European Political Science Review (2013), 5:3, 401–430 © European Consortium for Political Research
doi:10.1017/S1755773912000185
First published online 31 August 2012

The story of a North Sea bubble: the strange demise of the Anglo-liberal growth model in the United Kingdom and Ireland

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In the wake of the deepest and longest recession that the United Kingdom has experienced since the 1930s and the Irish Republic has experienced since the 1980s, this paper examines the origins, sustenance, and puncturing of the growth dynamic both economies have enjoyed since the early 1990s. It identifies, in both cases, elements of an 'Anglo-liberal growth model'. For as long as it lasted, this took the form of a consumer boom fuelled by growing private indebtedness (typically secured against property in a rising housing market) and was itself dependent on the nurturing and sustenance of a low inflation–low interest rate equilibrium. Of the two cases, it is the United Kingdom that presents the purer form of Anglo-liberal growth; in Ireland, a hybrid growth model can be seen to have developed in which Anglo-liberal growth was allied to a more conventional (and ultimately more sustainable) export-oriented growth dynamic. The paper seeks to gauge the character, paradigmatic significance, and effectiveness of the interventions made in the attempt to shore up the Anglo-liberal growth model and the rather different prospects for the resumption of growth in the years ahead. It argues that the Anglo-liberal growth model is, indeed, fatally flawed. In such a context, it is difficult to see how sustained economic growth can be restored, in the UK case, in the absence of a completely new growth model and, in the Irish case, without the cleansing of the long-standing export-oriented growth model of the Anglo-liberal trappings it has acquired in recent years.

Keywords: crisis; Anglo-liberal growth model; UK; Ireland; liberal market economies

Introduction

The global financial crisis (as it has come to be known) has prompted a pronounced and rapid reappraisal of the 'comparative institutional advantage' of at least the European liberal market economies (Hall and Soskice, 2001; Schmidt, 2002) by exposing the fragility of the 'Anglo-liberal growth model' at the heart of their seeming success in recent years. The events that started with the puncturing of the housing bubble in late 2006 in the United States and 2007 in Britain and Ireland and which led to a highly contagious banking crisis and credit crunch and,

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https://doi.org/10.1017/S1755773912000185 Published online by Cambridge University Press

ultimately, to the public rescue of a large number of systemically significant global financial institutions from the brink of collapse are, as yet, far from over. Yet in the United Kingdom and Ireland, it is clear already that they signal the end of debt-financed, consumer-driven growth and with it the Anglo-liberal growth model that has sustained the UK economy and, albeit less straightforwardly, the Irish one since the early 1990s. What was, until very recently, loudly and proudly proclaimed as the end of 'boom and bust' is now revealed to have been the elongation, over-inflation and ultimate bursting of a balloon economy.

Writing in the midst of the bubble burst, Gamble (2009a: 452) was almost certainly right to suggest that, gauged simply in terms of the economic fundamentals, these events 'will rank as one of the three great crises of capitalism of the past 150 years, alongside those of the 1930s and the 1970s'. Yet the fundamentals tell only part of the story: crises are as much constructed politically as they are given economically (Hay, 2001; Blyth, 2002; Schmidt, 2002; Widmaier *et al.*, 2007). Policymakers respond not to events themselves but to their understanding of those events. What is clear is that, insofar as it is right to see this as a crisis at all, it has proved not paradigm challenging but paradigm-reinforcing – largely, we suggest, since it has been constituted politically in both Ireland and the United Kingdom as a crisis of *debt* rather than as a crisis of *growth*. The response to a crisis of debt is, of course, austerity and deficit reduction; and in the context of liberal market economies whose governance in recent years has had a strong neo-liberal inflection, this is paradigm-reinforcing. But rather like economic policymaking in the mid-1970s, crisis management within the existing paradigm may well prove unsustainable both politically (given that it is unlikely to prove popular) and economically (in that it may well reduce prospects for the resumption of growth). If that proves to be the case, as in the late 1970s, a second crisis might arise – one that is more likely to challenge the existing paradigm.

At present, then, there is a disparity between the severity of the economic pathologies afflicting the United Kingdom and the political interventions made already and those we might credibly anticipate for addressing such pathologies. That disparity, we suggest, is considerable. Within the terms of the existing paradigm – or, perhaps better, the existing Anglo-liberal growth model – the pathologies afflicting the United Kingdom are intractable; and yet, to date at least, no alternative paradigm or growth model is on offer. That should not surprise us, but it is, in essence, the predicament the UK faces: *the Anglo-liberal growth model is broken and no alternative is on offer.*

The picture for Ireland is, however, rather more complex. For we suggest that the underlying dynamics behind the (hybrid) Irish growth model are rather more conducive to economic recovery than those of the United Kingdom. Yet this, we contend, is likely to prove contingent upon the cleansing of its hybrid growth model of its Anglo-liberal elements and there is, as yet, little evidence of this. If our dual diagnosis is accurate, then the situation in both contexts is one in which the old is dying and yet the new cannot be born – more a 'catastrophic

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equilibrium' than a crisis *per se* (Gramsci, 1971). But the point about catastrophic equilibria is that they are pregnant with the possibility of crisis – in that the 'morbid symptoms' to which they give rise provide potent ingredients for potential crisis narratives.

In this respect, the present political conjuncture in the United Kingdom resembles more closely 1973–1974 than it does 1978–1979. Cameron's Conservatives and their Liberal Democrat coalition partners, the immediate electoral beneficiaries of the United Kingdom's economic woes, are no carriers of an alternative economic paradigm. Indeed, if anything they are more pure and pristine exponents of the old paradigm, far less willing, for instance, to countenance the use of ostensibly Keynesian techniques to shore up the ailing paradigm and altogether more queasy about the associated ratcheting up of public debt and the renewed role for the state in the provision (or at least underwriting) of collective public goods. It is thus difficult to see them presiding over the transition to an alternative growth trajectory for the UK economy. For, apart from anything else, they disavow the kind of intervention necessary to secure any such transformation. Yet in the absence of both an alternative growth strategy and, no less significantly, the capacity to restructure and rebalance the economy around it, it is difficult not to anticipate an ever-widening gap emerging between the growth rates of the leading economies and that of the United Kingdom (for reasons we will consider presently). That, in turn, can only swell political unrest and make more likely the redefinition of the crisis as one of growth and, by implication, of the Anglo-liberal growth model. This of course begs the question, who will play Margaret Thatcher to David Cameron's Harold Wilson?

In Ireland, the picture is remarkably similar. Under Brian Cowen's leadership (2008–2011), the approach of the Fianna Fail-led government (in coalition with the Green Party) was more reminiscent of the period 1983–1984 (when both Fianna Fail- and Fine Gael-led governments emphasized budgetary targets but offered little in the way of an alternative vision for change) than that of 1987–1988 (which saw a radical ideational shift that was enshrined in the *Programme for National Recovery* of 1988). The subsequent Fine Gael/Labour coalition – in government since March 2011 – has certainly emphasized its 'absolute resolve' to bring about fundamental changes to Ireland at a political, economic, and societal level (Government for National Recovery, 2011). Yet the evidence for such change is, as yet, sparse – as is tellingly reflected in the refusal to countenance any change to the 12.5% rate corporate taxation rate.[1]

Before we assess the prospects of the Anglo-liberal growth model in the United Kingdom and Ireland, though, it is first crucial to retrace our steps, examining in the process the origins, sustenance, and puncturing of the growth dynamic the UK and Irish economies have enjoyed since the early 1990s, the character,

[1] For a critique of the economic sustainability of which see Kirby (2010a).

https://doi.org/10.1017/S1755773912000185 Published online by Cambridge University Press

paradigmatic significance and effectiveness of the unprecedented interventions made in the attempt to shore up the growth model in both countries, and the prospects for the resumption of growth in the years ahead.

The story of a North Sea bubble

It is, and has undoubtedly proved, all too tempting to attribute more agency than is genuinely warranted to the development of the 'new financial', 'privatized Keynesian', or, more simply, 'Anglo-liberal' growth model, which has characterized the United Kingdom, and albeit to a lesser extent the Irish and other Anglophone economies since the early 1990s.[2] In both the United Kingdom and Ireland, this growth model was certainly stumbled across serendipitously (Crouch, 2009; Hay, 2009); and in Ireland it is a more recent creation. As is now widely acknowledged, it was in both cases largely consumer-led and private debt-financed – though, once established, it was undeniably supported by high levels of public expenditure. Yet it was the easy access to credit, much of it secured against a rising property market, which was its most basic precondition. This served to broaden access to – and to improve affordability within – the housing market, driving a developing house price bubble. Once inflated, this was sustained and, increasingly, nurtured, by interest rates that remained historically low throughout the boom.

