Italy as well. Although the Great Recession has certainly been felt globally, the crisis started in the most developed economies, and much is to be gained by beginning our inquiry where the crisis began. In addition, an extensive literature exists on government responses to previous economic crises in advanced capitalist democracies, providing us with the

opportunity to engage in cross-temporal as well as cross-national comparisons (see Gourevitch 1986; Scharpf 1991).

The temporal focus of this collection is on policy responses crafted before the first quarter of 2011. Defining the term *recession* conventionally, as two consecutive quarters of GDP contraction, our time frame encompasses the entire period in which these advanced democracies were technically in recession (Stiglitz and Walsh 2006). Of course, the Great Recession followed somewhat different trajectories in different places. Ireland was the first to enter into recession and then experienced more recessionary quarters than any of the other country cases. Sweden was among the last and then experienced fewer. Despite this variation, all our cases save Greece had managed to restore growth for at least one quarter before the end of 2010, and even Greece managed a short-lived rebound in the first quarter of 2011.

This said, it is quite clear that the negative consequences of the Great Recession are still being felt at the time of this writing (February 2012). Stock prices have not reached their pre-recession level in Britain or the United States and are in decline again in both the eurozone and Japan.[1] The United States, Ireland, Spain, and Greece are continuing to struggle with crises in their housing sectors, and unemployment remains much higher than before the Great Recession in most countries (see table 12.7). The full effects of the sovereign debt crises have yet to be felt, and that Portugal and Japan entered new recessionary cycles in 2011 seems ominous.[2] The policy reactions we analyze here are thus government reactions to what is probably only the first phase of an extended economic crisis with multiple components. This makes our task more difficult but also more important: the policy changes made between 2007 and 2010 will be the foundation for coping responses in the future.

THE ROLE OF INTERNATIONAL INSTITUTIONS IN THE ORIGINS AND MANAGEMENT OF THE CRISIS

It is hardly necessary to underline the international nature of the Great Recession. The subprime mortgage crisis in the United States spread across the global economy by virtue of the fact that financial institutions in all major countries proved unable to control their direct and indirect exposure to the high-risk lending that drove global finance from the early 1990s onwards. In the first quarter of 2009, twenty-five of the twenty-seven member states of the European Union experienced negative GDP growth (see table 4.2). Just as unprecedentedly high levels of trade interdepen-

dence, particularly among EU states, contributed to the depth and spread of the recession, unprecedentedly high levels of financial interdependence contributed to the depth and spread of the negative fallout from sovereign debt crises. Sovereign debt problems now pose the major threat to global recovery as well as a major political challenge for the European Union.

Torben Iversen and David Soskice illuminate the association between interdependence and the origins of the Great Recession in chapter 2. They argue that the crisis of 2008 to 2010 is the manifestation of a two-fold regulatory failure at the international level: first, the failure to regulate high-risk lending activities by a small number of very large (and interdependent) financial institutions; and, second, the failure to regulate global trade imbalances. As Iversen and Soskice point out, the flow of capital from countries with trade surpluses to countries with large financial markets and high rates of return on financial assets (most notably, of course, the United States and the United Kingdom) made possible the persistence of trade imbalances in the ten to fifteen years before the crisis. In the absence of these capital flows, surplus countries would have lost and deficit countries would have gained trade through real exchange-rate adjustments. At the same time, cross-national capital flows fuelled speculative activities in countries without strong financial regulations and exposed countries with stricter regulations to increased systemic risk. The United States or the United Kingdom may well have experienced a financial crisis in the absence of global trade imbalances, but the crisis and its repercussions for the global economy would have been far less severe.

Reflecting lessons learned during the Long Recession of 1974 to 1982, the major industrial economies all embraced inflation targeting as the core principle of global macroeconomic management in the two decades prior to the onset of the crisis. Iversen and Soskice stress that this macroeconomic regime was never meant to regulate trade imbalances. Quite the contrary, it was designed precisely to accommodate the build-up of trade surpluses by export-oriented economies, such as Germany and China. By the same token, the institutional framework of global economic governance allowed the United States, the United Kingdom, and other liberal market economies to boost their comparative advantage in financial services by engaging in financial deregulation in the 1980s and 1990s. For Iverson and Soskice, then, the twofold regulatory failure at the heart of the economic crisis can be directly linked to an international framework based on national sovereignty over the rules governing finance and the accommodation of divergent national approaches to trade and macroeconomic management.

Although Iversen and Soskice conclude by suggesting that "lessons have been learned about the operation of the financial system that may

limit the dangers of a future crisis," their core argument is that the major players on the global stage continue to have divergent preferences with respect to financial regulation as well as macroeconomic management. Emphasizing the determinant role of each country's "variety of capitalism" for domestic and foreign economic policies, Iversen and Soskice argue that domestic policymakers' preferences reflect the interests of the dominant economic sector in each state (Hall and Soskice 2001). This means the financial sector in the (Anglophone) liberal market economies and the manufacturing sector in coordinated, export-oriented economies. In Iversen and Soskice's framework, international coordination boils down to bargaining among governments representing different national models of capitalism and there is little reason to believe that the economic crisis will engender new forms of multilateral or supranational regulation.

Whereas Iversen and Soskice's chapter explores how tensions between international and national institutions played a role in the origins of the economic crisis, the four chapters that follow explore the role of international institutions during the crisis. In chapter 3, Eric Helleiner emphasizes the limits of multilateral crisis management and in so doing offers an important corrective to the commonly held view that extensive international cooperation distinguishes the experience of 2007 through 2010 from that of the Great Depression. Heilleiner's argument is nuanced: he recognizes that the G20 of November 2008 legitimated fiscal stimulus as a national response to the crisis while the World Trade Organization (WTO) restrained protectionist impulses around the world. He also notes that the central banks of the major industrial countries coordinated among themselves to achieve financial stabilization. However, Helleiner downplays the role of the International Monetary Fund (IMF) as an arena for crisis resolution and argues that domestic pressures were more important than the G20 in bringing about the reorientation of fiscal policy in most industrial countries.

Perhaps most decisively, Helleiner stresses the absence of a dollar crisis as the main reason the financial crisis of 2007 and 2008 did not lead to the kind of global collapse of trade and economic activity that occurred in the early 1930s, and points out the lack of any evidence whatsoever of bilateral or multilateral coordination to shore up the dollar in 2007 and 2008. Echoing the Iversen and Soskice emphasis on domestic structures, Helleiner argues persuasively that the absence of a dollar crisis can and should be analyzed in terms of unilateral, self-interested decisions by governments and financial institutions holding large dollar reserves. In addition, he suggests that the economic crisis has hampered rather than stimulated ongoing efforts to strengthen the international regulation of finance. Again consistent with Iversen and Soskice, he emphasizes conflicts between na-

tional models in this realm but also points out that financial regulation has become a hotly contested issue in domestic politics in the wake of the crisis. In his words, the ultimate legacy of the Great Recession "is likely to be a more decentralized international regulatory order, one that gives more autonomy to national and regional authorities to set their own regulatory priorities."

