REFLECTIONS ON THE POLITICS OF THE ECONOMIC CRISIS FROM A POLICY PROCESS PERSPECTIVE

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Summary This article uses the paradigm shift theory to explore responses to the contemporary financial crisis. It comes to two conclusions, one conceptual, and the other substantive. It shows that it is difficult to use the paradigm shift theory to analyse events where policy change is slow, and in many respects a judgment about whether a shift has occurred is only possible retrospectively. It is suggested, however, that the notion of paradigm shift helps to explain responses to a crisis in which there are problems about the applicability of conventional economic ideas, but strong reasons why changing them is likely to be resisted.

Keywords paradigm shift theory, economic crisis, policy process

Introduction

One of the most frequent sayings of the economist John Maynard Keynes is: 'Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist' (Keynes, 1936: 383). That remark, in the conclusions to his great book, seems apposite now. Keynes, whose solution to the economic crisis of the 1930s was condemned as 'defunct' by many economists before the economic crisis of 2008, has secured much contemporary attention (Skidelsky, 2009), with that term applied to his monetarist critics. On the other hand, writers are emerging who are inclined to apply the term defunct to both Keynesians and monetarists.

The quote from Keynes disarmingly sits within a wider justification of 'ideas' derived from economics: 'I am sure that the power of vested interests is vastly exaggerated compared with the general encroachment of ideas' (*ibid.*). Within contemporary policy analysis, the

theory of 'paradigm shift' in respect of ideas largely owes its origin to an analysis by Peter Hall of the replacement of Keynesianism by monetarism as the dominant perspective on the management of the economy. This work then stimulated other work on what might be meant by a paradigm shift (Streeck and Thelen, 2005) and on the importance of giving attention to ideas in the analysis of policy change (Béland, 2005).

So the central question for this paper is: are we now witnessing another significant paradigm shift in respect of economic policy? Behind that question obviously lies a more important practical one: is a paradigm shift needed? This article by a political scientist, with some training in economics, offers reflections on the politics of the crisis, which of course involves choices between theories. The author is not altogether qualified to offer judgements about the opposing macro-economic theories. Nevertheless, there are important things to be said about contemporary politics, and about the extent to which the making of choices between these theories seems now to be particularly difficult. This article builds upon one I wrote for an edited collection examining the early stages of the economic crisis (Farnsworth and Irving, eds., 2011). It updates that inasmuch as the crisis has changed its character, and probably deepened, and much more has been written on the topic.

Paradigm Shift

Hall argues that

> ... politicians, officials, the spokesmen for social interests, and policy experts all operate within the terms of political discourse that are current in the nation at a given time, and the terms of political discourse generally have a specific configuration that lends representative legitimacy to some social interests more than others, delineates the accepted boundaries of state action, associates contemporary political developments with particular interpretations of national history and defines the context in which many issues will be understood (Hall, 1993: 289).

As these comments indicate, the problem remains that institutional analysis may need to lay so strong an emphasis upon specific configurations of institutional situations and actors (including ideas) that all it can offer is an account of past events, from which little generalisation is possible.

We find a variety of efforts to deal with this problem. There have been attempts to do this using concepts like 'critical junctures' (Collier and Collier, 1991) or 'performance crises' (March and Olsen, 1989). A more fully argued-through exploration of this issue uses the concept of 'punctuated equilibrium' (Krasner, 1984; Baumgartner and Jones, 1993). Surel argues that it is necessary to see exogenous influences as important for change processes. For him, 'transformations of economic conditions, and/or a serious crisis' are crucial (Surel, 2000: 503). All these approaches still pose problems about the identification of crises and shocks.

The word 'crisis' is used widely in popular discussions of economic and political problems. Chambers' dictionary defines a crisis as 'a crucial or decisive moment; a turning point'. So questions must be raised about whether we are really at a crucial turning point. But then there still remains a question about the extent to which such turning is likely

to occur. There is a certain tendency, to which observers of economic problems of a radical frame of mind are prone, to see evidence of problems within capitalist economies as symptoms of an emergent crisis that will lead to a transformation of the existing order. Since economies are characterised by recurrent booms and slumps, there are difficulties about determining if particular events are exceptional (a problem that has long generated pitfalls for Marxist-type analysis).