But the origins of this low inflation–low interest rate regime, of course, lie elsewhere – and it is in this respect that the United Kingdom and Ireland's sustained if not ultimately sustainable economic growth from the early 1990s must both be seen as a product of contingency rather than design. In the United Kingdom, the step-level decrease in interest rates, which placed the economy on the path to sustained consumer-driven economic growth, occurred in the most unpropitious of circumstances, with the devaluation of sterling associated with its forcible ejection from the Exchange Rate Mechanism in September 1992. This was subsequently reinforced by Labour's manifesto commitment in 1997 to the stringent spending targets set by the outgoing Major government (arguably, at a point when it had already discounted the prospect of re-election). Although almost certainly the product of perceived electoral expediency rather than economic judgement, this led the new Labour government to run a substantial budget surplus between 1997 and 1999. The associated rescaling of national debt served to increase the sensitivity of demand in the economy to interest rate variations and, in the process, helped further to institutionalize a low interest rate–low inflation equilibrium (Hay, 2007).

In Ireland, the preconditions of the housing boom were established in the context of the Republic's transformation into the 'Celtic tiger' in the 1990s. This saw unprecedented levels of economic growth due to an influx of foreign

[2] On the 'new financial growth model' see Gamble (2009b); and on 'privatised Keynesianism' see Crouch (2008).

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direct investment from high-tech US firms seeking to take advantage of Ireland's highly skilled, English-speaking workforce and its commitment to join the eurozone (Smith, 2005). The economic boom was associated with a variety of factors that would later serve to fuel demand for housing, not least the dramatic rise in employment and real disposable income per capita [both of which were greater than in any other OECD (Organization for Economic Co-operation and Development) country in the second half of the 1990s; OECD, 2001; Malzubris, 2008]. But while growth in the housing sector was a consequence rather than the cause of the wider economic boom, it soon took on a life of its own. By the turn of the century, growth in the export-oriented manufacturing sectors such as microchips, software development, and pharmaceuticals had levelled off, in contrast to the rapid expansion of the domestic sector (Hardiman, 2010). With Ireland's membership of the eurozone – and the associated access to cheap credit – generating new opportunities for investment in the domestic economy, firms flocked to the 'most readily available domestic sector', that of construction (Hardiman, 2010: 76, 77). Between 2002 and 2007, the gross value added (at constant prices) of the construction sector rose by a third, with building and construction accounting for 9% of Ireland's gross domestic product (GDP) by 2007 [Central Statistics Office (CSO), 2008]; during this time net borrowing by Irish credit institutions rose sixfold to around 60% of GDP. Yet, while policymakers broadly welcomed the contribution to GDP and employment growth that the construction and housing boom represented, Ireland was also experiencing the greatest house price inflation of any OECD country, with new house prices rising threefold in real terms in 1992–2006 (Malzubris, 2008). The Republic had entered a 'classic asset price bubble' – a bubble that continued to inflate, and dangerously so, in the context of Ireland's historically low interest rates and the favourable tax treatment of residential property (Hardiman, 2010).

Yet, as is now increasingly acknowledged, it was not just low interest rates that served to inflate the bubble – certainly in the United Kingdom. Crucial, too, was the liberal and increasingly highly securitized character of the mortgage market in the Anglo-liberal economies (Schwartz, 2008; Schwartz and Seabrooke, 2008; Watson, 2008). Of course, this was established first in the United States, with Fannae Mae, for instance, buying mortgages and selling them on as securities from as early as 1938 (Thompson, 2009). It would take the liberalization and deregulation of financial markets in the mid-1980s to bring this to London. For, it was the passing of the Financial Services and Building Societies Acts of 1986 that paved the way for US investment banks to establish mortgage-lending subsidiaries in London. They brought with them the securitization of mortgage debt, albeit at a level far below that reached in the United States.[3] The practice was rapidly diffused throughout a retail banking sector swollen by the demutualization of the

[3] We are indebted to Matthew Watson for conversations on this point.

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building societies (Wainwright, 2009). Ostensibly, the model was one of 'originate and distribute'. Mortgage lenders in effect became financial intermediaries, repackaging new loans as mortgage-backed securities (MBSs) for a range of domestic and international institutional investors. The advantage of such a model, in theory at least, was that the risk of mortgage repayment default was passed downstream, to the holders of such asset-backed securities rather than being retained by the originator (the former being compensated by high yields for as long as default rates remained low). Yet, as now becomes clear, the reality was more complicated – less 'originate and distribute', more 'acquire and arbitrage' (Turner, 2009). Thus, at least in part in an attempt to circumvent the capital adequacy requirements introduced in the first Basel Accord of 1988 (which required commercial banks to retain a certain amount of capital in house, but which turned a blind eye to the siphoning off balance sheet of such capital through asset-backed securities), a great deal of securitized credit (and the associated assets) remained on the books of the banks themselves (Brunnermeier, 2009: 80, 81; Wainwright, 2009: 382). Thus, as intermediaries in one office in the bank were busily slicing, dicing, 'tranching', and thereby passing on mortgage default risk, down the corridor their colleagues at the proprietary trading desk were just as feverishly loading the bank up with equivalent mortgage default risk. Far from being passed downstream and diversified, risk was, if anything, being concentrated and proliferated, a process only exacerbated by the increasingly highly leveraged nature of such institutions (Brunnermeier, 2009). But, as long as house prices rose, interest rates remained low and demand for MBSs was buoyant, little or no consideration was given to the level of aggregate risk building within the system. Indeed, for as long as the balloon economy remained airborne, systemic risk delivered growth.

To all intents and purposes it appeared that a virtuous cycle had been established, in which the preconditions of growth were mutually reinforcing – the Anglo-liberal growth model. Sustained low interest rates and a highly competitive market for credit provided both the incentive and the opportunity for first time buyers to enter a rising market and for established home owners to extend themselves financially, by either moving up the housing ladder, or releasing the equity in their property to fuel consumption. There was little incentive to save; instead, consumers were increasingly encouraged to think of their asset purchases as investments, which they might cash in to fuel their consumption in retirement, as the state withdrew from pension provision, or in times of economic difficulty or unemployment. Such 'asset-based welfare' was, in effect, the social policy corollary of the new growth model. That it became a conscious social policy strategy in itself, actively promoted by New Labour in the United Kingdom, was a clear indication that, despite its contingent origins, the growth model was now a quite conscious part of its economic thinking. But, tragically, both the growth model and asset-based welfare were predicated on the assumption that asset-price appreciation was sustainable. With an estimated one-third of a billion pounds lost from UK Child Trust Funds alone since

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the onset of the credit crunch, that assumption was to be cruelly exposed as a naïve and costly one-way accumulator bet (Prabhakar, 2009).

A shift towards asset-based welfare has also been apparent in Ireland, although the picture is characteristically more complicated than for the United Kingdom. For, the Republic has always represented a tricky and ambiguous case with respect to its categorization as a welfare regime due to its mixture of liberal, conservative, corporatist (and, indeed, other) elements, which have also shifted in relative significance over time (Payne and McCashin, 2005; Smith, 2006). Nevertheless, it is possible to identify the emergence of what Kirby (2002) labels an 'Irish neo-liberalism' in the 1990s and 2000s. Rather than being treated as an end in its own right, social welfare has increasingly been understood and articulated in terms of its relationship to the market: that is, social justice has been treated as contingent upon, and subordinate to, economic growth (Hay and Smith, 2005). While asset-based welfare had historically been a feature of the Irish welfare state with respect to social housing, for instance (Norris and Fahey, 2009), this has been revitalized and redefined in terms of the new growth model. As with the British case, then, asset-based welfare became the social policy equivalent of the Anglo-liberal growth model – albeit in a peculiarly Irish form.

It should be noted, however, that in both countries the transition from public to asset-based welfare has been partial at best. Given the wide-scale depreciation of such assets since 2007, that is probably a very good thing. But there is a deep and rather tragic irony here. For the pressure on the public provision of welfare is set to intensify massively, due to the public bailout of the banking sector, the extent of the contraction in the fiscal base, and the resulting deteriorating of the public finances, at precisely the point at which asset-based welfare is least likely to be able to compensate (see also Hay, forthcoming; Watson, 2010). Public and private welfare retrenchments are likely to prove simultaneous.