Because much of our volume deals with crisis responses in western Europe, the role played by the European Union as a multilateral organization and supranational actor receives special attention. Although the EU is discussed in all chapters that deal with crisis responses in Europe, this subject features most prominently in those on European fiscal policy responses (chapter 4), France, Germany, and the EU (chapter 5), and sovereign debt crises (chapter 6). Taken together, these chapters bring out the Janus-faced quality of the EU's role in crisis management. In relation to fiscally solvent member states, its influence on responses to the crisis has been very limited. In relation to debt-ridden member states, however, the EU has come to assume formidable new powers of surveillance and policy constraint.

As chapters 4 and 5 both show, the EU provided a forum for member states to discuss and coordinate fiscal policy responses to the economic downturn, but the Recovery Plan adopted by the European Council in December of 2008 amounted to little more than a summation of stimulus measures that had already been decided by national governments in the member states. Wielding a budget of only 1 percent of the EU's GDP, and legally prevented from issuing its own debt, the capacity of the EU itself to engage in expansionary fiscal policy was strictly limited. As Waltraud Schelkle notes in chapter 5, German opposition effectively preempted any serious discussion of strengthening the fiscal capacity of the EU and the German government vetoed a general EU-wide reduction of value-added taxes proposed by the Commission. The Recovery Plan shied away from any attempt to impose a more expansionary policy stance on member states that were reluctant to engage in fiscal stimulus, and the EU did not initiate further coordination of expansionary policies when it became clear, in the spring of 2009, that its initial economic projections were overly optimistic.

David Cameron argues in chapter 4 that the Growth and Stability Pact, which imposes limits on the ability of euro members to run deficits, was an important constraint, particularly for those member states that were already in deficit when the crisis started. More broadly, Cameron suggests that the EU experience of 2008 through 2010 illustrates the vexing collective action problem that fiscal expansion entails under conditions of interdependence. Simply put, national governments worried that demand

stimulus would benefit other member states by boosting demand for imports and, at the same time, reduce the competitiveness of their own exports. In Cameron's assessment, the member states of the EU ended up engaging in less-than-optimal fiscal expansion in the absence of effective policy coordination.

Schelkle makes a similar point about weak policy coordination in her analysis of Germany and France. She shows that the EU proved weak as an autonomous actor when faced with pressure from two powerful core members, yet her analysis of the EU's first responses to the Greek and Irish sovereign debt crises of 2010 and 2011 highlights a different and much stronger face of the EU. In its relations to these debt-ridden countries, the EU has emerged as a powerful and remarkably unitary supranational actor, dictating the imposition of draconian austerity measures in return for financial support. As Schelkle explains, this new EU role has involved significant institutional changes, with the creation of the European Financial Stability Facility and new mechanisms of budgetary surveillance. Perhaps most important, recent developments have shattered the carefully crafted separation of fiscal and monetary policy within the EU.

Schelkle argues persuasively that the EU's management of sovereign debt crises corresponds to the French vision of a more "political Europe," but the common policy that the European Central Bank and strong member states such as France and Germany have agreed on represents a surrender to bond markets and, thus, to finance capital. The long-term implications for the democratic legitimacy of the EU, in the eyes of German taxpayers as well as (unemployed) Greek workers, are potentially very serious.

In chapter 6, Klaus Armingeon and Lucio Baccaro complement Schelkle's arguments about both the power of the EU over its economically weaker members and about the implications of EU actions for democratic legitimacy. Their study of post-crisis policymaking in Greece, Ireland, Portugal, and Spain does not confine itself to the role of the EU and shows how the political economies of peripheral states are being shaped by the International Monetary Fund as well. Their central point, however, is about the constraints brought on by membership in the eurozone. Use of the euro deprives countries of the option of currency devaluation. In so doing, it deprives them of the standard means of buffering austerity by boosting external demand while domestic demand is compressed. The deep budget cuts required by debt crises have "worsened rather than ameliorated prospects for financial solvency" and, to make matters worse, the peripheral countries' austerity packages "are by no means distribu-

tionally neutral." They will scale back welfare states that are already modest by most measures and further deregulate key parts of the labor market and industrial relations system.

Armingeon and Baccaro argue further that the overwhelming disparity in power revealed by the recent debt crises will sow disenchantment not simply with the integration of European democracies but with democracy itself. Trust in national governments has already receded dramatically as citizens come to believe that neither domestic parties nor collective action affect policy outcomes. Austerity budgeting to cope with crisis may "profoundly change the social contract in the countries in question, and possibly in Europe as a whole."

Taken together, these internationally focused essays illustrate that international organizations have often fallen short of expectations. Helleiner argues persuasively that decisions taken by national governments were more consequential for crisis control than decisions taken through international coordination. Cameron, Schelkle, and Armingeon and Bacarro highlight a variety of coordination problems that compromised institutional effectiveness in the EU, and Iverson and Soskice situate the origins of the crisis itself in international coordination problems intrinsic to different varieties of capitalism.

COMPARING POLICY RESPONSES: CROSS-NATIONAL AND CROSS-TEMPORAL PERSPECTIVES

Three facts about policy responses to the Great Recession stand in sharp relief. First, states not in danger of default relied overwhelmingly on fiscal stimulus packages to cope with the crisis. Second, the size and composition of fiscal stimuli varied considerably across states. Third, the heavy reliance on fiscal stimulus, plus a radically different industrial policy, distinguished the reactions to the Great Recession from reactions to its predecessor. The other mechanisms used to cope with crisis in the Long Recession, including protectionism, devaluation, and nationalization, were, for the most part, absent in the Great Recession. The menu of policy options that governments considered in 2008 through 2010 appears to have been much narrower than the menu considered during the crisis of the 1970s and early 1980s.

Macroeconomic Policy

The United States, Japan, and nearly all countries in Europe reacted to the Great Recession with some form of fiscal stimulus. Even Portugal and

Spain attempted stimulus packages before their debt crises began. Yet, as the contributions to this volume demonstrate (most notably chapters 4 and 11) cross-national variation in the extent to which different governments engaged in fiscal stimulus was substantial. Although Ireland from the very beginning stands out for its procyclical fiscal policy, the United States, Britain, and Japan pursued decidedly more expansionary fiscal policies than eurozone members, particularly if we restrict the comparison to discretionary policy measures. The Nordic and core continental countries relied more heavily on *automatic stabilizers* (that is, budget deficits automatically generated by increased spending and declining tax revenues due to the decline of economic activity and the rise of unemployment). However, the Nordic countries also undertook discretionary measures to boost aggregate demand (see chapter 8).

Cross-national differences in the size of fiscal stimulus packages sometimes took surprising turns. Contrary to what we might have expected based on policy legacies and public rhetoric, Germany adopted a more expansionary policy stance than France (see chapter 5). And, contrary to what we might have expected on purely ideological grounds, chapter 6 shows that the first fiscal responses adopted by ruling socialist parties in southern Europe ran the gamut from highly expansive in Spain to moderately expansive in Portugal and countercyclical in Greece. Contradicting expectations that liberal economies might react with a uniform response, chapter 10 illustrates an even starker contrast between Ireland and Britain: Ireland cut spending dramatically while Britain increased it sharply in 2008 and 2009. Finally, the depth of a country's economic contraction and the strength of its stimulus package had at best only "a very slight relationship" (chapter 4).