There is a related issue here about the terms used to describe an economic crisis. To some extent the analysis of the present crisis has evolved since 2008 through the following alternatives:

1. 'Credit crunch', implying a very temporary disjunction;
2. 'Recession', often given an entirely arbitrary definition amongst economists of two or more quarters of negative growth;
3. 'Depression', implying a deep and long-lasting setback to the economy (note for example the title of Krugman's book *The Return of Depression Economics*, 2008);
4. 'Economic stagnation', a view rejecting the extreme language of depression and pointing out that for many countries the situation is much less serious than in the 1930s, but acknowledging that it is proving very difficult to re-establish significant economic growth (King, 2013).

However, inasmuch as there is consensus about a crisis and thus a quest for solutions which are likely to embody new ideas, the concept of paradigm shift seems useful, particularly since its use in political science was pioneered in the context of an explanation of economic policy change. Hall explores the rise and fall of Keynesian economic dominance in government, seeing constraints not so much in structures as in dominant ideologies, and charting how they change over time (Hall, 1986). Hall presents Keynesian economic theory and then monetarist theory as successive dominant paradigms.

Paradigms may be seen as integrated clusters of ideas functioning, following Béland's analysis of ideas:

- 'as "cognitive locks" that help reproduce existing institutions and policies over time';
- 'as policy blueprints that provide political actors with a model for reform';
- as 'powerful ideological weapons' that allow actors to challenge existing policies (2005: 125).

The assumption is then that the latter two considerations apply in a context of a crisis about the relevance of existing dominant ideas.

But if we have difficulties with the concept of crisis, so too there are difficulties about interpreting change. Streeck and Thelen (2005: 8; see also Kay, 2011) introduce two analytical considerations to try to deal with this. First, they argue that 'we must avoid being caught in a conceptual schema that provides only for either incremental change supporting institutional continuity through reproductive adaption, or disruptive change causing institutional breakdown and innovation and thereby resulting in discontinuity'. This leads them:

- to make a distinction between 'incremental' and 'abrupt' change;
- to suggest alternative 'results of change', including the subsequent restoration of continuity, but also in-

Figure 1

Result of change	Within path (incremental)	Radical/ transformation
Gradual	A. Classic incrementalism TORTOISE	B. Gradual eventually fundamental change STALACTITE
Abrupt	C. Radical conservatism BOOMERANG	D. Sudden radical EARTHQUAKE

cremental change as a gradual process (*ibid*: 9).

Second, their emphasis on the incomplete nature of institutional arrangements leads them on to suggest a range of ways in which incremental change may occur:

- *Displacement*: the 'slowly rising salience of subordinate relative to dominant institutions'
- *Layering*: 'new elements attached to existing institutions change their status and structure'
- *Drift*: 'neglect of institutional maintenance resulting in slippage of institutional practice on the ground'
- *Conversion*: 'redeployment of old institutions to new purposes'
- *Exhaustion*: 'gradual breakdown... of institutions over time' (from *ibid.*: 31, table 1.1).

Pollitt and Bouckaert (2009: 18) build on these ideas to develop the classification of types of change set out in figure 1.

However, what this highlights is the extent to which what is likely to be involved is the analysis of change *after* it has occurred. If, exceptionally, an *earthquake* is occurring, that may be evident right now, but if a *stalactite* is growing, we will only be able to measure it in time to come. Hence, before attempting to analyse contemporary events it is appropriate to ask how easy is it to use this approach to explain previous changes that have been labelled 'paradigm shifts' for economic policy: the so-called 'Keynesian revolution' of the 1930s and 1940s and the events of the 1970s and 1980s that Hall analysed. Before embarking on this, an important qualification is necessary. While there were related or parallel events in many countries, what I am able to offer is comments on events affecting the United Kingdom. To cast the net more widely for a simple preliminary account, helping to explain the problems about applying these ideas to contemporary events, would be too difficult and space-consuming.