Yet important though the impact of the bubble burst and ensuing credit crunch has been on the long-term prospect that asset-based welfare might come to meet the shortfall created by public welfare retrenchment, it is the rather more direct and immediate impact on consumption that should perhaps concern us most. This is the story of the rise and demise of 'privatized' or 'house price Keynesianism' (Hay *et al.*, 2008; Crouch, 2009; Watson, 2010). The Keynesian analogy cannot be taken too far but it does highlight the key link in the Anglo-liberal growth model between (private) debt, aggregate demand and consumption. In effect, it strips the growth model to its core. Where traditional Keynesianism saw public spending – sustained, where necessary, through public borrowing and targeted on low- and middle-income households through welfare benefits – as the key to raising and generalizing demand, so privatized Keynesianism assigns (or at least relies upon) a similar role being performed by private debt, typically secured against rising property prices. For so long, as a low inflation–low interest rate equilibrium persisted, a virtuous and seemingly self-sustained growth dynamic was established. This, in essence, was the growth model. Consumers, in this

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benign environment, faced powerful incentives to enter the housing market since credit was both widely available on competitive terms (there was a liquidity glut) and returns to savings were low. The result was growing demand in the property market and house price inflation. In such a context, and buoyed in both the United Kingdom and Ireland by interest rate spreads, mortgage lenders actively chased new business. In the process, they increasingly came to extend credit to those who would previously have been denied it, and to extend additional credit to those with equity to release. The incentives thus clearly encouraged both the demand for and supply of sub-prime lending, high loan-to-value ratios, and, crucially, equity release, which might fuel consumption. That consumption, in turn, sustained a growing, profitable, and highly labour-intensive services sector whose expansion both masked and compensated for the ongoing decline of the manufacturing economy (reinforced by low levels of productive investment as credit flows to business were crowded out by positions taken on higher-yielding asset-backed securities, other collateralized debt obligations and the like).

This, for as long as it lasted, was all well and good. But arguably, it is precisely where the Keynesian analogy breaks down that the problems begin. Classical (or public) Keynesianism, of course, is predicated on the existence of the business cycle. Its very rationale is to manage aggregate demand within the economy in a counter-cyclical way, thereby limiting peak-to-trough variations in output growth and unemployment. Yet privatized Keynesianism could not be more different in its (implicit) assumptions abut the business cycle. These are distinctly non-Keynesian. Whether taken in by the convenient political mantra of the 'end of boom and bust' or convinced, like Lucas (2003), that the 'problem of depression prevention has been solved', privatized Keynesianism simply assumes that there is no business cycle. Consequently, measures that might otherwise be seen as pro-cyclical appear merely as growth enhancing. The effect is that the implicit paradigm that has come to support the growth model neither countenances the need for, nor is capable of providing, any macroeconomic stabilizers. If, perhaps as a result of an inflationary shock, the low interest rate–low inflation equilibrium is disturbed, then mortgage repayments and ultimately default rates rise, housing prices fall, equity is diminished, and, crucially, consumption falls – as disposable income is squeezed by the higher cost of servicing outstanding debt and as the prospects for equity release to top up consumption diminish. Lack of demand translates into unemployment with consequent effects on mortgage default rates, house prices, and so forth. The virtuous circle rapidly turns vicious. Arguably, this is precisely what happened in the heartlands of Anglo-liberal growth, the United States in 2006 and United Kingdom and Ireland in 2007. It is to the details of the bubble burst and subsequent contagion that we now turn.

Blowing bubbles, bursting bubbles

The collapse of Anglo-liberal growth and the global contagion that followed is a now familiar tale – well described in a variety of both popular and academic

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accounts in a remarkably highly conserved manner. Typically, it starts with the bursting of the US housing bubble in the second half of 2006 as interest rates soared. There is nothing wrong with this account, but arguably the effect of starting the story here is to gloss over too readily the source of such interest rate rises in the first place. The United States, of course, was not alone in raising interest rates. But significantly, in this respect as in many others, it moved first. Indeed, the entire US business cycle over this period seems to precede that in the United Kingdom and the eurozone by between three and four quarters. That makes an understanding of the motives of the Federal Reserve in raising interest rates all the more significant – and those motives are rather more complex than they might at first appear.

Those (few) accounts that do seek to explain the steep and sustained rise in US interest rates between 2004 and 2006, tend to attribute this to the Federal Reserve's judgement that, as Gamble (2009b: 19–20) puts it, 'credit conditions were too lax now that the economy had recovered from the mini recession that it had suffered … after the bursting of the dot.com bubble'. That is undoubtedly true and it featured prominently in the Federal Reserve's public rationale for interest rate rises. Yet the base rate did not increase fivefold in a little under 2 years simply in anticipation of a potential inflationary effect. Rather, as the timing of the Federal Reserve's interest rate rises suggests, a powerful motive was to support the value of the dollar, which had started to slide on international exchanges. But arguably at least as significant was the simple fact that inflation was already rising – quite steeply and at a rate faster than for any other leading economy at the time. Crucial to this was the rapid appreciation of oil, with Brent Crude more than doubling in price between the start of 2004 and the peak in US interest rates in 2006 – a process undoubtedly underpinned by fundamentals but, crucially, amplified significantly by speculative dynamics (themselves reinforced by money flooding out of the housing market; see for instance Sornette *et al*., 2009).

Yet oil prices would carry on rising even once the Federal Reserve started slashing rates, with Brent Crude not peaking until the second quarter of 2008, by which time it had doubled in price again. This might suggest that the Fed was insensitive to exogenous oil price rises and rather more concerned with the endogenous sources of inflationary pressure within the US economy (see for instance Minford, 2010: 50). But rather more realistic, we believe, is that it *became* increasingly insensitive to *continued* oil price rises only once it became clear that interest rates were already on the verge of pushing the economy into recession – no doubt because it anticipated that oil prices would fall once a US demand shortfall started feeding into the world economy.

That is, in fact, precisely what happened, with oil prices tumbling precipitously in the second half of 2008. In this respect, and strange though it might at first seem, UK policymakers were in fact extremely fortunate. For, had the bubble not burst first in the United States, it is likely that oil prices would have carried on rising (fuelled by speculation) well into 2009. In the United Kingdom, that would

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have generated a mounting problem of 'stagflation' for the Monetary Policy Committee of the Bank of England (with a housing market crash, negative economic growth, and runaway inflation exacerbated, presumably by a run on sterling all at the same time).

The situation in Ireland was rather simpler. For, along with the rest of the eurozone, it escaped stagflation – with the European Central Bank's (ECB) more hawkishly anti-inflationary disposition and the peculiar sensitivity of demand in the economy to interest rate variations combining to produce a massive drop in inflation (which fell to a historic low in 2009; CSO, 2011). But in both contexts, it is important to note the powerful role played by oil price movements (reinforced by speculative dynamics) in both the onset of the crunch and, quite conceivably, if, as and when growth returns to the world economy. That alarming prospect is something to which we will return presently. But, before doing so, it is important that we consider in more detail the transmission mechanism from bubble burst in the United States to bubble burst in the United Kingdom and Ireland.

Where the existing accounts are undeniably right is in pointing to the implications of the fivefold increase in interest rates for the US housing market. Mortgage repayments rose and, shortly thereafter, default rates started to increase. Particularly badly affected were sub-prime mortgages, which (largely because of their link to the highest yielding MBSs) had been the fastest growing and most aggressively sold product class in the market (for a detailed discussion see Dymski, 2012). The result was a housing crash, radiating out from the most sub-prime dense of residential areas to encompass the entire housing market. But the ripple effects would prove not only nationally, but globally, contagious. This, as is now widely accepted, was due to the securitization of much of the debt (prime and sub-prime alike) associated with the expansion of the US housing market and its international diffusion. With repayment streams drying up, previously high-yielding MBSs rapidly became recast as 'toxic assets', rendering triple-A rated securities effectively worthless almost overnight and exposing a staggering variety of international financial institutions and intermediaries to major losses. The casualties included all financial institutions holding such MBSs, the investment banks, and hedge funds involved in supplying the demand for such securities, the commercial banks who had lent to those purchasing them, and insurance companies who had issued credit default swaps to those wishing to insure their exposure to such securities against the risk of default. The inevitable result of all of this has been a series of bank insolvencies around the world, prompting the largest ever bailout of the financial sector, and a deep and prolonged global recession precipitated, in turn, by the freezing up of inter-bank lending (as banks sought to shore up and consolidate their own positions, greatly supported by public injections of capital, while struggling to assess the exposure to future losses of those to whom they might credibly lend).

That is the context into which we now need to insert the UK and Irish economies. While it is tempting to see to the two countries' longest and deepest

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recessions since the 1930s and 1980s, respectively, as a product of contagion – the consequence of financial interdependence more than anything – this is both profoundly wrong and profoundly dangerous. It is wrong, because this is just as much a crisis of the Anglo-liberal growth model as it is a specifically American crisis; and it is dangerous because it may lead us to overlook the endogenous frailty at the heart of the Anglo-liberal growth model that has been exposed (Hay and Wincott, 2012: Ch. 7).