Evidence presented in chapters 4, 8, and 11 shows that the composition of fiscal stimulus packages also varied significantly across countries. Some governments relied primarily on tax cuts whereas others also increased spending. Within the first of these two broad categories, countries varied substantially in the sorts of tax cuts passed: Spain and the United States, for example, focused primarily on cutting individual income taxes, Germany on cutting payroll taxes, and the United Kingdom cutting consumption taxes (chapter 11).

The nature of spending-based stimuli varied greatly as well. For example, though nearly all the countries included in this study subsidized scrapping programs to boost automobile sales, the programs ranged in size from the relatively ambitious initiatives of Germany, Japan, Spain, and the United States to the more modest initiatives of Britain and France (see chapters 5 and 9; see also Haugh, Mourougane, and Chatal 2010). Countries varied as well in the extent to which they invested in public

employment maintenance. In Sweden, both government and opposition agreed to maintain public sector employment via large transfers from the central government to municipal governments (chapter 8). In the much more polarized United States, however, public-sector employment dropped considerably, despite federal government transfers to regional and local authorities (chapter 11). In the peripheral countries of the EU, a third pattern eventually emerged in which public-sector employment was deliberately slashed as part of centralized austerity measures.

Compared with the Great Recession, the fiscal policy responses to the recessions of 1974 to 1976 and 1980 to 1982 were less expansionary and even less uniform. It is also noteworthy that monetary policy was generally quite restrictive from 1974 to 1982, in marked contrast to the 2007 to 2010 period. American and German governments responded to the recession of 1974 to 1976 with fiscal stimulus, but in both cases monetary policy counteracted the effects of fiscal policy, and in stark contrast to 2008 to 2009, both countries responded to the recession of 1980 to 1982 in a decidedly non-Keynesian manner (on Germany, see Scharpf 1991). Faced with rampant inflation and mounting public debt, British Labour governments of 1974 through 1979 pursued restrictive fiscal policies, anticipating the policy stance adopted by Mrs. Thatcher's government during the recession of the early 1980s. Portugal and Spain pursued expansionary and then restrictive policies at different times. France weathered these earlier recessions relatively well and avoided extensive reliance of fiscal stimulus over the entire 1974 to 1982 period. Only for Sweden and a few other countries can we say without qualification that the macroeconomic policy response to the recession of the mid-1970s was decidedly more expansionary than that to the Great Recession.

Although the countries coping with the recent crisis all adopted more restrictive fiscal policies as soon as signs of economic recovery appeared in 2009 and 2010, the comparison with the recessions of 1974 to 1976 and 1980 to 1982 suggests that reliance on fiscal stimulus represents a distinctive feature of government responses to the Great Recession—Ireland, Greece, and later Italy and the Iberian countries being major exceptions.[3] In our view, this feature is particularly noteworthy because so much of the existing literature on macroeconomic management emphasizes the ascendancy of monetarist ideas from the early 1980s onwards (for example, McNamara 1998). Over the last few years, we have learned that fiscal stimulus remains an economically effective and politically viable policy option for governments coping with economic crisis.

At the same time, the modalities of fiscal activism appear to have changed relative to the golden age of Keynesiasm in the 1960s and 1970s, at least in western Europe. In the 1970s, fiscal stimulus primarily involved

increases in government spending and when governments subsequently sought to restore a balanced budget they did so by raising the rate of taxation. In the recent period, in contrast, governments relied more heavily on tax cuts to stimulate the economy and on spending cuts to achieve fiscal consolidation. Following Jonas Pontusson and Damian Raess (2012), we might think of this as a shift from social Keynesianism to liberal Keynesianism.

Protectionism, Devaluation, and Compensation

The comparison with the 1970s also serves as a useful reminder of what governments did not do in response to the Great Recession. From an historical perspective, the absence of protectionist responses to the Great Recession is striking. Though the United States and the EU both imposed antidumping duties on certain imports, the percentage of total imports affected by such measures increased by less than one percentage point from 2008 to 2009 (Kee, Neagu, and Nicita 2010). By contrast, the share of U.S. manufactured imports affected by nontariff barriers increased from 5.6 percent in 1974 to 18.4 percent in 1979. Increases of similar magnitude over this period occurred in all the major European countries as well (Page 1981).

Several European countries engaged in devaluation as a strategy to boost exports (and curtail imports) in the 1970s. In contrast, European hard-currency commitments remained remarkably firm between 2007 and 2010. Japan and the United States reacted differently from their European counterparts on currency issues but not as differently as sometimes portrayed. The use of "quantitative easing" in the United States drove dollar values down, but the dollar had been losing value against almost every other global currency for ten years, as Iversen and Soskice point out (see also Landon Thomas Jr., "Some See Rise Ahead for Dollar," *New York Times*, May 17, 2011). In any case, quantitative easing was aimed not at devaluation but at driving down long-term interest rates. Likewise, Japan sold the yen against the dollar under pressure from business leaders to boost exports, but it took this action only in September 2010, after the Great Recession had technically subsided in Japan's trading partners.[4]

Yet another point of contrast between the 1970s and the Great Recession concerns government efforts to compensate the jobless and protect workers against rising unemployment. In most of the advanced capitalist democracies, governments increased the generosity of unemployment insurance and other forms of compensation for the unemployed in response to rising unemployment in the second half of the 1970s. Many European countries also increased regulations that made it more difficult, or expen-

sive, to shed workers during economic downturns (Pontusson and Raess forthcoming). In contrast, neither employment protection nor unemployment compensation appears to have been a prominent feature of government responses to the Great Recession. Quite the contrary, several of our authors show that even the maintenance of existing unemployment compensation provisions has been problematic in many states. Britain made eligibility for the jobseekers allowance decidedly more restrictive (chapter 12). Ireland lowered unemployment benefits and decreased access, and Spain extended benefits at first but then retreated (chapter 6). The Obama administration did increase spending on passive labor market policies after a long struggle and painful concessions to Republicans on tax cuts (chapter 7), and Japan's new government dramatically expanded unemployment insurance eligibility and benefits (chapter 9), but the United States and Japan are clearly outliers in this respect. As David Rueda shows in chapter 12, the general shift toward an emphasis on "demanding workfare" that occurred in the ten to fifteen years before the crisis continued through the crisis, both in liberal economies such as Britain, and in coordinated economies such as Germany. Exploring whether the Great Recession led countries to expand either their active or passive labor market policies, Rueda finds only marginal changes. Controlling for the rate of unemployment, only two countries, Italy and the Netherlands, saw government spending on unemployment compensation increase by more than 0.05 percent of GDP from 2007 to 2009 (table 12.8).

Industrial Policy

In the mid-1970s and early 1980s, European governments engaged in various selective interventions to deal with the economic difficulties of specific industrial sectors. Some of these interventions involved government subsidies to industry, but by no means all of them took this form. As John Zysman 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 (1983). In Britain, Sweden, France, Portugal, and Greece, industrial policy in this earlier period also involved a significant expansion of state enterprise.