The Crisis of the 1930s in the UK

The essential facts, in respect of the UK, were reverberations from a stock market crash in the United States in 1929, a sequence of stock market disturbances in both countries and elsewhere in the years immediately following it, and then a severe recession to which the label depression is commonly applied. Few economic indices are available from that era, but unemployment statistics show a very deep trough lasting for five or six years, followed by a very

slow recovery. In the end it was preparation for war that began to make a real difference. Whilst the 1930s saw a growing debate about alternative approaches to management of the economy, the impact of this on policy outcomes was slow (see Clarke, 1988). Keynes' seminal contribution to that debate, *The General Theory of Employment, Interest and Money*, was published in 1936, but he had of course been actively advocating new policies for some time before that.

Robert Skidelsky, the leading biographer of Keynes, argues that '*The General Theory* advanced one main proposition: that a decentralised market economy lacks any gravitational pull towards full employment. Consequently, it is as likely to be in a state of underemployment as of full employment' (2009: 97). Elaborating, Skidelsky goes on to say: 'The collapse of optimistic expectations causes the economy to collapse; once established, pessimistic expectations cause unemployment to persist. This is Keynes' famous "underemployment equilibrium". Government should manage demand to limit fluctuations to the smallest feasible amount' (*ibid.*).

That in essence is the Keynesian interpretation of what was going wrong in the 1930s and it is generally accepted that this became the dominant view of that period by the end of the 1940s, and in that sense the dominant paradigm. But in placing the dominance of the paradigm in the late 1940s, it is important not to forget the transformative impact of the 1939-1945 War in stimulating a debate about what went wrong in the 1930s. That debate occurred, moreover, at a time after a much more controlling role for government had been accepted as a necessity during the war.

It is important to acknowledge, viewed from a much later date, that the Keynesian interpretation is not the only interpretation of the events that occurred in the 1930s. The alternative – broadly speaking 'monetarist' – interpretation accepts the underlying 'deficient demand' assumption of Keynes' approach, but sees the mistake made by the governments of the time to be their perverse response to the under-supply of money (Friedman and Schwartz, 1963). In this respect Gamble says: 'One lesson that Friedman, Bernanke and many others took from the Great Depression was that never again must central banks contract the money supply in response to a major crash and risk a major deflationary spiral' (2009: 56).

But this is not to say that, in essence, there is nothing to choose between the Keynesian position and that taken by Friedman and other monetarists. Obviously there lies here a proposition that cannot be tested as to whether the events of the 1930s would have been very different if the central bankers had behaved differently. The Keynesian view is that such a response would have been inadequate. But there are here two other distinctions between the perspectives. One is that it is important to note what a central place concern about unemployment takes in the Keynesian analysis. By contrast, we find the monetarists arguing at a later stage in history for something Keynes explicitly rejected: the pushing down of the price of labour. Secondly, where monetarism sees government (or even in more modern times quasi independent central banks) simply needing to take measures to adjust the supply of money, Keynesianism gives a much more strongly interventionist role to government, particularly of course in re-

lation to the creation of work. A distinction is drawn here between the former as 'monetary policy' and the latter as 'fiscal policy', involving much more explicit economic stimuli from governments.

There is something else to be said here about Keynes' approach, which is of considerable importance for analyses of the contemporary crisis; this is his emphasis on uncertainty. Keynes' earlier work on probability theory may be seen as critical of the positivism that has come to dominate modern economics. Skidelsky (2009) emphasises Keynes' stress upon 'uncertainty' rather than risk. In this sense, *The General Theory* can be seen as trying to arm policy makers to deal with the consequences of unpredictable crises rather than assisting them to prevent them. Skidelsky goes on to draw upon this emphasis in Keynes' theory for a strong attack on modern economic modelling where variation is seen in terms of 'risk' and temporary deviation from market discipline in terms of the use of statistical ideas around the concept of the normal curve. Skidelsky's analysis is interestingly echoed in a contribution to the modern debate by an economic journalist, John Cassidy (2009), who sees many of the assumptions about self-correcting markets, and the positivist modelling that reinforces this, as contributions to the contemporary crisis.