To show that this is, indeed, the case, it is important to differentiate between two distinct, but nonetheless intimately interwoven, sources of the bubble burst and recession that the United Kingdom and Ireland have suffered post 2007. The first of these is largely exogenous, is credibly seen as a contagion effect, and is spread through the banking sector by virtue of its financial interdependence. The UK economy was of course peculiarly exposed to this by virtue of the size, the systemic significance, and the comparatively lightly regulated character of its financial sector but both economies would undoubtedly have been exposed to such contagion regardless of their growth models. The second, by contrast, is largely endogenous, is peculiar to the Anglo-liberal economies and concerns the relationship between monetary policy, the housing market, and aggregate domestic demand. Both mechanisms might be seen to expose profound structural weaknesses at the heart of privatized Keynesianism, which call in to question the viability and sustainability of the Anglo-liberal growth model, but they do so in rather different ways.

The former mechanism is simpler, more familiar, and can be dealt with more quickly. In essence, it relates to, and arises from, the (differential) exposure of the UK and Irish financial system to the US market for mortgage- and other asset-backed securities (and related derivatives) and to the interdependent character of the credit market in general and the market for inter-bank lending in particular. The point is very simple. As a direct consequence of the highly securitized character of the US mortgage market and the international distribution of such securities, any house price crash in the United States was always likely to result in significant losses for United Kingdom and, if to a lesser extent, Irish financial institutions. Moreover, as has now become all too clear, given the extent of the exposure of major financial institutions around the world (including those in London and Dublin) to any such losses, a crisis of confidence leading to a fire-sale of US MBSs was always going to result in a global credit crunch precipitated by the freezing up of inter-bank lending. Given both the United Kingdom and Ireland's high levels of private debt together with the centrality for growth of the relationship between the supply of easy credit, private debt, and domestic demand, both economies were always going to be particularly exposed to such a credit crunch. This was compounded by the size of their financial services industry and the systemic significance for the economy and growth within it left both governments with little option other than to underwrite the entire sector with public funds. In effect, both UK and Irish governments were forced,

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at least temporarily, to re-nationalize privatized Keynesianism, destroying in the process any reputation either country still had for careful guardianship of the public purse and, in all likelihood, imposing on the public sector at least a decade of retrenchment.

Thus, contagion transmitted through international securities and credit markets can go some considerable way to accounting for many of the symptoms that have come to afflict the United Kingdom and, to a somewhat lesser extent, the Irish economies in recent years – the unprecedented ratcheting up of public debt in particular. Presented, as so often it is, in this way, the United Kingdom and Ireland's recent experience of recession can be seen as the product of the constriction of the supply of credit that had drip-fed their economies throughout the 'great moderation' and the losses associated with exposure to US asset-backed securities and associated derivatives. Although it is undoubtedly a very significant part of the story, it still suffers from one fundamental problem: it simply cannot account for the timing of the onset of the recession in the UK and Irish housing markets. For, by the onset of the credit crunch in the United States, the number of housing market transactions in the United Kingdom had already fallen by a quarter from its peak in late 2006. Thus, even if we assume an instantaneous transmission of the credit crunch from the United States to the United Kingdom, this account gets the timing wrong by at least 7 months. Similarly, in the case of Ireland, it was the start of 2006 that the number of mortgage approvals began their steep decline, although it was not until 2007 that house prices, too, began to fall. But, again, the timing simply does not stack up.

That suggests the importance and the value of looking for a more endogenous explanation – and one is not very difficult to find. As already noted, oil prices were rising very steeply at this time – and so too were interest rates as inflationary pressures built in the UK and eurozone economies (Figure 1).

It is hardly surprising that rising mortgage payments combined with a reduction in disposable income should start to reduce both aggregate demand in the economy (and hence levels of consumption) and demand in the housing market. It is certainly no more surprising that, as Figure 2 shows, this should lead first to a reduction in turnover in the housing market (a fall in the number of transactions), rather than to a fall in prices. For house prices tend to prove downwardly sticky as sellers are typically reluctant to accept a reduction in asking price sufficient to secure a sale in a market in which demand is falling (Case *et al.*, 2005). This effect is likely to be all the more pronounced in the immediate aftermath of a period of sustained house price inflation. At least at this point in the story of the United Kingdom and Ireland's slide into recession, then, the size of the housing market was falling because of a decline in the *volume of transactions* rather than a fall in the *value per transaction.* And this, in turn, arose not because of a lack of supply of credit, but from a lack of demand. That can only be explained endogenously (Hay, 2009).

In the case of the United Kingdom, the initial bursting of the housing bubble was not a consequence of international contagion, but an almost inevitable effect

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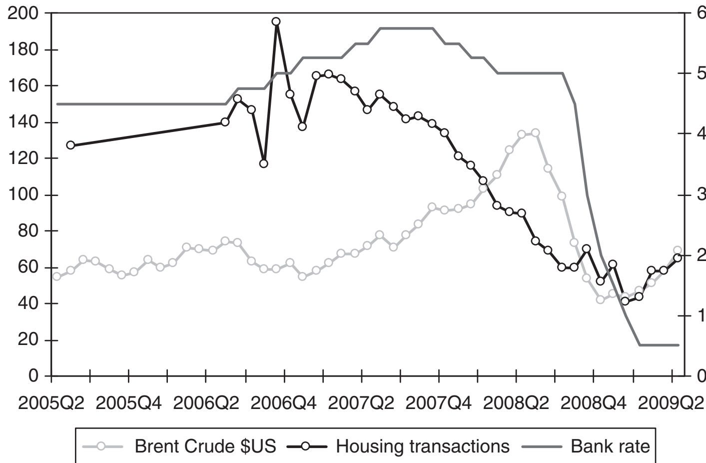

Figure 1 Interest rates, the price of oil and the UK housing market.
Source: HM Treasury Pocket Data Services (various years).

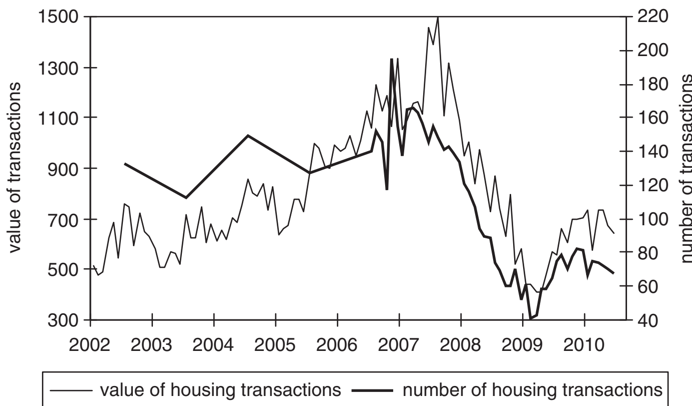

Figure 2 The bursting of the housing bubble – the value and volume of housing transactions, 2002–2010.
Source: HM Revenue and Customs Annual Receipts (monthly values, 00s and £Ms).

of the attempt to control inflation arising from the rise in the price of oil. Of course, as Figure 2 also shows, it did not take long before sellers started to adjust themselves to a falling market; with the trend in the *value* of housing market transactions following that for the *volume* of transactions with a 6-month time lag. Thereafter, with both the volume and value of transactions tumbling, the housing market entered freefall (as did the commercial property market). By this point, a lack of demand for new lending and a lack of supply of credit were reinforcing one another. Thus, despite the growing spread between the

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Bank of England base rate and the effective market mortgage rate, new lending was extremely difficult to secure, since there was little or no prospect of passing it downstream through securitization and the banks were hastily trying to shore up their balance sheets by minimizing, as best they could, existing liabilities. And, with essentially no inter-bank lending market to draw upon, that meant quite simply that most financial institutions had no capacity to extend credit even to the most creditworthy of customers. By this point, many of them had long since stopped looking for fresh credit lines they might extend anyway.

The effect of all of this on the wider economy is easily seen if we start to consider the transformation in personal fortunes that this kind of turnaround in the housing market represented. In November 2006, the wealth effect associated with house price inflation was the equivalent of three quarters of pre-tax annual average earnings – a significant source of equity, which might be released to fuel consumption (Hay, 2009: 471). Yet by December 2008, a net wealth effect had been replaced by annual house price deflation equivalent to 124% of the pre-tax earnings of the average citizen. Privatized Keynesianism, in other words, was no longer delivering growth but had become, in effect, an obstacle to growth – because the low inflation–low interest rate equilibrium upon which it depended had been disrupted. The result was a highly corrosive combination of falling house prices and equity depreciation, which, in combination with high interest rates and high and rising commodity prices, led directly to falling demand and, in due course, rising unemployment, especially in a service sector whose growth had relied on the provision of services to a property-owning consumer society with high levels of (liquid) positive equity and/or disposable income. The close link between the housing market and the fortunes of the domestic economy in the slide into recession is graphically shown in Figure 3.

