Scottish Affairs, Volume 25(1), 2016, pp. 149-51

Book Reviews

The Politics of Fiscal Squeeze

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Christopher Hood, David Heald and Rozana Himaz (eds), *When the Party's Over: The Politics of Fiscal Squeeze in Perspective*, Oxford: Oxford University Press/British Academy, 2014, 294pp, hb, £60, ISBN: 9780197265734.

Refreshingly, this book looks at the politics of fiscal squeeze, rather than the economics of it, the latter being having been covered on many occasions before.

Nevertheless, the economics of fiscal squeeze does, by necessity, enter the story, as it is the reason it is being discussed in the first place. But we do not enter the sterile world of debates about 'returning to the 1930s' or 'Keynesian fiscal stimulus' vs 'expansionary fiscal contraction'. Too many economists bring their own political baggage with them when addressing this issue and, when making their case, tend to ignore counter claims or weaknesses in their evidence.

Neither is the analysis a quantitative haul through large cross-country data sets; rather, it concentrates on nine case studies, seven taken from the post 1980 period. The authors themselves recognise that in using so few cases this is not a work of econometric rigour that can arrive at definitive conclusions. However, such an approach turns out to be one of its main strengths.

Looking in detail at these nine cases allows the authors to achieve one of its key purposes – to disconfirm hypotheses about what is presumed to be always, or usually, the case. This undermining of generic 'truths', by finding Black Swan cases that run counter to them, forces governments to think more deeply about their own specific conditions. Hence, rather than reaching for a convenient ideological solution that has been touted around, they must instead attempt to better understand their own particular situation and how best to resolve it.

The book addresses three principal questions. First, the distinctiveness of fiscal squeeze politics. Second, the ability for the politics of fiscal squeeze to be perceived as a blame trap or a credit magnet for political parties. Third, the consequentiality of fiscal squeeze, i.e., does it lead to 'sticky' or irreversible changes in policy and in society?

In each case the authors tend to find that there are few universal truths that apply. Countries enter periods of fiscal squeeze for a variety of reasons, facing a variety of underlying economic and political conditions. They also exit them with a variety of political outcomes, in terms of on-going electoral success, and of transformative economic policy and social experiences. By going through nine examples of 'fiscal squeeze' in detail, the authors are able to tease out the unique aspects relating to each, or rather the lack of common factors. While such a finding might have been expected of some of the cases, for example the US in the 1840s, the UK in the 1920s (the Geddes Axe) and the case of perma-crisis Argentina, it is also seen in most of the other examples. In New Zealand, Canada, Ireland, Germany and Sweden the individual elements shine out and the internal politics and historical pathways are very different.

Too often this degree of sophistication is ignored, and large data sets are crunched, which can lead to findings that are subsequently abused by politicians or commentators by drawing overly simplistic policy proposals. This is exactly what happened in the case of US economists Rogoff and Reinhard, when a tipping point of 90% for debt as a % of GDP was identified and treated as definitive, as opposed to the clearly illustrative figure it was meant to be. The Rogoff and Reinhard example highlights the strength of case by case analysis. Japan, Greece, Italy and Ireland each started the great recession with debt as a share of GDP ratios of 180%, 118%, 116% and 29% respectively, so it seems highly likely that these varying initial conditions will require very different policy settings.

Individual chapters also dwell on which areas of public spending received the biggest cuts, although there is no overview on this, which would have been useful. This brings up a further key question: on what are any expenditure cuts based? Is it evidence or is it political expediency? The examples from the book and from the UK during the current period of austerity suggest that it is often the political calculations that win out.

One problem with such a form of analysis is that it provides little in the way of policy recommendations. While this may be the correct approach, given the lack of common findings, nevertheless the 'lessons' section of the concluding chapter is the least satisfactory in the book, for two reasons. First, when the book moves from an analysis of the politics of fiscal squeeze, to lessons for policymakers, these lessons run for less than three pages and are rather technical in nature. Second, such technical lessons provide little in the way of clues as to how to steer the best course, both in terms of recovering the economy and in staying electorally popular. For example, recognising that the data used to identify new problem points will not be of a high enough quality, while probably true, does not help much.

An important feature of the latest recession that is perhaps not given its due prominence here is the near unique nature of the widespread down-turn this time around. 2009 is the only year since 1971 that GDP for OECD countries as a whole has fallen (down 3.6%), with 2008 also at a standstill. This is by far and away the worst year (or two years) on record and emphasises how the developed world as a whole suffered, thereby restricting the ability of countries to recover on the tail winds of other, still growing, nations. As seven of the nine cases used are post 1970, this aspect may be highly pertinent. Indeed the chapters on Sweden, Ireland and Canada highlight how an expanding global economy at the time eased their paths to recovery. Moreover, most current cases of fiscal squeeze are exogenously driven i.e., driven by international or external forces, whereas all of the post 1970 cases (excepting Argentina), are endogenously driven i.e., driven by national or internal forces.

There is also the issue of what happens if there is no return to 'normal' growth. If 'secular stagnation' emerges, then we may have to get used to low rates of economic growth and limited increases in public finance. If so, then politicians will also need to get used to a landscape where growth is limited and the distribution of any such growth becomes more important. This pushes forward a new set of difficulties for political parties to negotiate around and to find convincing arguments to explain, in an attractive way, to the public.

Linked to the preceding point is the general perception that, post recession, politicians have avoided taking back greater control of the economic argument, which had been largely ceded to business leaders and commentators in recent decades. If low growth continues, then this may become less of an option, in particular if inequality at existing, or higher, levels becomes seen as unacceptable to the general public. And if mainstream political parties no longer seem to have answers to the big questions, then it may lead to further dispersion of support across a number of smaller parties representing particular standpoints.

Another feature that is little discussed, but may be for another book, is the relationship between national and sub national governments in terms of the politics of fiscal squeeze. Clearly Scotland has a strong interest in such a scenario, given the blame game that exists between the Scottish government and the UK government.

However, these points should not detract from the real value that this book brings to the table, which is as a reminder that history rarely repeats itself and that most policies to deal with a fiscal squeeze are a mixture of ideology and political expediency, based on past examples, but rarely based on much in the way of unopposed evidence.

April 2015

DOI: 10.3366/scot.2016.0121