The Counter-revolution: The 'Rejection of Keynesianism'

Taking into account the ambiguity of what is today described as Keynesianism, inasmuch as this became a crude label for most attempts to managing levels of investment, even if only through controls over the money supply, it may be exaggerating to say that there was a complete rejection of Keynesianism. However, there was, from the mid-1970s onward, a revival of classical economic ideas in a period in which inflation was seen to be a more serious problem than unemployment. Interestingly, in the UK it was a Labour Prime Minister, James Callaghan, who told his party's conference in 1976:

> We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists... (quoted in Cassidy, 2009: 79).

However, the decisive change to the political climate occurred following the election of Margaret Thatcher in 1979 in England and of Ronald Reagan in 1980 in the United States.

Any full explanation of how this counter-revolution occurred needs to embrace:

- consideration of the extent to which there was a 'crisis' in respect of economic management, exposing the inadequacies of existing policies,
- evidence that there was a coherent alternative waiting in the wings,
- and – here we reach a crucial issue about the paradigm shift theory – powerful actors able to push that alternative.

The 'crisis' in question consisted of evidence of increasing difficulties in respect of the Keynesian approach to the management of the economy. There had been long-standing concerns about the difficulties in securing economic growth without inflation, manifested in what were seen as 'stop/go' effects as governments shifted to and fro between economic stimulants and restraints. Then in

the 1970s the phenomenon of stagflation emerged (recession and inflation at the same time, a phenomenon that Keynesian theory seemed to deem impossible). In retrospect, hikes in oil prices at times when national economies were in recession seem to have been an important contributor to this problem. But at the time the main culprit was seen to be trade union power, pushing up wage costs regardless of the overall economic situation. In this respect – particularly in the UK – the new Right's commitment to curb union power may be seen as a central aspect of the new economic policy; the adoption of devices to unleash market forces were seen as key contributions to achieve this effect. We can thus explicitly see the counter-revolution as a re-run of the arguments between exponents of classical economics and Keynes, in which he argued that letting the free play of the market reduce the cost of labour would have the perverse effect of increasing a recession.

Hence, in some respects the alternative 'waiting in the wings' was a group of economists expounding classical theory, above all reviving the work of one of Keynes' opponents, Hayek. Peter Hall is not alone in demonstrating how this neo-liberal movement in economics grew in strength and organisation and won the support of financial journalists and politicians in the 1970s (see also Parsons, 1989). We can thus see, in terms of Kingdon's policy agenda-setting theory (1995), the coming together of a 'problem' and responding 'policies' from this increasingly effective group of 'policy entrepreneurs'. Need we then merely say that Kingdon's third ingredient for successful policy adoption ('politics') came in the form of the election of new more ideological politicians of the Right?

Questions have been raised, in respect of the paradigm shift theory, about the extent to which it does justice to concerns to explore the power of policy change advocates (Béland, 2005). Hall's analysis of the rise of monetarism addresses this problem. What he shows is that, at the time, the financial markets (in the City of London and worldwide) were changing:

> ... a series of changes in the institutional practices of the markets for government debt (the gilt markets) that happened to occur in these years substantially reinforced the power of markets vis-à-vis the government (Hall, 1992: 100).

These changes were partly induced by the removal of government controls. Interestingly, they were also reinforced by the arrival in the City of a new generation of experts with training in economics, and by the development of information-processing capacity which enabled the City to be better (and more quickly) informed about public policy and its impact.

The Contemporary Crisis

The contemporary crisis started with bank failures in 2008 particularly associated with indiscriminate lending for house purchase in the United States and the United Kingdom. Complicated forms of debt purchase, which had been deemed to spread the risk of what were known as sub-prime mortgages, unravelled, leaving banks exposed with massive liabilities that they could not meet. While some of the institutions, notably Lehmann Brothers in the United States, collapsed, governments moved to try to prevent widespread bankruptcies by offering support to – or even temporari-

ly taking over – vulnerable banks. The credit crisis then had substantial knock-on effects, undermining business confidence and generating a massive fall in economic activity:

> The IMF (2010) estimated that finance-led recession had resulted in more than 30 million job losses, most of them in the developed economies. The immediate policy counter was fiscal stimulus packages at national level so that, by late 2009, governments from the United States and China to Spain, France, and Germany had committed themselves to extra public expenditure of approximately $3 trillion (Engelen *et al*., 2011: LOC 4562-66).