As this perhaps serves to indicate, although the United Kingdom's economic difficulties were seriously compounded by the credit crunch, they were not caused

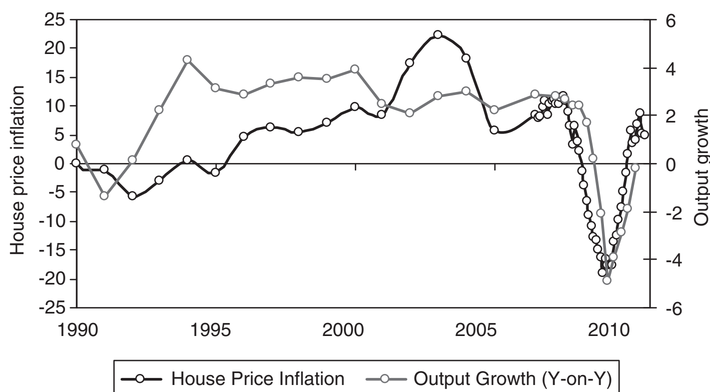

Figure 3 Output growth and house price inflation, 1990–2010.
Source: HM Treasury Pocket Book Data Series, various years.

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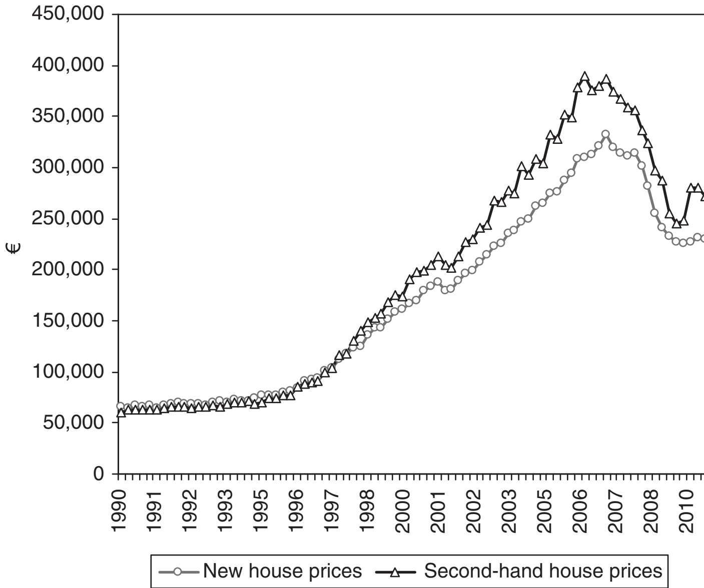

Figure 4 Average house prices in Ireland, euros.
Source: Department of Environment, Community and Local Government.

by it – and the UK economy would almost certainly have experienced a deep and painful recession without it. True, most homeowners who had not entered the housing market or released all of the equity that they had accumulated in the housing boom in the 2 years prior to the bubble burst still had positive equity in their homes – and that they could not access it to supplement their consumption was a product of the credit crunch. And it is undoubtedly also true that the unavailability, to all intents and purposes, of credit throughout 2008 and 2009 contributed to the depth and severity of the recession. But in so doing it merely reinforced dynamics that were already deeply entrenched. The brutal reality is that, by the time the credit crunch started to impact on the UK economy, there was already precious little demand for credit – certainly in the residential and consumer economy.

Turning to the Irish case, the Republic experienced a sustained period of house price inflation over the 17-year period from 1990 to 2007, at which point it experienced a fairly rapid decline (see Figure 4). As for the United Kingdom, it was the volume (not value) of housing market transactions that fell the most spectacularly: for example, the number of loan approvals by banks and building societies fell by an astonishing 83.4% in 2005–2010 (see Figure 5; see also Hay, 2009). Yet, despite Ireland's ostensible similarities with the United Kingdom, the country-specific dynamics behind the bursting of its housing bubble are rather different. Of central importance to the Irish case is the Republic's membership of

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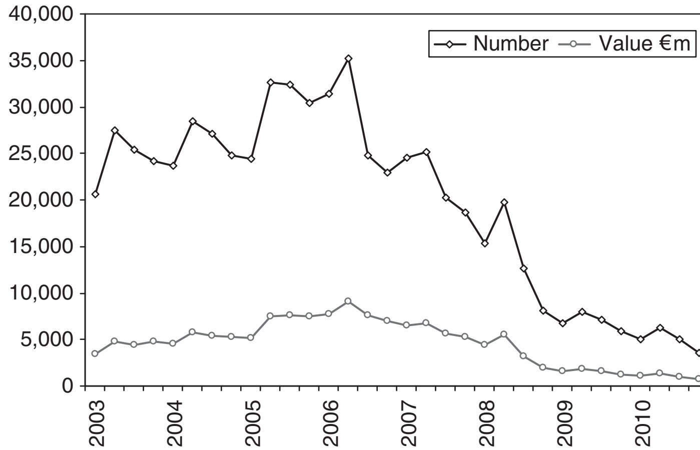

Figure 5 Mortgage approvals societies by banks and building societies in Ireland.
Source: Department of Environment, Community and Local Government.

the eurozone since 1999. While all member-states have ceded formal control of monetary policy to the ECB, the concern for domestic policymakers was that this would pose a particular challenge – and danger – for Ireland. For, while the ECB was set up to cater for the needs of the eurozone as a whole rather than those of the Irish periphery, the Republic's business cycle is out of synch with the rest of the eurozone due to its historical trade and investment dependency on the United Kingdom and United States (Hay *et al.*, 2006). As it has transpired, the interest rate settings of the ECB have indeed been far from optimal for the Irish economy, as evidenced by the mismatch between Ireland's consumer price index and the harmonized index of consumer prices; see Figure 6). Crucially, the former measure of inflation includes mortgage interest payments, household insurance premiums and building materials, whereas the latter excludes such housing-related items – and yet it is the latter that is used by the ECB. This has meant that the interest rates set by the ECB have consistently been too low for the Irish context and, as such, they served to fuel rather than quell house price inflation (Hay, 2009).

Yet the impact of sub-optimal interest rate policy on the Irish economy is only part of the picture. For this has arguably been compounded by poor policy management at the domestic level – not least in terms of fiscal policy. For, while Economic and Monetary Union membership precludes Irish policymakers from intervening in interest rates, they have been left with some room to manoeuvre with respect to fiscal policy.[4] Indeed, as Hardiman (2010) notes, countries that

[4] Although the Republic agreed in principle to adhere to the budgetary constraints set out by the Stability and Growth Pact (i.e. to limit the budget deficit to 3% and public debt to 60%) this has not been legally binding.

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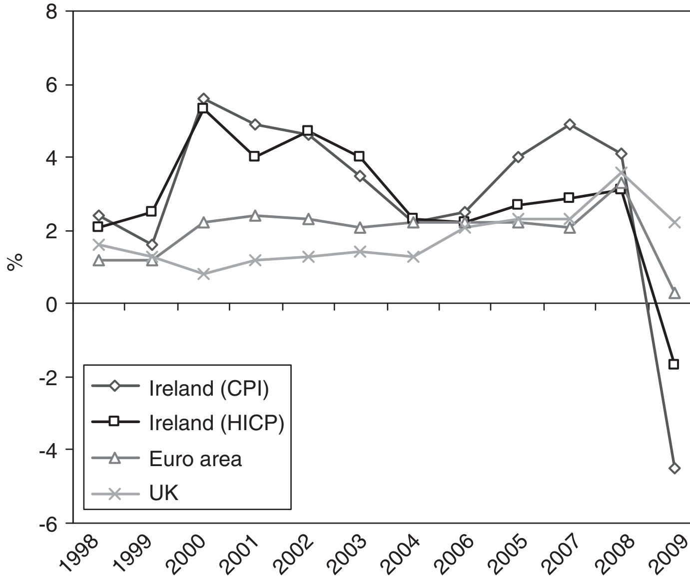

Figure 6 Inflation rates, year-on-year percentage change. *Source*: Department of Finance.

entered the crisis with comparatively low levels of accumulated debt such as the Baltic states and other post-communist countries also experienced a relatively low fiscal deficit crisis. Yet, as she also observes, pro-cyclical fiscal policy has been a recurrent theme in Irish macroeconomic policy, with governments spending freely when there is economic growth but, having failed to shore up reserves for periods of recession, then imposing harsh expenditure cuts and raising taxes – thus making economic recovery more difficult. Despite the experience of economic crisis in the 1980s – and, indeed, despite vocal criticism from the European Commission – the government ran an expansionary budget in 2001, and subsequent budget surpluses were scarcely sufficient to manage the deflationary impact of a slowdown in growth – let alone the full-on recession that the Republic would subsequently experience. This was in marked contrast to the strong fiscal surpluses run by Scandinavian countries in the 2000s in the light of the financial crises they had experienced in the early 1990s and that Ireland, too, had suffered in the 1980s (Hardiman, 2010).