The Great Recession also prompted a number of governments to use industrial policies to cope with the economic crisis. Thus industrial policy might be seen as a dimension on which government responses to the Great Recession were similar to those of the Long Recession. However, we are struck by how differently these types of targeted policy measures have been used in the more recent period. Three contrasts in industrial policy stand out. The first involves a markedly different role for the state in creat-

ing employment. To the extent that governments in the Great Recession took an active role in employment creation at all, they did so mostly indirectly. They worked either through tax breaks for potential employers, as in Sweden's construction industry (chapter 8), or through temporary subsidies for short-term work in the private sector (chapters 5 and 9). Japan and a number of continental European countries, most notably Germany, introduced temporary subsidies for short-term work as a way to dampen unemployment in 2008 and 2009 (Schmitt 2011). These coping mechanisms did dampen unemployment but the contrast with the past is noteworthy. Rather than providing jobs directly, governments worked largely at the margins of the labor market, changing the incentives of potential employers with no guarantees that jobs would actually be created and no attempt to ensure long-term employment.

The second difference in industrial policy concerned the framing of the direct sectoral interventions that did occur. As several of these chapters show, the crisis prompted a number of governments to intervene in their automotive industries. In addition to the scrapping programs mentioned above, the United States provided some $80 billion in assistance to General Motors and Chrysler (Edmund Andrews, "Bailout Set to Ride Off into Sunset," *New York Times*, September 11, 2009). France provided $7.8 billion to Renault and Peugeot-Citroen, and Germany provided 4.5 billion euro to Opel. In some respects, these interventions mirrored actions taken in the earlier recessions. After all, Chrysler was bailed out in 1979 as well. Yet throughout the interventions of 2008 and 2009, governments went to great lengths to insist that their actions were only temporary measures and neither a challenge to free market principles, nor an expansion of state activities. Although European Commission leaders such as Mario Monti point out that industrial policy is no longer "taboo" (European Commission on Enterprise and Industry 2010), sectoral interventions are now invariably framed as a means to strengthen market mechanisms. Long-term spending programs and market substitution are no longer on the agenda. The European Commission's October 2010 Communication on Industrial Policy conveys the contemporary vision of industrial policy nicely:

> Whilst the economic and financial crisis shifted the focus of industrial competitiveness policies towards short-term rescue and recovery actions . . . the attention of policy makers has to focus on long-term structural challenges, in particular maintaining global competitiveness, . . . In the context of fiscal consolidation, *competitiveness strategies cannot be built on major spending programmes, but are more likely to address structural reforms in areas such as improving the business environment.* (2010, 30, emphasis added)

Thus, the role of industrial policy is to boost market competition through environmental changes rather than state spending. This very different framing of intervention dovetails with the different policy reactions to rising unemployment highlighted above. Despite a continued employment crisis in several EU countries, the European Commission endorses a limited role for government in the labor market. Its official position on industrial policy states explicitly that "excess capacities in some industries require tailor-made responses *at the company level . . . Companies and social partners have the primary responsibility for restructuring*" (European Commission 2010, 21, emphasis added).

The third and most consequential contrast between industrial policy in the Great Recession and industrial policy in the 1970s concerns the targets of state intervention. During the Long Recession, the targets of industrial policy were concentrated in manufacturing. In the Great Recession, the targets of intervention were overwhelmingly outside the manufacturing sector and in the financial sector instead. As Ben Ansell documents in chapter 11, all the countries considered in the volume engaged in massive bailouts of failing financial institutions. These bailouts focused primarily on the banking sector but many governments provided massive bailouts to the insurance industry as well. In Europe, for example, FORTIS was bailed out at a cost of $16.1 billion in September, 2008. In the United States, the Bush administration purchased $40 billion in preferred stock and provided a $30 billion credit line to bail out the American International Group (AIG). Although policymakers have so far shied away from using the infusion of public funds as a means to extend government involvement in the governance of financial institutions, the scale of these government interventions was historically unprecedented.

EXPLAINING POLICY RESPONSES

We now turn to the question of how government responses to the Great Recession might be explained. The contributors to this volume set a lively research agenda in developing a number of different causal arguments. We begin this section with an overview of the explanations they offer.

Explaining Current Cross-National Variation

Several factors help explain cross-national variation in macroeconomic policy responses. For peripheral countries with sovereign debt crises, policy responses were dictated almost exclusively by the demands of the EU and the IMF. For our other cases, however, domestic factors carry the greatest explanatory weight. Even Helleiner, who in chapter 3 explores the

role of international coordination and supranational actors in the politics of crisis management, points to the limits of "internationalist" explanations. What domestic factors stand out?

A first factor concerns the role of *ideological divisions among lawmakers*. Although crisis might, in theory, have led to convergence, Nolan McCarty shows in chapter 7 that economic crisis did little to dampen elite polarization in the United States and that the country's response to the crisis was profoundly shaped (and hampered) by ideologically driven politics as a result. Johannes Lindvall's analysis in chapter 8 focuses on an opposite outcome but makes a similar point. He illustrates how, by the time of the Great Recession, the main Swedish parties had converged when it came to the size of the public sector and that elite consensus facilitated a swift and effective crisis response as a result.

Focusing on the environment in which political elites operate, a number of our authors illustrate how crisis responses can be deeply affected by *domestic political institutions*. Despite winning the 2009 election by a landslide, Japan's Democratic Party (DPJ) was unable to use the crisis as an opportunity for a major expansion of universal welfare because it had only weak cabinet control of the parliamentary agenda and, by 2010, no majority in the Upper House (chapter 9). Likewise, in the United States, the Democratic Party was forced to make dramatic cuts to its original stimulus proposal because supermajoritarianism and other institutional veto points allowed it no alternative (chapter 7).

Not surprisingly, a number of this volume's authors find that *electoral considerations* shaped responses to crises. Schelkle argues persuasively in chapter 5 that Germany's response to the crisis largely followed the logic of electoral politics, and Lindvall points out in chapter 8 that politicians' support for reforms will always be partially contingent on their projected effects on electoral prospects. McCarty shows in chapter 7 how the U.S. crisis response was deeply affected by the short-run electoral calculations of a presidential election year.

Without denying the role of political variables, several of our essays point to the pivotal role of economic conditions and policy legacies as explanations for government responses to the Great Recession. As David Cameron demonstrates in chapter 4, the government's *budgetary position* at the onset of the crisis is a strong predictor of the extent of fiscal stimulus in 2008 and 2009: EU member states that entered the recession with budget surpluses engaged in significantly more fiscal stimulus than those that entered the recession with budget deficits. (This association holds for both aggregate and discretionary measures.) In chapter 12, David Rueda highlights the implications of budgetary deficits, arguing that the need for austerity was used to justify the decrease in the generosity of the welfare state

before and during the Great Recession. Tiberghien's analysis in chapter 9 complements Rueda's in showing how Japan lacked "the fiscal scope for a major expansion of universal welfare," despite being governed by a party that genuinely sought expansion. The chapters dealing with Ireland, Greece, Portugal, and Spain show how budget deficits have affected not only reactions to the crisis but the autonomy of domestic political elites vis-à-vis international organizations.

Closely related to arguments about pre-crisis budgets are a series of reinforcing arguments about *pre-crisis tax policies*. Asking what enabled certain countries to amass a budgetary surplus in the years immediately prior to the Great Recession, Cameron finds income-elastic forms of revenue and, in particular, taxes on personal incomes to be pivotal. The countries that had the greatest latitude in crafting a response to crisis were those that used personal income taxes to build a budget surplus in good times. Barnes and Wren's chapter 10 analysis of Ireland shows how a very different set of tax policies ultimately led to a situation in which policymakers had little choice about crisis response. Ireland was forced to implement austerity measures in part because the government had routinely offered income tax reductions in exchange for wage restraint in the years before the crisis hit. The country's "over-reliance on other, more cyclical taxes exacerbated the fiscal impact of the crisis" and sharply limited policy options.