Initially the expectation was that swift action by governments would bring the situation under control, but soon it became clear that economic recovery would not come quickly. Serious financial crises generate what are called 'sovereign debt crises', involving increases in public sector debts (see Reinhart and Rogoff, 2009). In the contemporary case, routes 'from financial crisis to fiscal crisis' (Gough, 2011: 53) comprised government interventions to stave off bank collapses, stimulus measures adopted to try to prevent 'a major depression in the real economy' (*ibid*.: 54) and, as the recession set in, combinations of falling tax revenues and increased social expenditure (on benefits for unemployed people, etc.).

It became clear that a return to economic growth was not going to come easily and that in the meantime many governments had high and increasing levels of debt:

> ... European political elites in 2010 rediscovered their belief in fiscal prudence and began to plan public expenditure cuts. Their increasing public debts were subject to the judgement of the bond markets which decided the terms on which national governments could refinance their debt, given that European governments could not make the US assumption that the rest of the world would keep their bond markets going (Engelen *et al*., 2011: LOC 4567).

A conflict had emerged between the need to re-stimulate economies and the need to curb the growth of government debt. Within the Eurozone an added complication was the way in which a common currency linked economies, though it may be argued that the way in which this limited the adoption of remedies in specific nation states (particularly currency depreciation) was an extreme version of the general problems stemming from global economic links.

Diagnosing the Problem: Towards a Paradigm Shift?

Soon after 2008 an extensive literature on the economic crisis emerged with a strong focus upon the extent to which its roots lay in aspects of the freeing of the markets in the 1970s. Analyses by Haseler (2008), Skidelsky (2009) and Cassidy (2009) are particularly interesting in this respect for their emphasis upon the extent to which monetarism involves a dogma about markets, reinforced by the emergence of an economics profession whose theorising is trapped within assumptions about rationality in this context. Hence, a debate developed about the extent to which there is a case for a reversal of the paradigm shift described by Hall: a return to Keynesian economics.

There was initially a, comparatively consensual, focus on the banking crisis, seeing the issues about speculation and the excessive extensions of credit in the period leading up to the crisis as events that should dominate any attention by governments. Policy changes recommended involved the imposition of better controls over speculative activities, particularly by 'ordinary' banks. There were some signs that prompt government action had forestalled a serious crisis, and that 'normality' would return quickly. Those who accepted this scenario saw no reason to support a paradigm shift.

This point of view was challenged by a second scenario that involved recognition of parallels with the 1930s. It is interesting to note Samuel Brittan – one of the gurus of the earlier rise of monetarism – attacking those who saw 'green shoots' of economic recovery in the spring of 2009 and quoting Keynes on the need to encourage public and private investments (*Financial Times*, 26/06/09). Krugman and Wells, in a review article, drawing upon Reinhart and Rogoff's book with the ironic title *This Time Is Different: Eight Centuries of Financial Folly* (2009), argued: '... the aftermath of financial crises tends to be nasty, brutish and long. That is, financial crises are typically followed by deep recessions, and these recessions are followed by slow, disappointing recoveries' (*New York Review of Books*, May 2010).

By 2010, the evidence that government debt burdens were considerable and were growing began to change the terms of the debate. The dominant policy perspective stressed the need for public sector austerity. In the UK, the Conservative-led coalition that had replaced the Labour government in June 2010 introduced substantial public sector expenditure cuts. The Labour opposition opposed these, but only with claims that the cuts should be made more gently and more slowly. It is interesting again to note Samuel Brittan still arguing in May 2010, despite his general support for the new government, that the issues about UK government debt had been exaggerated, drawing on evidence about its long run maturity (meaning that there is little pressure for rapid repayment) and citing the director of the International Monetary Fund on the need to take care to ensure that corrective measures did not damage the recovery (*Financial Times*, 20/05/10).