But there is another, far more significant mechanism in and through which the credit crunch has cut much more directly at the heart of the Anglo-liberal growth model. That is through its impact on the size and growth prospects of the financial services industry and the damage inflicted on the state of the public finances in the shoring up or re-nationalization of privatized Keynesianism. These effects are considerable and the damage done likely to prove extremely long lasting. While much depends on the extent to which a new regulatory architecture emerges in

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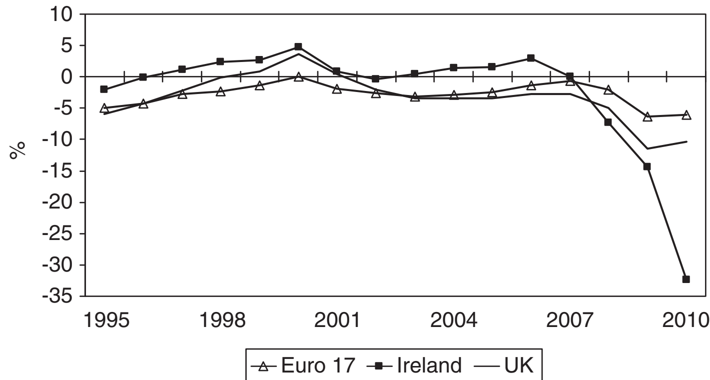

Figure 7 Net borrowing/lending of consolidated general government sector as a percentage of gross domestic product.
Source: Eurostat.

the years ahead for global financial markets and the balance between prudential regulation and the prospect of finance-led economic growth that any such new regime strikes, there is little doubt that the size and value of financial services to the UK and Irish economies will suffer a step-level decrease. In 2007, the share of GDP contributed by financial services was 10.8% in the United Kingdom (Tomlinson, 2010: 71) and 10.6% in Ireland – more than double the average for the euro area (Hardiman, 2010). And this, of course, is to say nothing about the consequences for growth of the public sector recession promised in the United Kingdom and already underway in Ireland. As we shall argue in the final section, however, the growth prospects for Ireland are rather stronger than for the United Kingdom. Crucially, though, the potential for long-term, sustainable growth requires a radical rethinking of the Irish economic (and indeed social) model and yet in both countries the neo-liberal ideas that underpinned the Anglo-liberal model remain remarkably resilient.

The prospects for the return of Anglo-liberal growth

In order to consider the prospects for the UK and Irish economies and the Anglo-liberal growth model upon which they have relied since the early 1990s, we consider the character, paradigmatic significance, and effectiveness of the unprecedented interventions made in the attempt to shore up the growth model, the political significance and likely legacy of the recession, and the prospects for the resumption of growth in the United Kingdom and Ireland in the years ahead.

The re-nationalization of privatized Keynesianism: a paradigm shift?

There is now a developing consensus in the academic, if not perhaps the more popular, literature (for a review see Thain, 2009) that Gordon Brown's government

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reacted to the recession swiftly, decisively, and with some degree of innovation. It is particularly striking how it became, for a while, credible to pose the question of whether the public rescue of the banking sector heralded the return to an era of Keynesian economics (see for instance King, 2010) – a paradigm shift made in the context of crisis. Yet, while this proved to be a rather fanciful delusion (see for instance Marsh, 2009), the brief return to Keynesian language is nonetheless very interesting. What it represented was, in effect, a form of inter-paradigm borrowing. In certain respects, it was reminiscent of UK economic policymaking in the mid- to late 1970s. Just as the Labour Government of Jim Callaghan sought to deploy monetarist techniques in an attempt to shore up the prevailing Keynesian growth model in the mid-1970s, so that of Gordon Brown sought to make use of a quasi-Keynesian (as distinct from more classically Keynesian) repertoire of techniques in the attempt to shore up the existing growth model. But that is the key point – both episodes of inter-paradigm borrowing were characterized by the attempt to stabilize the existing model and its attendant paradigm.[5] As such, ultimately they both remained internal to the paradigm; neither, as is now clear, heralded an imminent paradigm shift. This was, in effect, 'foul weather Keynesianism' – a dipping into the Keynesian repertoire of techniques in recession, only for such techniques to be abandoned if, as and when growth returned to the UK economy. Indeed, the perhaps tragic irony is that, in their perhaps understandable desire to signal to the markets a clear intention to restore balance to the public accounts, such techniques were abandoned in favour of public austerity and deficit reduction long before any recovery was firmly established.

In Ireland, too, the initial response of the Fianna Fail-led government was to deploy Keynesian techniques, with budgetary targets for 2008 including spending increases of over €1.7 billion (with nearly €960 million for welfare supports; Cowen, 2007), and the 2009 budget similarly entailing a special welfare package of €515 million, contributing to a general government deficit of just over €12 billion (Lenihan, 2008). However, as in the United Kingdom, this experiment in 'foul weather Keynesianism' was not to last. In April 2009 – with the Republic's budget deficit now 'the worst in Europe' (BBC News At One, 7 April 2009) – the government dramatically unveiled an emergency budget in order to raise €1.8 billion from increased taxation and to save €1.5 billion from spending cuts (*Times Online*, 30 September 2008). Subsequent budgets continued on this path, including a 4-year plan of tax hikes and spending cuts announced in December 2010 (Lenihan, 2010).

Crucially, these measures saw Fianna Fail preside over the collapse of the social partnership. This had been in place since 1988 and had served to demarcate the 'Celtic tiger' era. It had entailed a series of agreements between government and key economic and social interests surrounding the main tenets of Irish macroeconomic

[5] As Gamble (2009a: 459) put it at the time, 'politicians are still attempting to respond to the crisis within the intellectual frameworks that defined the orthodoxies of the past twenty years'.

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and social policy. In September 2008, in the wake of the crisis, the social partners signed a Transitional Agreement in as a means to 'provide certainty and stability during a period of great change and difficulty' (Cowen, 2009). However, this soon broke down, with an (albeit aborted) strike called by the Irish Congress of Trade Unions (ICTU) for March 2009 on the grounds that employers and government were not adhering to the National Wage Agreement. By December 2009, the General Secretary, David Begg, had declared social partnership to be 'dead and buried' (*Irish Times*, 7 December 2009) and, although the government subsequently agreed to freeze pay cuts, Budget 2011 was condemned by the ICTU as 'utterly lacking in any sense of the common good' and as 'an assault on the weakest' (ICTU, 2010). Such developments took place against a backdrop of mounting criticism of – and opposition to – the government on a variety of fronts. This included massive public outcry over the welfare and wage cuts and serious breakdowns in party discipline (see for instance *Irish Times*, 27 March 2010). While it is no surprise that the cuts proved enormously unpopular, the government undoubtedly compounded matters by failing to offer a convincing narrative of the crisis and a clear attribution of responsibility. For, despite Fianna Fail's claims to have taken 'bold, decisive and innovative steps to manage our way through the crisis' (Fianna Fail, 2010), it sought to consolidate, rather than challenge, the existing model and the paradigm underpinning it. The 'Celtic tiger' had been constructed in terms of Ireland's ability to compete under conditions of neo-liberal globalization (Smith, 2005) and it was in and through this lens that the crisis was responded to. As the Taoiseach, Brian Cowen, argued in May 2010: 'The lesson we need to take from [the recession] is that we are in a competitive global marketplace and soft option solutions are not going to provide the basis for sustainable growth and the improvement of living standards' (Cowen, 2010). As such, the crisis and the response to it were couched in terms of the pre-existing growth model – the very growth model that Fianna Fail had itself presided over. As the ICTU rather aptly stated in its document, *Shifting the Burden: Why the Government Wants to Load the Cost of the Collapse onto the Less Well Off and Why Their Plan Will Just Make Things Worse*: 'Like disciplines of a dead faith, they cling grimly to the wreckage instead of starting over with a new vision' (ICTU, 2009).