Finally, the *sectoral foundations of economic growth* over the two decades preceding the Great Recession feature as an explanatory variable in several of the chapters. For instance, Barnes and Wren argue in chapter 10 that Britain and Ireland reacted to the Great Recession in contrasting ways because Ireland's growth model was much more heavily reliant on the construction and housing sectors. Ireland was forced into a countercyclical response because it experienced a greater shock to output, employment, and revenue when the housing bubble burst. The weight of the housing sector looms large as an explanatory variable in Ansell's chapter 11 argument as well. His analysis of crisis reactions in thirty OECD countries concludes that "countries that had housing booms see a very strong effect of partisanship on the types of discretionary tax and spending policies" formulated—with the Right cutting more taxes and the Left initiating more spending programs. In countries without housing bubbles, "demands from homeowners for tax relief or spending measures to maintain demand were largely absent." In these cases, "neither the *opportunity* for parties to engage in politically attractive shifts in policy nor the *compositional* motivation produced by changing demands from parties' voting bases was in play." Without "a large group of politically active homeowners, partisan responses were constrained."

Updating Past Perspectives

How do the arguments in this volume relate to the existing literature? It is commonplace to distinguish three, sometimes overlapping, theoretical traditions and research agendas within the field of comparative political economy. One strand of this literature emphasizes institutional differences among advanced capitalist political economies and notes that different sorts of institutional arrangements cluster together. A second tradition focuses on the role of government partisanship, typically postulating that parties of the Left and the Right have different core constituencies and, as a result, different distributive objectives. Finally, a third tradition emphasizes the role of organized interests and coalitions among different segments of labor and capital. This typology of CPE traditions provides a convenient way to assess the contribution these essays make to the larger literature on the domestic determinants of policy choice.

Varieties of Capitalism The varieties of capitalism (VOC) approach referred to in our discussion of chapter 2 provides a prime example of the institutionalist tradition and is arguably the dominant approach to comparative political economy today (Soskice 1999; Hall and Soskice 2001; Hall and Gingerich 2009). Emphasizing complementarities among the different components of political-economic systems (industrial relations, skill formation, corporate governance, and inter-firm relations), this theoretical perspective identifies the coordinating capacities of business as the key dimension on which capitalist political economies differ. As a consequence, it draws a sharp distinction between liberal market economies (LMEs), exemplified by the United States, the United Kingdom, and the other Anglophone countries, and coordinated market economies (CMEs), exemplified by Japan, Germany, and the small states of northwestern Europe. Each variety of capitalism entails distinct comparative advantages, promoting different economic sectors and encouraging firms to pursue different innovation and production strategies. National governments will strive to maintain existing comparative advantages and, in so doing, serve the interests of dominant economic sectors.

As discussed, chapter 2 treats the Great Recession as a manifestation of the conflicting regulatory logics of different national models of capitalism. The discussion of the origins of the contemporary crisis is compelling, but leaves open the question of how far the VOC approach takes us in explaining government responses to the crisis itself. The VOC approach did not derive from an effort to explain policy reactions to economic crisis per se. It derived instead from an effort to explain "economic adjustment" to the "challenge of globalization" and to changes in "technology, products and

tastes" (Hall and Soskice 2001, 60, 62–63) , Recognizing this, we as editors believe that the experience of the Great Recession provides an opportunity to examine some the core elements of the VOC framework in a different setting. The chapters in this volume advance this opportunity by bringing out important commonalities among LMEs and CMEs, important differences within each cluster of countries, and explanatory factors not yet incorporated in the VOC model.

In the realm of commonalities across varieties of capitalism, the phenomenon of housing booms has not been confined to LMEs. Japan experienced a huge housing bubble in the 1980s (chapter 9) and housing booms also occurred in Scandinavia and southern Europe (chapter 11). In the period leading up to the Great Recession, speculative increases in the price of financial assets appear to have been widespread in CMEs, LMEs, and the Mediterranean economies. Perhaps most important, financial institutions based in CMEs became deeply involved in high-risk lending in this period, which explains why the sovereign debt crises of relatively small economies such as Ireland and Greece have had such grave implications for the financial sectors in Germany, France, and elsewhere. Clearly, the Great Recession has had an important financial dimension in CMEs as well as LMEs, which has led to certain similarities in policy responses.

Among these similarities, the reliance on fiscal stimulus stands out. Beyond showing that fiscal stimulus was the weapon of choice across system types, chapter 4 indicates that a number of export-oriented CMEs—Japan as well as Sweden, Denmark, and Germany—adopted much larger discretionary stimulus packages than the United Kingdom or France, let alone procyclical Ireland, in 2008 through 2010.[5] Looking beyond fiscal policy measures, and to other policy similarities, other chapters show that Germany, the United States, and France all provided direct assistance to their automobile industries and that an equally broad range of economies bailed out failing banks (chapters 5, 7, and 11).

This collection also brings out important policy differences within the clusters of states that are conventionally categorized as LMEs or CMEs. Without contradicting the basic tenets of the varieties of capitalism approach, chapter 10 highlights substantial variation within the liberal category in a detailed contrast of crisis responses in Ireland and the United Kingdom. Chapter 12 also points out differences among LMEs in noting that the United States increased spending on passive labor market policies significantly while other liberal economies made marginal changes or no changes at all. Ansell's chapter 11 argument points to the significance of heterogeneity among both CME and Mediterranean states, showing that the presence or absence of housing booms (rather than institutional mod-

els) proved determinant in certain policy areas. Those who know the VOC literature well will not be surprised by these internal differences. Peter Hall and David Soskice noted from the start that "significant variations can be found" within the LME and CME categories (2001, 33). This project has brought several variations to light, inviting more work on how the differences might best be explained.

Several of the essays in this volume illustrate that policy differences within LMEs and CMEs can be explained by the relative importance of different sectors (for example, construction), suggesting that more scholarly attention to sectoral weighting might be fruitful. Another suggestion is that comparative political economists need to pay more attention to questions concerning state capacity and, in particular, the fiscal capacity of states (see also Beramendi 2010). Discussions of state capacity loomed large in the literature on industrial policy in 1970s and 1980s (for example, Katzenstein 1978; Zysman 1983), but faded in importance as comparative political economists increasingly focused attention on the coordinating capacities of private actors. This collection illustrates that the explanatory power of various aspects of state capacity merit more attention. Established state fiscal structures feature prominently in Cameron's chapter 4 explanation for the relatively successful response to the Great Recession in the Nordic countries: the Nordic countries were in an "advantageous position" largely because they relied on large automatic stabilizers and "forms of revenue—in particular, taxes on personal incomes—that are income elastic and tend to increase markedly during good times." Ireland's very different fiscal structure—with its heavy reliance on revenues tied to housing, corporate tax, and VAT—meant that it entered the recession greatly disadvantaged. In a related vein, Greece, Spain, Italy, and Portugal struggle with debt today in part because their states have historically lacked the capacity to stem tax evasion.