However, since 2010, across Europe and the United States at least, there has been little sign of an economic recovery. In this context austerity policies have not been effective in checking government deficits (the crucial problem here being the combination of low tax yields and high social benefit needs described above). This seems to strengthen the case for a much more effective reversion to the Keynesian paradigm. Paul Krugman is forthright on this point:

> Now is the time for the government to spend more, not less, until the private sector is ready to carry the economy forward again – yet job-destroying austerity policies have instead become the rule (Krugman, 2012: 1).

We may well ask why there has not been wider acceptance of that view. There are several possible answers to that. It is implicit in the institutionalist view of policy change that the forces in favour of the status quo will remain strong. It may be argued that there has been some fusion of Keynesian with monetarist views inasmuch as the key reflation device tried has been monetary: maintaining

low interest rates. There have been difficulties in sustaining this, since when real interest rates (discounting for inflation) reach zero, they can go no lower. New ways of making money available have then been tried, notably what is called 'quantitative easing'. At the time of writing, doubts are being raised about the effectiveness of this. Something more seems to be needed to restore commitments to investment. For Keynes, state investment was the answer. But this implies increasing the public sector deficit. Since in the 1930s it was the coming of war that made all the difference in that respect, it may be doubted whether the Keynesian message on this was ever really fully accepted.

However, there seem to be two other problems about efforts to persuade policy makers to accept Krugman's strong endorsement of the Keynesian view. First, it may be noted that in the quote above 'the government' is in the singular. Krugman, whilst wanting to offer a general message, is writing above all to persuade policy makers in the United States. His country is large and powerful, it can much more easily operate as an autonomous economy than most other countries. There are two senses in which it can sustain increased indebtedness. One is that a substantial part of its lenders can be its own citizens, responding to a need to entrust resources to the government in the national interest. The other is that even foreign investors may regard a large economy as a safe place to deposit savings (as indeed the Chinese did in the period leading up to 2008). Hence it may be argued that for many countries a wholehearted Keynesian approach to stimulating the economy is ruled out by a lack of economic autonomy. This particular pitfall in Krugman's approach is only overcome if the commitment is made by a large economic unit (the EU rather than individual countries), or is indeed a universal one. Again it is pertinent to go back to the difference between the present and the 1930s, with a particular salutary reflection that in that earlier period there were strong political moves towards trying to insulate economies from each other. These have been explicitly repudiated since 1945, indeed the last contribution of the dying Keynes was to assist with the development of international policies that would prevent this happening (see Skidelsky, 2000).

The second point is that, even with these qualifications, there is a need to have regard to the time dimension. The way Keynesian management of the economy was seen in the immediate post-war period was in terms of short-term adjustments. The notion of steering (as with a car) is appropriate here. For lenders to countenance increased indebtedness, there is a need for them to see that the road will eventually straighten out, to recognise that in the long run they will get their money back. The question now is where such confidence will come from. There are good grounds for doubting, as Keynes did, the cheerful economic model of the self-correcting system. Moreover, as noted above, the actual route out of trouble in the 1930s, war, does not offer a happy precedent.

This leads on to questions about whether new paradigms are needed that break away from both Keynesians and monetarism. In reviewing this, it is useful to start with the perspective of a new book by an economist working for one of the big banks. Stephen King argues:

> Many of the factors that led to such scintillating rates of economic expansion in the Western world in ear-

> lier decades are no longer working their magic (2013: 2).

Later he says: 'The West appears to be suffering a structural deterioration in economic performance', and goes on to describe the 'stimulus versus austerity debate' described above as out of date (*ibid.*: 3). Then he notes:

> Oddly, the protagonists on both sides believe in much the same thing, namely that the appropriate macroeconomic policies will ultimately deliver a return to the growth rates of old (*ibid.*).

He goes on to challenge this view with a mixture of evidence on why a return to high growth rates will be hard to achieve: the exceptional character of the high growth rates of the post-Second World War period, and the evidence that the efforts to sustain them through the extension of credit lay at the heart of the 2008 crisis and the changed global economy.