Re-inflating the bubble

This brings us to the political implications of the bubble burst and ensuing recession. In the United Kingdom, the Labour government had a rather better recession than one might have anticipated, but – having failed to restore stable growth by the time of the election – this did not prevent it from being replaced in office by those who claimed to be able to do better. This too became the fate of the Irish government in February 2011, with Fianna Fail suffering the worst defeat of any incumbent in the history of the Irish state (Reuters, 26 February 2011). As we shall see, it is no easy task for either government to deal with the economic situation bequeathed to it – but,

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arguably, it is not made any easier by the ideas animating economic thinking today in either the Conservative Party or Fine Gael. Here we consider each in turn.

Cameron's Conservatives and their Liberal Democrat coalition partners are no carriers of an alternative economic policymaking paradigm, nor do they offer an alternative growth model. While in neither respect are they very different from their Labour counterparts, there are nonetheless significant differences in emphasis between the parties on economic policy. First, although they have not explicitly denied that they would have engaged in the same public underwriting of the banking sector, the Conservatives have been consistently more queasy about the Keynesian connotations of such deficit financing, the active role for the state as financial guarantor of last resort that was implied and the consequent ratcheting up of public debt. Their natural inclination, it would seem, remains to invoke a 'moral hazard' objection to the bailing out of private institutions. While they refer to the recession as a crisis, they do so in a very particular way. The crisis, for them, is a debt crisis, 'Labour's debt crisis' – and that, of course, implies that the solution to the crisis is to restore balance to the public finances (Cameron, 2010; Conservative Party, 2010). This does not place them significantly at odds with the previous government; but it is certainly a rather different emphasis. Yet it is by no means the only, nor perhaps the most significant, difference between the parties. Surprisingly perhaps, the Conservatives have been far more sanguine about the degree to which the United Kingdom's growth model is broken. The economic chapter from their 2010 manifesto opened with a stark question: 'where is the growth to come from?' That was precisely the right question but, 2 years on, the answer remains elusive. For Labour, it seems, any return to growth rested on resuscitating the old growth model. But for the Conservatives, it was very clear that this would not suffice. As their manifesto went on to state,

> we cannot go on with the old [growth] model … built on debt. An irresponsible public spending boom, an overblown banking sector and unsustainable consumer borrowing on the back of a housing bubble were the features of an age of irresponsibility that left Britain so exposed to this economic crisis. They cannot be the source of sustainable growth for the future.
>
> (Conservative Party, 2010: 3)

At some level this was almost certainly correct – but there was, and remains, no clear sense of what is to be done. It is clear that the United Kingdom must make the transition to a new growth model based on saving rather than borrowing, investment rather than consumption, a balance of trade surplus rather than the existing deficit, and a reduced role for financial services. Yet quite how this was to be achieved was not specified. The manifesto contained, in effect, an open disavowal of Anglo-liberal capitalism in favour of something more closely resembling *Modell Deutschland*.[6] Restated in such terms, the stark disparity

[6] A model whose own imminent demise was, of course, famously pronounced more than a decade ago (see especially Streeck, 1997).

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between the extent of the transformation implied and the policy instruments required to achieve it (almost exclusively tax incentives) is cruelly exposed. The problem, in the end is simple – the Conservatives and their coalition partners disavowed, then as now, the kind of intervention (and, indeed, public investment) necessary to secure any such transformation.

The same might be said for Ireland. Both in opposition and in government with the Labour Party, Fine Gael has sought to use the crisis as a means to distance itself as much as possible from Fianna Fail – an obvious thing to do, perhaps, but it is something that Fine Gael has struggled to achieve throughout the history of the Irish party system (Smith, 2005). Certainly, Fine Gael has lost few opportunities to criticize Fianna Fail's approach to the crisis: as Kenny (2011c) put it in his Nomination of Government speech 'we will make sure that "what was done", will most certainly not be done again'. What Fine Gael have on the whole failed to do, however, is to question Fianna Fail's approach to growth nor indeed the foundations of the Celtic Tiger itself. Of course, this is perhaps unremarkably given that Fine Gael itself was in power during the early years of the economic boom (1994 to 1997). But, despite their claims to be the bearers of genuine change, Fine Gael continues to offer precious little in the way of an alternative economic paradigm. Quite the contrary: the solution for recovery, it seems, is more of the same (i.e. further adaptation to the forces of neo-liberal globalization aligned to deficit reduction). Most tellingly – and despite enormous pressure from the European Union to do otherwise – Fine Gael remains 'unequivocally committed' to the 12.5% rate of corporation tax (Kenny, 2011a). Yet, as Kirby (2010b: 5) compellingly argues, such a commitment is hugely disappointing for (at least) two reasons:

> One is the failure to ask some of the most profitable multinational companies in the world to share in a small way the huge burden of increased taxes now being placed on low- and average-income taxpayers in Ireland. This is the moral argument on which there is total silence in Ireland. The second argument is an economic one: increasing the tax on corporations could help to wean the Irish economy off its excessive dependence on the foreign sector and, with enlightened state policies, help develop an innovative domestic industrial and services sector to act as a modern motor of growth replacing the property sector which has now crashed.

Growth out of austerity?

Is it indeed the case, then, that the Anglo-liberal growth model is irretrievably and irreversibly compromised? Here it is important to set out why we believe that this is so by comparing the prospects of the UK and Irish economies.

For the United Kingdom, a key impediment to growth relates to the confidence invested by all of the major political parties in the prospects for a manufacturing and export-led rebalancing of the economy in the years to come. Here, one might

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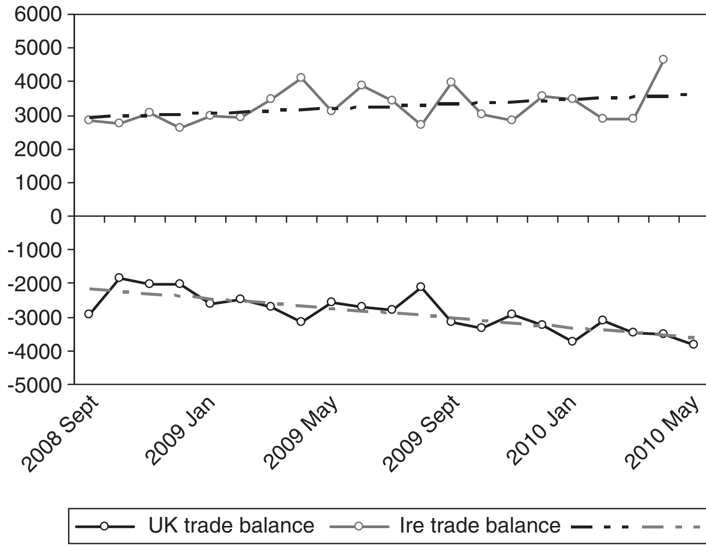

Figure 8 The United Kingdom's worsening balance of trade.
Source: Office for National Statistics, Balance of Trade Dataset (UK); Central Statistics Office, External Trade Dataset (Ireland).

think, the very depth of the UK recession might offer some comfort – for it saw by 2009 an effective depreciation of sterling of just over 20% (see also Kirby and Barrell, 2009: 43). This, it might be thought, would have led to a marked improvement in the United Kingdom's balance of trade position and a strong platform from which to move to a more conscious export-led growth strategy, as UK competitiveness has been improved by a falling currency. Yet the data show this not to have been the case, with the United Kingdom's balance of trade position in fact worsening since the height of the recession. Indeed, the contrast with Ireland is particularly stark, as Figure 8 shows. For Ireland has in fact seen quite a significant improvement in its already impressive balance of trade position – despite the appreciation of the Euro, despite its similar exposure to the bursting of an over-inflated housing bubble and despite now widely being cast as something of a basket-case economy.

Two additional factors make the picture bleaker still for the United Kingdom. First, the global nature of the recession has led to a step-level decrease in the volume of trade as a percentage of global GDP – as the relative share of domestically sourced commodities has tended to grow in (shrinking) shopping baskets around the world. If previous recessions are anything to go by, this is unlikely to prove a temporary phenomenon – making export-led growth strategies more difficult to sustain and reinforcing the importance of domestic demand. This makes it very difficult even to think of the UK economy retaining, let alone expanding, its global market share. Second, this is merely compounded by

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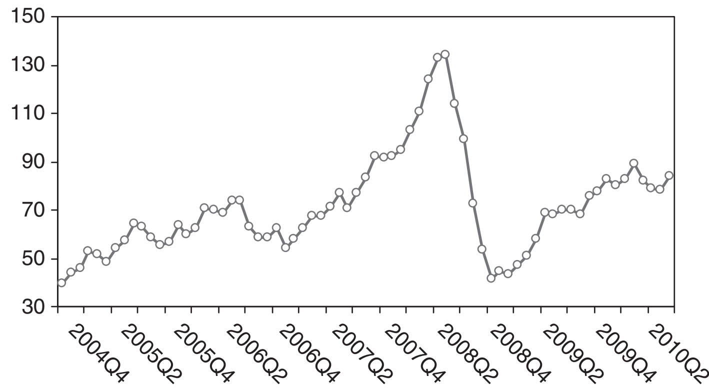

Figure 9 Brent Crude, price per barrel ($US).

alarmingly low levels of productive investment in the UK economy in recent years – during a period in which there was, ostensibly, a credit glut. With the very significant tightening of credit that has occurred in the UK economy since the recession and with a 40% or so drop in the value of the commercial property against which most Small and Medium Enterprises' credit lines are secured, it is difficult to envisage the transition to an export-led growth strategy built on the back of private investment – and the parlous condition of the public finances would seem to preclude a programme of public investment to stimulate export growth.