The experience of the Great Recession also suggests that comparative political economists need to pay more attention to the regulatory capacity of the state. Although U.S. policymakers have been generally reluctant to control high-risk financial activities, the efforts they have made in this domain were hampered by weak regulatory capacity (chapter 7). By contrast, the sense of stability that prevails in the Japanese bond markets, despite the highest debt to GDP ratio in the OECD, derives in part from continued confidence in regulatory state institutions (chapter 9). The question of how fiscal and regulatory state capacities relate to varieties of capitalism strikes us as a very important topic to explore further, extending and enriching the institutionalist tradition in comparative political economy.

Parties and Government Partisanship Several of the chapters in this volume focus on the role of partisan politics in shaping government reactions to the Great Recession. Whether government partisanship matters to policy outcomes and economic performance—or under what conditions and for what policies it matters—have long been central preoccupations of comparative political economists. The existing literature on partisan effects typically asks whether governments run by center-left parties consistently make different policy choices from governments run by center-right parties and suggests that the answer to this question depends on electoral systems (for example, Iversen and Soskice 2006) as well as the interplay of external constraints and domestic political pressures (for example, Garrett 1998; Kwon and Pontusson 2010). However, this literature has not given systematic attention to the question of how recessions or economic crises affect the role of partisanship in policymaking. Some authors (such as Pierson 2001) have suggested that economic downturns generate policy convergence between left and right governments because they restrict the ability of governments to increase public spending, but it seems equally plausible to suppose that it is precisely under conditions of scarcity that governments have to make hard choices and end up showing their true colors, catering to the distributive interests of their core constituencies.

Taken together, the discussions of partisan politics in this volume bring out an important conceptual distinction that the existing literature has tended to overlook. The topic of partisan politics involves two separate questions. The first concerns the extent to which the major parties disagree over policies or, for present purposes, over how to meet current economic challenges. To use McCarty's language, this is the question of "partisan polarization." The second question is whether it matters which of the major of the parties hold the reins of government—this we should see as the question of "government partisanship."

The partisan polarization question is analytically prior in the sense that we would not expect government partisanship to matter greatly if policy consensus among the major parties is strong, but partisan polarization does not necessarily mean that government partisanship matters. As McCarty makes clear in chapter 7, the deep polarization that has come to characterize American parties since the 1980s persisted in the face of the financial crisis of 2007 and 2008 and the ensuing recession. There can be little doubt that a Republican administration would have pursued different policy priorities from those of the Obama administration, but partisan polarization in the context of American political institutions, most notably the supermajoritarian rules of the Senate, effectively constrained the effects of government partisanship even before the Republicans gained a House majority in the 2010 midterm election. Put simply, the partisan

identity of the ruling party mattered less than ideology alone would have led us to expect.

The Japanese story recounted in chapter 9 is strikingly similar to the American on the partisanship dimension. In this case too, a Left-leaning and reform-minded government elected by a landslide in the wake of the global economic crisis has been constrained by institutional intricacies and subsequent electoral setbacks. The story of Ireland and southern Europe, as recounted in chapter 6, is also one where government partisanship had little effect on policymaking, though in these cases, the constraints came less from domestic institutions than from external pressures. Finally, the chapter 5 comparison of France and Germany shows the policy contrasts between two governments run by center-right parties.

In light of these case studies, it is remarkable that Ansell's comparative analysis of fiscal and financial government responses to the Great Recession reveals significant partisan effects. Chapter 11 usefully distinguishes between spending increases and tax cuts as alternative means to achieve fiscal stimulus and indicates that the partisan composition of government only matters for fiscal policy responses in countries that experienced major housing booms in the period leading up to the Great Recession. In these countries, right-leaning governments cut taxes more and increased spending less than left-leaning governments. With regard to the financial sector, chapter 11 suggests that government bailouts and new regulatory measures are linked and involve partisan politics too. Relative to governments dominated by centrist or left-leaning parties, governments dominated by right-leaning parties have not only regulated less but also provided less money to the financial sector (at least in the form of liquidity injections and upfront financing). Recognizing that the quantitative analysis in chapter 11 is preliminary, the question of how its results are to be reconciled with the case studies presented in this volume deserves further research and thinking. Setting this task of reconciliation aside, it seems clear that government partisanship alone provides relatively little leverage on the question of why government responses to economic crises differ.

Organized Interests and Class Coalitions Organized interests are certainly part of the causal stories told here but are not a focal point for any of the essays. This may be due, in part, to the authors' individual research questions (or to the relatively short time frame of the study), but it is noteworthy in the context of a larger literature in comparative political economy. After all, the seminal *Politics of Hard Times* concluded with the observation that the mobilization of organized interests had increased markedly

by the 1970s and 1980s and that "their role in explaining outcomes" had increased as well (Gourevitch 1986, 230).

In comparison with the literature on crisis politics in the 1970s, the absence of any sustained discussion of the role of labor unions in this volume is particularly noteworthy. Although Lindvall argues in chapter 8 that Sweden's successful crisis reaction derived (in part) from the fact that unions and employers had established a new, more cooperative, labor regime, the role of unions in shaping crisis responses in our other cases appears less obvious. Schelkle asserts in chapter 5 that the corporatist structures that should have brought class actors together in Germany "played no discernible role" in the crafting of policy there and that in France, "a get-together of social partners" was simply "staged" to legitimate the government's plan. In chapter 10, Barnes and Wren point out that Ireland's public-sector unions proved unable to maintain their sheltered position after 2008, despite their long-standing pre-crisis consensus with the country's financial and construction sectors. In chapter 6, Armingeon and Bacarro go further and argue that in Ireland and southern Europe, trade unions were reduced to either mobilizing for fights that were "unlikely to produce results" or to making concessions that brought them "nothing" beyond symbolic recognition.

In chapters 12 and 9, Rueda and Tiberghien make the point that labor market outsiders were even more powerless than unionized workers both before and after the Great Recession occurred. These outsiders—immigrants, the unskilled, first-time job seekers, and the precariously employed—had few political resources and (in the period of this study) little if any effect on policymaking. Much of the shock of the Great Recession was borne (and continues to be borne) by those who are not incorporated in class associations at all.

The social actors that figure most prominently in our collection's causal stories are the financial sector and homeowners. Chapter 7 highlights the extraordinary and lasting influence of the financial sector in the United States (see also Hacker and Pierson 2010), but the financial sector is a key player in cases from Japan to Ireland. Chapter 9 shows the strong association between government aid to the financial sector and the sector's contribution to GDP, but massive bank bailouts were undertaken (as noted) in LMEs, CMEs, and mixed cases as well. As long as EU and other government officials continue to give primacy to the goal of "improving the business environment" (European Commission 2010, 30), supporting the financial and insurance industries on which the business environment depends will continue to be a top policy priority.

Homeowners do not figure in our collection as formally organized interests, but the political implications of the growth in their numbers are

profound. They were obviously integral to the housing boom that sustained the liberal growth model and fuelled the crisis in the first place (chapter 10). However, their increased numbers may be most consequential for the crafting and maintenance of coalitions in the aftermath of the boom itself. As easy credit made homeownership more accessible, a sizeable group of homeowners has emerged even among people with below median income. In the liberal economies, homeowners came to constitute 65 percent of the population by 2002 (chapter 11) and grew significantly in number after that. In Ireland and the United Kingdom, "half the poor" came to own their own home (chapter 10), but homeownership also became a cross-class phenomenon in nonliberal economies in southern Europe and Scandinavia (chapter 11). As citizens of various income levels become owners of wealth, the maintenance of associations and alliances based on class and sector becomes more difficult. The sorts of associations and coalitions that loomed large in the literature on earlier economic crises may well play a muted role in this project because their role in society has changed over time. We expand on this point as we turn to explaining why responses to the Great Recession differed from responses to the Long Recession.