King does not identify himself with the Green literature which suggests reasons why judging economic performance in terms of growth may be problematical (see for example Jackson 2009; Simms, 2013), let alone with those who stress a need to seek other indicators of economic success such as happiness (see the discussion in Skidelsky and Skidelsky, 2012) or the reduction of inequality. However, he joins a number from outside the ranks of the more radical critics of modern economies who are raising questions about what is meant by growth and about where such growth can come from.

In the United States Robert J. Gordon (2012) has noted a number of factors that are tending to drag down growth. In the UK Adair Turner, a leading advisor of business and government, has set out reasons why indices of growth are unsatisfactory measures of government performance. He points out: 'The richer we get, as measured by per capita GDP, the more arbitrary and uncertain some of the conventions required to calculate GDP become' (Turner, 2012: LOC 438), and goes on to argue that 'GDP figures are almost useless as measures of long-term changes in human well-being. Even as measures of long-term changes in what we think as "real income" they are highly imperfect, because they depend on conventions and assumptions that are to a degree arbitrary' (*ibid.*: LOC 1461).

There are questions to be raised about the extent to which the credit crisis emerged from the masking of an imbalance between the expectations of consumers and competitive productive capacity in the US, UK, etc. Growth depending upon borrowing, in a context in which there was little real new investment but rather a variety of ways of moving around other people's money, was illusory. Implicit to both monetarist and Keynesian thinking is a search for new ways of stimulating investment. But are these feasible? The emergent economies (Chinese above all, but also India, Brazil and more to come) are transforming the world economic system. There are reasons for questioning the notion that it is simply a matter of finding new and better ways in which the established capitalist economies can compete with these new economies. An economics in which growth (in respect of GDP) is the yardstick of satisfactory national performance needs to be challenged. But what that means for the citizens of the hitherto dominant economies, and their governments, is finding ways of coping with relative decline (see King, 2010).

Finally, there are issues to be raised about the relationship between successful growth and job creation. In the UK there has been a certain amount of self-congratulation on the part of the government about the avoidance of dramatic increases in unemployment as the austerity strategy develops. However, it may be that significant elements of under-employment are being masked (particularly the growth of part-time work). It seems likely too that the incomes of the employed are falling in the context of efforts to maintain national competitiveness. An important difference between the 1970s and the present is the weakness of trade unions, no longer able to challenge measures that reduce incomes. In general, however, levels of unemployment have becomes massive across Europe, particularly Southern Europe, and the prospects for changing this situation look grim. In the 1930s, Keynes pointed out that simply driving down wages does not solve this problem. Today we may also point out the political limitations of such a strategy.

Conclusions: Are Paradigm Shifts Occurring?

Ideological change is a slow process. In the 1970s, as was noted, the shift away from Keynesianism involved a shift back to earlier ideas, which had been kept alive and indeed increasingly strongly promoted in the early part of that decade. Obviously similar points may be made about any reversion to Keynesianism now. But as already noted, what is perhaps happening is some fusion of Keynesianism and monetarism, which was in any case always going on. A related point concerns the quest for new ways of ordering international relations. Here, as noted, the reference point in the past is the Bretton Woods conference at the end of the Second World War, where Keynes had to compromise strongly with American dominance. The characteristic of the post 1970s order was the reinforcement of that dominance in a context of efforts to minimise constraints on markets. Here critics are in evidence, with Stiglitz (2010) the key figure.

But what are the prospects for change beyond this? Stephen King's analysis of the situation poses a series of problems for the stimulus perspective, but he is forthright in his support for measures to reduce government indebtedness. His is an argument that the West is living beyond its means, with messages both to citizens and to governments. Critical as he is of the concept of economic growth, Adair Turner notes: '... indebtedness does create a growth imperative. Without growth, debt servicing and debt reduction require expenditure reductions and tax increases, which impose resented and resisted setbacks to people's existing income and wealth' (Turner, 2012: LOC 1471). Remedies thus require a lowering of expectations, always difficult for democratic politics to deliver.