Nor is a domestic demand-driven resumption of consumer-led and private debt-financed growth a less problematic route to growth. Prior to the bubble burst, the UK economy had already started to enter a period of 'stagflation', with the Bank of England forced to raise interest rates in response to rapidly rising oil prices, despite the adverse effect it was having on the housing market, consumption, and growth. By mid-2007, it was no longer capable of controlling inflation without precipitating a housing crash; indeed, its interest rate settings were sufficient to burst the housing bubble *without controlling inflation* (Hay, 2009). What ultimately brought inflation down was the onset of the US recession and the precipitous fall in oil prices (reinforced by speculative dynamics) that eventually and inevitably followed. This, we argue, reveals a fundamental structural frailty at the heart of the UK economy. For, all that is required is the resumption of steady growth in the United States for the price of oil to rise steeply (with the rate of increase already rising, see Figure 9) to bring the inflationary pressures that took us to the edge of the precipice last time.

What, then, of the prospects for the resumption of Anglo-liberal growth in Ireland? Here there are at least some crumbs of comfort in the preceding analysis. Despite a similarly over-inflated housing bubble and a similarly catastrophic bubble burst, a rebalancing and reorientation of the economy is arguably already

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underway (see Figure 8). But although this is certainly encouraging, it is not altogether surprising. For the Irish growth model was always more complicated and multifaceted than its more narrowly Anglo-liberal UK counterpart (Hay *et al.*, 2006). The Irish economy would undoubtedly have grown in the absence of house price inflation throughout the 'great moderation' (and at a pretty decent rate). That, alas, simply cannot be said for the UK economy.

Yet, while the Irish economy is currently faring rather better than its UK counterpart, its long-term prospects remain uncertain to say the least. For, although the Republic is beginning to experience a resumption in output growth, it is far from clear that it will emerge from the ashes of the recession as a 'Celtic Phoenix', as Kenny (2011b) has suggested. The irony here is that although export-led growth is helping the Republic to recover from the bursting of the housing bubble, the banking crisis that it precipitated still threatens to damage irreparably Ireland's export-led growth. There are two elements to this. The first is the constriction in the supply of credit to export-oriented sectors and, as in the United Kingdom, the crowding out of such investment by interest rate spreads on commercial lending as the Irish banks recapitalize. In the absence of systematic political pressure on the banks, this makes the revitalization of an export-led growth strategy far more difficult to achieve; and it is not at all clear that Ireland's political elite have the political desire to take on the banks in this way. Second, although the dynamics behind Irish economic growth in the 1990s and 2000s are highly complex, the availability of a highly skilled workforce has undoubtedly played a central role in the Republic's ability to attract investment in technologically sophisticated sectors. This has, in turn, been contingent upon education and skills (particularly in science and engineering) being treated as a major priority by successive Irish governments since the 1960s. Yet education is one of the key sectors to bear the brunt of the spending cuts – a situation that has not been reversed under the current government, despite their pledge that '[a]chieving the highest possible standards of education will be at the heart of Ireland's long-term economic prosperity' (Fine Gael, 2011). Moreover, as noted above, the government resolutely refuses to countenance an increase in its rate of corporate taxation – even when the European Union was prepared to negotiate over the terms of the financial support package that, in turn, is crippling Ireland's finance. A final irony here is that – as a number of commentators have noted – Ireland's low rate of corporation tax is not, in fact, the critical concern for foreign investors; rather, it is education (for a detailed discussion see Smith, 2005). It need hardly be noted that the government's continued commitment to the former is at the direct expense of the latter.

Conclusion

In conclusion, it is important to return the question with which we began – the viability, sustainability, and long-term stability of the liberal market economies.

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Though the term is, as we have been at pains to show, something of a misnomer (in that the crisis we have experienced, though it has ultimately proved globally contagious, had more endogenously Anglo-liberal origins), the 'global financial crisis' invites and requires a through-going reappraisal of the institutional durability of the liberal market economic order. The analysis we have developed suggests that, contrary to the pervasive varieties of capitalism perspective, comparative advantages are not institutionally given (Hall and Soskice, 2001). Rather, they are better seen as the product of the dynamic and politically contingent interaction between the specific institutional configurations that characterize a political economic regime (such as a variety of capitalism) on the one hand and the growth model or models with which it is aligned on the other.

Such interactions, as the preceding analysis shows, are rather more fluid, dynamic, and potentially volatile than has previously been assumed. Moreover, it is credible, we suggest, to think that the same basic institutional architecture (such as would conventionally be seen to define a variety of capitalism) might be aligned with a great variety of different, and potentially, incompatible growth models. Growth models, in other words, might vary between cases of a common variety of capitalism – with the stability of the case in question relating less to the variety to which it belongs (and the institutional complementarities that underpin it) than to the interaction between its institutional configuration and the growth model to which it is aligned.

If this is true, then there may well yet be hope for Europe's liberal market economies – for the exhaustion of the Anglo-liberal growth model on which they have both drawn need not necessarily entail the demise of their liberal market economic order.

That said, the more detailed consideration of the Irish and UK cases that we have presented generates rather different expectations for these liberal market economies in the years ahead. Despite superficial impressions to the contrary and the seemingly prevailing economic orthodoxy, the prospects for the United Kingdom, we suggest, are decidedly more bleak than they are for Ireland. The United Kingdom developed perhaps a purer form of the Anglo-liberal growth model than any other liberal market economy (the United States included). Consequently, the extent of the transition required to place it on a new growth trajectory is all the more considerable. The United Kingdom has, in effect, lost *all* of its growth model as, in their different ways, all the principal parties now accept. But it has not found an alternative; and the transition to an alternative – if, as and when one can be identified – is unlikely to prove a rapid or painless process. While there is, then, something of a cross-party consensus on the need for a manufacturing-led rebalancing of the economy, the impediments to this are considerable – given a long-standing balance of trade deficit, persistently low levels of investment in human and physical capital and the punitive commercial lending spreads that have opened up as the banks have sought to recapitalize (crowding out the investment in additional capacity that might sustain such a rebalancing).

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In each of these respects, the prospects for the Irish case are more optimistic. Crucially, the Anglo-liberal component of Irish growth was never anything like as high as in the United Kingdom – with an (ultimately unsustainable) housing, consumer and construction bubble at least inflated on the back of a more robust, deep-seated, and sustainable manufacturing-led export growth strategy. Moreover, Ireland enjoys a sizeable balance of trade surplus, high levels of inward foreign direct investment and persistently high levels of investment in human and physical capital. This makes the task of restoring a stable growth dynamic to the Irish economy in the years ahead somewhat less onerous. Yet, despite this, the basic challenge is in effect very similar – to re-secure a steady supply of credit from the banking sector and to steer such credit lines away from the housing market and the consumer economy towards those (export oriented) sectors of the economy targeted to form the basis of a pared down growth model. This involves cleansing the existing hybrid growth dynamic of its Anglo-liberal elements rather than devising and managing the transition to an entirely new growth model. What makes this a more difficult task is that it entails a more regulatory, developmental, and coordinating role for the Irish state. This, of course, will be no easy task – particularly in the light of the constraints posed by membership of the eurozone that we have discussed. But this suggests a seemingly perverse conclusion. For Ireland, at least, the solution to the demise of Anglo-liberal growth may well be to supplant Anglo-liberalism in favour of a more coordinated approach to export-led economic growth. In other words, now might well be a very good time for Ireland to reposition itself as a coordinated market economy.

Acknowledgements

Earlier versions of this paper were first presented at Boston University, the National University of Ireland, Maynooth, Sciences Po, Paris and at the Council for European Studies conference in Boston, all in 2012. The authors are grateful to participants on each occasion for their invaluable comments and suggestions, in particular Niamh Hardiman, Brigid Laffan, Vivien Schmidt, Mark Thatcher, and Cornelia Woll.

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