Recession politics

Financial theorists have recently been accused of suffering from the 'bystander effect' - everyone was waiting for someone else to be the first to point out that something had gone badly wrong (see Adam Leaver in this issue). The financial elite and economists in the academic and commercial sectors have for many years been colluding in ignoring the inevitability of the impending crash. This of course now has the useful additional effect of everyone being able to say that nobody could have foreseen what has happened. When this dominant narrative has been disturbed by critical economists, they have been dismissed as doom-mongers (before the crash) or gloaters (afterwards). Some have described dominant economics as autistic (see, e.g., Edward Fulbrook in *Soundings* 29), and this does in some ways capture the sealed world of the financial elite and their collaborators in the academy. However, dominant economic practitioners, unlike those suffering from autism, have for a long time been able to remake the world to correspond to their theories, because their world view is linked to power.

Adam's article takes the theorisation of private equity as an example of this refusal by mainstream economics to acknowledge events in the real world. He points out that academics have justified private equity practices on the grounds that they solve the 'agency problem' in big firms, by bringing together owners and managers. He then goes on to demonstrate that the evidence in no way backs this theory. Furthermore, he shows convincingly that the flourishing of private equity in the last ten years has been largely a result of easy credit and rising asset values. Yet until very recently, agency theory was offered as the explanation of the success of private equity companies. This is a typical example of the distance between the economic academy and the reality on the ground.

Had Adam had the space, he could have gone on to argue that easy credit and rising assets were not a naturally occurring feature of the environment: easy credit was achieved through the activities of those who were in a position to cash in on the wealth it generated; while rising asset prices, as well as primarily benefiting the wealthy, also secured the assent of a substantial section of the population through rising house prices. (It has also been argued by some commentators that rising asset prices have acted as a privatised version of Keynesian demand management, while cheap loans to non-traditional home-owners have been a way of offering the working classes an alternative to wage rises.) The intersection between politics and economics is extremely complex, but it seems reasonable to say that over the last thirty years or so (since the defeats of the 1970s) there has been a largely successful effort to secure political consent to the dominance of business interests. This has been achieved through a multitude of means, including the incorporation of the lives of a substantial majority of the western population into the financial system - through their own investment in it; and the virtual elimination of critical voices from mainstream discourse. However, in the end the system could not carry on delivering: it could not avoid the inevitable crash brought about by the cyclical and chaotic nature of capitalism. The question now is whether a different political settlement can emerge from the ruins.

Toby Lloyd shows how deeply housing is entangled in the crisis. As he argues, the government has allowed market competition to determine housing policy. There have been cutbacks in investment in social housing, while until recently the home-owning majority have been happy to see their houses become cash-generators. Easy credit and rising asset prices have mirrored for home-owners the much greater bounty accruing to the already rich. But the boom could no more last here than it could elsewhere. And in the mean time, social housing has become a residual, stigmatised sector, and inequality in housing has increased to intolerable levels: this is the predictable outcome of market policy.

Markets have of course always relied on the help of government in maintaining their grip. Thus, as Toby points out, the market in housing was assisted by tax breaks for mortgage loans, while housing benefit has offered a massive subsidy to the private rented sector. This pales into insignificance alongside the assistance given to the rich in avoiding their taxes through tax havens - a subject covered in this issue by Richard Murphy. As Richard points out, governments often try to disclaim responsibility for the activities of tax havens - or secrecy jurisdictions as he prefers to describe them. But this is belied by the fact that the UK and US have led the way in creating the conditions for hiding assets in offshore companies. Companies and high net worth individuals have been offered what Richard describes as a 'get out of regulation free' card. The institutional dominance of the deregulation mantra has allowed huge multinational companies the opportunity to benefit from local infrastructure whilst contributing virtually nothing to it.

One response to the financial crisis has been to blame city pay - but this is to conveniently identify a symptom as a cause. Whilst pay linked to short-term performance has undoubtedly played a role in the wreckage wrought by the finance sector, the whole financial system, which has been allowed to dominate the rest of the economy, is geared towards short-term profit-taking by all who own capital (or have privileged access to credit). The trick is to work out ways of cashing in your profits and distributing risk to others. As Julie Froud argues in her contribution, focusing on city pay is unlikely to be an effective response to the crisis.

Carlota Perez, interviewed in this issue, has a different take on the crisis. Unusually, she begins her analysis in the real economy, and has written interestingly on the effects of technological change on business. Her argument is that major technological revolutions (such as steam engines or digital communications) produce cycles in the economy based on a recurring pattern of investment. There is an initial boom, caused by (socially and technologically necessary) over-investment in the new paradigm, followed by an inevitable bust when there is a shake-out among all who hoped to profit from the new means of accumulation. There then follows a period of relative tranquillity once the new technology is embedded, until it is then overtaken by the next paradigm. Thus the drive to profit is a kind of hidden hand helping the development of innovation. This theory helps explain some of the present turmoil - which is partly the long delayed bust following the dot.com boom - but it isn't really capable of interrogating the political context in which these developments happen, or what political strategies might persuade business owners to share with the rest of us the fruits of the most recent round of capital accumulation.

Understanding how domestic political consent has been secured for the pro-business stance of western governments is crucial for those of us involved in the political struggle to mitigate the worst effects of uncontrolled capital and to distribute wealth more equitably. And here we should not underestimate the role of material self-interest. Home-owners have an interest in credit being pumped into the economy to maintain the value of their homes. Those with pension savings need share prices to rise, and so on. However our cultural investments are also crucial, which is why our response to the crash needs to go beyond the economic.

Kate Crawford makes an interesting contribution in this regard, in her discussion of how individuals become incorporated into dominant narratives about what constitutes responsible adulthood - of which the crucial elements are seen to be stable work, home-ownership, marriage and parenthood. The current moral panic about young adults, who are regarded by many as shirking such responsibilities, focuses criticism away from the older generation's failure to offer a sustainable model of adult responsibility, and instead attacks those for whom such a lifestyle is increasingly closed off (it has never been available to the majority of the world). Meanwhile Zygmunt Bauman shows how the much disparaged young are now being upbraided for their propensity for debt …

Other articles in this issue discuss Iraq, food sovereignty and images of the undeserving poor. The final two articles discuss the efforts of the government to dismantle the public service ethos of general practice, as plans continue apace to hand over service delivery to the very same business interests who have shown themselves to be so self-interested and incompetent in their operations elsewhere.