More radical voices from the Green perspective have a massive task on their hands challenging productivist and growth assumptions in conventional economic thinking and translating them into political discourse. It may be doubted whether 'happiness' measures (see Skidelsky and Skidelsky, 2012) can become a 'currency' of political debate, resting as they do on comparatively 'soft' measures derived from psychological testing.

Central to radical change has to be something more than the imposition of constraints upon finance capital. We

noted the rise of this interest in relation to the paradigm shift of the 1970s. There seems little evidence so far of a significant reversal here. On the contrary, the battles over bankers' bonuses and the continuing development of hedge funds suggest nothing much is changing. Implicit in change is that there has to be a changed relationship between government and the financial sector (the Treasury and the City in UK discourse). At the time of writing, the dominant view is that government deficits must be cut for fear of market reactions:

> Elite politicians in many countries make speeches that rhetorically underscore their commitments to reforming finance and caging its private interests, but all this is effectively undermined if they accept the story ... that any reform must be acceptable to finance (from Engelen *et al*., 2011: LOC 3725).

This article has used the paradigm shift theory to look at contemporary economic events: to ask whether we can see (or indeed whether we will see) shifts in economic policy comparable to those that occurred either when Keynesian ideas were first adopted or when there was a reaction away from them in the 1970s. In doing that, it suggested that it is important not to exaggerate the changes involved in those past events. It has also indicated some problems about the notion of paradigm shift. These concern questions about the real nature of such shifts, the extent to which they are fundamental in nature and the extent to which they involve radical as opposed to gradual change (earthquakes versus stalactite formation). They also concern the extent to which both older theory about the behaviour of key interest groups and later theory about the key role of actors as agents of change need to be embraced within the concept of paradigm shift.

But above all it has been argued that the paradigm shift theory almost inevitably involves interpretation after the event. It is not easy to review a policy debate and proceed to predictions about changes that will occur. In that sense, the contemporary situation has been examined asking questions about what evidence there is that a shift is occurring or will occur. In such a situation it is not easy for an author to be detached. We have views about what we think should occur. In this respect I believe that a radical shift is needed. But I would be stepping outside my comfort zone into macro-economic controversy if I were to try to justify that interpretation of trends in contemporary economies and try to argue that it will become inevitable or essential. Generations of radical analysts who have, at various points in history, argued that a fundamental crisis of capitalism is about to occur offer a warning against such boldness.

The theory used here, stressing the need to see policy change as a product both of crises and of human agency in response to those, suggests that the advocates and potential agents of fundamental change would need to get a great deal stronger than they are now for this to happen. A democratic politics in which the public expect the government to manage the economy, and make their choices between parties in terms of not just their capacity to do this but also of their ability to deliver increments of growth, seems unlikely to change. The rise of new parties peddling simplistic remedies, particularly those that see our economic problems as deriving from migration, poses a challenge, particu-

larly to social-democratic politicians. In a sense, the paradigm shift theory, with its stress on the need for ideas to shift policy orthodoxies, but also its recognition that this has to be reinforced by endogenous change – new interests need to be emerging to help carry the argument – can be seen as a new 'dismal science', sceptical about the feasibility of policy problem solving. In any case, change will be slow – no earthquake is occurring – and perhaps the most optimistic view is that new realities may have to come to be accepted.

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Razmišljanja o politici ekonomske krize iz perspektive *policy* procesa

SAŽETAK Članak se koristi teorijom promjene paradigme da bi istražio različite pristupe zadnjoj ekonomskoj krizi. Dolazi se do dvaju zaključaka, konceptualnog i supstancijalnog. Pokazuje se da je teško primijeniti teoriju promjene paradigme u analizi događaja gdje su promjene politika spore, te kada je sud o tome je li do promjene došlo ili nije moguć tek retrospektivno. No teorija promjene paradigme može nam pomoći da objasnimo odgovore na krizu u kojima se javljaju poteškoće u primjeni prevladavajućih ekonomskih ideja, ali i otpor njihovoj promjeni.

KLJUČNE RIJEČI teorija promjene paradigme, ekonomska kriza, *policy* proces