Editorial

When we wrote our 2008 editorial, Britain was in a period of political flux, namely the wavering popularity of Gordon Brown, the newly installed Prime Minister. Inspired by Brown’s dramatic fall from grace during the autumn of 2007, we reflected on the fraught relationship between politicians and the media, one from which the former rarely comes out well. As this first issue of 2009 goes to press, the Western world is in the tightening grip of a profound economic crisis, one that threatens to develop into a slump on a scale unprecedented since the 1930s. This, at least, is how journalists on both sides of the Atlantic are excitedly reporting the ‘credit crunch’ and its aftermath.

Most who seek to explain this crisis cite as its root the irresponsible lending practices of many financial organisations which over-invested in an unstable ‘sub-prime’ housing market, most notably in the United States. When reality began to intrude during 2005, defaulting reached serious proportions such that, by 2007, it threatened the stability of the financial sector as a whole. Indeed, one of the reasons for Brown’s then declining popularity was said to have been his handling of Northern Rock’s difficulties, which led to the bank’s nationalisation. Since then, any number of leading financial institutions, not just in the US and UK, but in Europe and Asia, have found it hard to meet their obligations. Confidence shaken, and credit streams so vital to capital-hungry companies consequently dammed, a serious financial shortfall has become a global economic meltdown.

Following a series of case-by-case interventions to bail out particular firms, in September 2008 the US federal government proposed a comprehensive $700 billion rescue package to stimulate growth and inspire confidence in the financial markets in the hope this would staunch the flow of failures that threatened to send the economy over the edge. With some major reservations, Congress ratified these proposals. Britain followed suit shortly after, with its partial-buy out of a number of at-risk banks. The unthinkable had happened: the motors of free-market capitalism had been nationalised. Only time will tell if this purchase will become permanent, but some kind of government regulation is here to stay. Alan Greenspan’s recent admission to the US House Oversight Committee, that he overestimated the extent to which
organisations’ rational self-interest would control naked greed, rather implies that a stronger role for government is indeed necessary.

Some suggest that the political elite was largely to blame for the crisis, as they believe the lack of effective regulation of financial services promoted the banks’ over-exposure in subprime housing markets. It is certainly true that since the 1980s most leading political figures have come to agree that the economic role of government should be limited to facilitating market competition. Advocates of ‘globalisation’ asserted that political institutions had moreover become irrelevant—intervention could only harm a nation’s fortunes. The kinds of laissez-faire reforms ushered in by Margaret Thatcher and Ronald Reagan seemed to work and gave credence to this argument, forcing their centre-left opponents to embrace the market. Eventually even corporatist economies, such as France and Germany, followed suit. By the 1990s, politicians of all stripes across the West were falling over themselves to prove their commitment to the free market. Many took pride in the lack of financial regulations, seeing this as a way of attracting dynamic entrepreneurs to their countries. Politicians in short gloried in their own impotence, something a few commentators suggest has contributed to the wider crisis of representation: for if the parties agreed government should not make important economic decisions, what exactly were we voting for?

Others, however, claim that in the US at least it was government policy—specifically of the Department of Housing and Urban Development—that encouraged over-investment in subprime mortgages. That is at present a minority view. For now, even President Bush concedes that the crisis has exposed the need to update financial regulatory structures: ‘Our 21st century global economy remains’, he stated, ‘regulated largely by outdated 20th century laws’. Prime Minister Brown has also claimed that he wants to ‘reinvent government’ to cope with the new challenges set down by the crisis. Some on the left hope that if free market zealots such as the American President and the British premier can implicitly recognize the shortcomings of markets, the crisis may have the virtue of giving back to politics a positive role in economic management, in the same way that the 1929 Wall Street crash led to Roosevelt’s New Deal and Attlee’s post-war nationalisation programme.

In truth, despite the scale of Bush’s rescue measures, governments are doing as little as they can, and in incremental fashion, initially favouring facilitating private sector take-overs—a Virgin consortium of Northern Rock; Lloyds-TSB of HBOS; a German banking consortium for the Hypo Real Estate bank—until political expediency and economic reality force stronger intervention. Even Angela Merkl’s decision to assure all private savings deposits in Germany, begging her European neighbours, did little to address the principal symptom of the financial sector’s malaise, namely oppressively sclerotic inter-bank lending in a system which requires this as its life-blood.
There is moreover a danger that as governments weigh in to secure the interests of the wider economy, they will be seen to be benefiting the very bankers whose decisions helped create the crisis in the first place. This is especially so, as many of them contribute campaign funds to those politicians taking the decisions. Echoing similar concerns in the UK, Congressional critics of the Bush package believed taxpayers were being asked to come to the rescue of feckless financiers. In contrast many individual citizens—often poor and black—made homeless after defaulting on their mortgages have received precious little aid. Terrified of being labelled ‘socialist’, few US politicians are willing to countenance reversing that trend.

As global markets head into the abyss on a seemingly daily basis, ‘recession’ is once more on the lips of commentators. Despite the assurances of the past 11 years, boom and bust is back. This is one slide which cannot be blocked by government intervention—a regulated stock exchange is no market at all. How large this ‘adjustment’ proves to be, and the extent to which the economy shrinks, is predicated very largely on one factor—confidence. The confidence of political and business leaders and the confidence in the very same individuals. The US election offers hope in that direction—we trust that Wall Street gets its money’s worth from the $370 million invested in the presidential campaign. The UK and Europe looks less inspiring. Gordon Brown’s popularity may once more be on the rise, but the Mandelson/Goldsmith/Osbourne tag-match hardly raises morale. The ‘celebrated impotence’ of the 1990s needs to cede to dogged, self-assured political will in coming years.

The three special half-editions due to be published in Parliamentary Affairs during 2009 make their respective contributions to a more sophisticated understanding of the contemporary travails of political representation, in the UK especially. The first, in this issue, focuses on minor parties, conventionally seen as being on the rise and taking advantage of disillusionment with the main Westminster parties. The second special half-issue takes a cross-disciplinary approach to understanding activism and party membership, whose rapid recent decline some see as threatening the legitimacy of government. The third and final special edition originated from a conference marking twenty years of Charter 88, the campaigning body that sought to make politics more accountable.

This issue also contains the first of four commentary pieces by Professor Michael Kenny of Sheffield University who is presently on secondment to the Institute for Public Policy Research. From this unique position he will be reflecting on the current preoccupations of the British political elite, most notably asking if ideas matter in British politics, and specifically if the current Conservative ascendance and the Brown premiership mark any dramatic departure in thinking about politics.

Jocelyn Evans and Steven Fielding