Explaining Cross-Temporal Variation

Peter Gourevitch's classic treatment of crisis politics in the 1930s and 1970s makes no reference whatsoever to homeowners or even to the housing sector more generally (1986). Rather, it focuses on collective actors representing classes and (or) manufacturing sectors. The contrast here is emblematic of how profoundly the political landscapes of advanced capitalist societies have changed in the past three to four decades. The differences between crisis responses across time are rooted in these changed political landscapes. Contemporary government leaders adopted a narrower and substantively different set of policy options because their institutional environment presented them with a very different set of constraints and incentives.

The narrowing of the menu of policy options must be attributed in part to the emergence and strengthening of international organizations. The emergence of the WTO in 1995 and of the ECB and EMU in 1998 constrained government choices in concrete ways. As chapters 3 and 5 stress, WTO and EU obligations curtailed the ability of governments to engage in protectionist measures and to provide subsidies to domestic producers. The EMU prevented devaluations in all its member states. The ECB controlled (and controls) monetary policy in the eurozone and, for the countries with sovereign debt crises, economic policy more generally. None of these constraints existed in the 1970s and early 1980s.

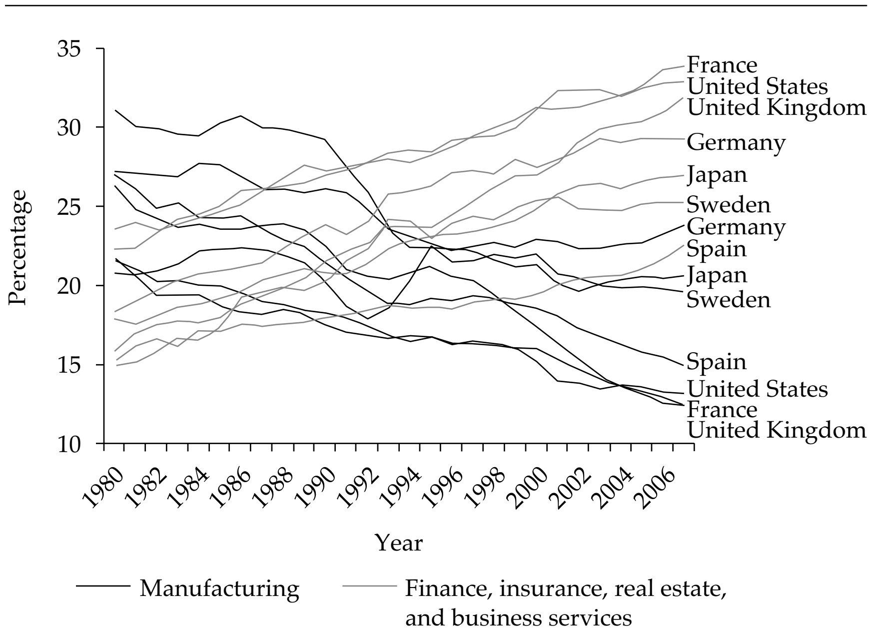
Just as these institutional changes made certain options less likely, other changes made the new reliance on fiscal stimulus more likely. Low levels of inflation, and a new confidence in government capacity to control it, made fiscal Keynesianism a much more attractive option than it had been in the past. The institutional practices that allowed for the moderation of price inflation (or the Great Moderation as it came to be called) were not in place during the Long Recession. Quite the contrary, according to Ben Bernanke (2004), they actually resulted from "the lessons of the 1970s"—but the fact that price inflation had been substantially lower for decades (chapter 11) made the nearly universal reliance on fiscal stimuli possible. That the 1970s left lessons for economic policymakers illustrates Lindvall's chapter 8 argument that governments (sometimes) learn from the past. To the extent that these lessons result in changed institutions or, at least, changed behaviors, we should not expect consistency over time.

We certainly have not seen consistency over time in the use of industrial policy, and this is is also due to a changed political landscape. The focus of state intervention switched to the financial sector in part because the Great Recession began as a financial crisis. But the different origins of the more recent recession cannot explain why sectoral interventions were consistently framed as temporary and market enhancing, or why governments often failed to initiate a broader set of interventions in the face of lasting unemployment and increasing inequality. Differences in origins also fail to explain why contemporary crisis responses have done so little to expand either active labor market policies or welfare support programs more generally.

To understand the differences in the scope and framing of crisis responses we have to turn to at least four major changes that have transpired since the Long Recession. First, organized labor, which was pivotal in shaping industrial and labor market policies in the 1970s, has been weakened dramatically by both neoliberalism and deindustrialization. The weakening is most obvious in liberal economies but affects many hybrid and coordinated economies as well. These structural changes, plus the implications of ownership just discussed, help explain why very few governments involved trade unions in managing the Great Recession (Hassel 2011).

Beyond weakening trade unions, deindustrialization has altered the relative power of manufacturing versus finance capital in a broad range of countries. This second change has, in turn, weakened the sector-specific coalitions of employers and unionized workers that shaped industrial policy interventions in the past. Ireland provides a classic example of the displacement of manufacturing by nontradables but the decline of manu-

Figure 1.1 Manufacturing versus Financial Sector Value Added as a Percentage of GDP



Source: Authors' compilation based on OECD (2011).

facturing in countries that have been export leaders has sometimes been dramatic as well. Figure 1.1 illustrates the widespread nature of the trend.

As Tiberghien notes in chapter 9, Japan's manufacturing sector decreased by 18 percent between 1999 and 2005 alone. In most of our cases, manufacturing has decreased so much that it provides 20 percent or less of all employment (Thelen 2011, 16). As a result, the cross-class coalitions that were central to crisis responses in the past are "no longer is a position to exercise leadership for the economy as a whole" (Thelen 2011, 38; Martin and Thelen 2007). That the automotive sector benefitted from intervention in 2008 and 2009 while other manufacturing industries did not is due in large part to the sector's almost unique ability to maintain sector-specific cross-class coalitions despite deindustrialization.

The growth of new social divisions that cross-cut class identities is a third change that helps explain historical differences in crisis reactions. The sectors of society that would have benefitted from more activist em-

ployment programs, or an expansion of welfare services in the aftermath of the Great Recession, were unable or unwilling to mobilize in broad coalitions in favor of a different outcome in the period we studied. Why? First, the divisions between labor market insiders and outsiders have grown over time and made coalitions more difficult. Second, massive immigration has transformed the political landscape in all but a few rich democracies since the 1980s. Divisions around immigration have complicated the task of mobilization further, divided the labor movement as a whole and, in countries such as France, turned traditional left-wing constituents toward the xenophobic right. Finally, the growth of what Ansell in chapter 11 calls *asset dominance* has also complicated the creation of constituencies that might have pressed for more redistributive crisis reforms. Beginning in the early 1980s, precisely when the welfare state was being challenged by neoliberalism and when inequality began to rise, citizens in many advanced capitalist countries increasingly came to depend, in Ansell's words, "on the value of their assets both for day-to-day income (using the value of their asset as collateral) and for unemployment or retirement" income.

Coupled with home ownership, stocks, bonds, and other financial assets have come to play an increasing role in people's retirement plans through pension funds and direct purchase. Research in the United States suggests that ownership of even small stock holdings has the potential to transform people's beliefs about their fundamental political interests (Rahn 2011). Whether this is true elsewhere remains to be seen. We can be certain, however, that the decline of organized labor, the decline of manufacturing, massive immigration, and what Colin Crouch (2009) has aptly called the privatization of Keynesianism makes the political identities of today's citizens decidedly different from those of their predecessors in the 1970s. No wonder their political behavior differs as well.

The near extinction of political parties that offer a challenge to capitalism marks a fourth consequential change from the 1970s. The days when communist parties could mobilize and successfully force the state to play a more active role in the economy have waned, at least for now. This situation serves the interests of those who benefit most directly from the contemporary varieties of capitalism but it also serves the interests of center-right and center-left parties. These facts together explain why government responses to the Great Recession have been framed, and indeed crafted, as market enhancing. As Lindvall reminds us in chapter 8, parties generally "prefer to maintain the status quo rather than agreeing to change institutional equilibriums in ways that might do damage to their long-term political interests." Economic reforms that "might be expected to have" even "indirect effects on how these institutions operate" are unlikely to garner

party support. Thus, crisis responses were framed (and designed) as they were precisely to underscore (and ensure) institutional continuity. But why was this the case? In other words, why was more discontinuity not possible? This question brings us full circle, back to our opening discussion of crisis and opportunity and to our concluding section.

CONCLUSION

It is commonplace in the comparative political economy literature to view economic crises as critical junctures, characterized by electoral realignments, the emergence of new social coalitions, institutional change, and policy innovation. It is also common to argue that these dynamic processes are driven partially by international factors, but largely by domestic interests and institutions. This perspective is developed most forcefully in Gourevitch's analysis of political realignments in response to the three main crises of industrial capitalism prior to the Great Recession (1986).

The chapters in this volume reveal politics that bear only a partial resemblance to the politics of crises past. Two partial similarities and one major difference stand out. In terms of partial similarities, the politics of the Great Recession are still largely shaped by domestic factors in the United States, Japan, and the wealthier countries of the EU. However, this is not the case for countries struggling with sovereign debt crises. In Ireland, Portugal, Spain, Greece, and possibly Italy, international politics and institutions have trumped even fundamental democratic institutions such as political parties, at least in the short term.

A second partial similarity concerns policy innovations and institutional change. Governments have certainly responded to the Great Recession with some of both. Even in the United States, the financial sector is now subject to somewhat more stringent regulations and, in the institutional realm, a major new agency to protect financial consumers has been created (on paper, if not in fact). Yet, by and large, governments did not respond to the Great Recession with either striking policy innovations or dramatic institutional changes. In the United States, Japan, and the wealthier countries of the EU, governments responded with tax cuts and temporary, narrowly targeted relief programs, in many cases followed quickly by dramatic fiscal austerity measures. In countries with sovereign debt crises, policy innovation took the form of harsh austerity programs almost immediately.

The absence of either radical policy innovation or dramatic institutional change is due to what appears to be a major difference between the Great Recession and its predecessors: no powerful new social coalitions seem to have emerged to take advantage of the opportunity for dramatic change.

Old coalitions have certainly broken down. In Japan, the coalition of business and banking interests around the LDP broke down and dislodged the party that had ruled Japan for most of the postwar period (chapter 9). In Ireland, the coalition of developers and bankers around Fianna Fail also collapsed (chapter 10). But no truly new coalition has filled the void in either case. Japan's center-left party got elected by a landslide but never got the support it needed for its redistributive agenda. Ireland's Labor Party increased its mandate in the 2011 general election but fell far short of the victory forecast in opinion polls, leaving the center-right Fianna Gael as the dominant party in the new coalition government.

Those who hoped that the Great Recession might provide the opportunity for the forging of new coalitions to lessen economic inequality must be sorely disappointed. Though an assortment of actors are mobilizing sporadic protests in the United States, Europe, and Japan, no successful new redistributive coalitions have yet emerged.[6] What we have seen instead is an increase in inequality, both within states and between states. We have also seen that not all the resistance to redistributive change has come from economic elites. The chapters that follow illustrate that more ambitious policy reactions to the Great Recession were often constrained by popular opinion. In the United States, only a bare majority of the public supported even the watered down version of the 2009 stimulus package and strong majorities did so only because of its tax cuts rather than its spending increases (chapter 7). In Japan, the redistributive programs sought by the JDP were stymied in part by popular resistance to an increase in consumption tax (chapter 9). Even in Sweden and the Nordic countries, it is likely that "a more comprehensive, prolonged program of government intervention in the economy" would not have been politically possible (chapter 8).

Of course the ultimate political impact of the Great Recession may be different from what we have observed so far. It is noteworthy that the electoral realignments and policy reorientations that we commonly associate with the crisis in the 1970s came about several years after the crisis began. The Long Recession started in 1973 and 1974, but it was not until 1979 through 1982 that its political ramifications were realized, with the path-breaking election victories of Margaret Thatcher in Britain, Ronald Reagan in the United States, and François Mitterrand in France as well as the shift to a center-right coalition under Helmut Kohl in Germany.[7]

Should current economic difficulties persist, new coalitions with a redistributive agenda may yet emerge, but if they do, they will have to confront an already established and powerful cross-class coalition that resists a more activist role for the state. This coalition is dominated by finance capital but it is clearly supported by more modest and more numerous

property owners who seek shelter from taxes and from state control more generally. With governments in many rich democracies now implementing harsh austerity programs, this is the coalition that seems to have seized the latest opportunity for change.

The ideas in this introductory chapter were generated through a series of discussions that also included Larry Bartels. We thank Larry for his many intellectual insights and for his leadership role in organizing this project. We also thank the Russell Sage Foundation, the John Fell Fund of Oxford University, and Princeton's Institute for International and Regional Studies for funding as well as Matthew Powell and Nahyun Yoo for research assistance.

NOTES

1. As measured by Dow Jones indices, U.S. industrial stocks have recovered, but stocks in general have not.
2. Japan's change in GDP in the first quarter of 2011 was surely affected by the earthquake of March 11, 2011, but the economy had already slipped in the last quarter of 2010.
3. This generalization seems to hold even if we take into account the fact that GDP contracted more sharply in 2008 and 2009 than between 1974 and 1976 or 1980 and 1982 (see Pontusson and Raess 2012).
4. Toru Fujioka and Aki Ito, "Japan May Sell Yen for Second Day to Protect Economy," *Bloomberg*, September 15, 2010.
5. For an empirical analysis questioning the idea that varieties of capitalism were associated with distinctive macroeconomic policies in the period from 1980 to 2002, see Amable and Azizi 2011.
6. As a follow-up to this study, Larry Bartels and Nancy Bermeo are examining citizen reactions to the economic crisis in an edited volume tentatively titled *The Costs of Crisis: Popular Reactions to the Great Recession*.
7. Similarly, a recent paper shows that in many countries center-right parties did well in the first elections after the onset of the Great Depression, and that that crisis did not produce a swing of the Left until the second round of elections (Lindvall 2011).

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