

Economic Ideas and Political Institutions Assignment

Name

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## Economic Ideas and Political Institutions

The recent global financial crisis exposed some major fault lines in the world economy. The impacts of this crisis were far-reaching and put into question some of the economic ideas that dominated previous literature (Carney 2017, p. 14). At the same time, some of the economic theories of earlier scholars were reinforced during this period. As a result, there has been considerable attention over the past decade devoted to evaluating the role of ideas in shaping the manner in which leaders and policy agents define economic interests during economic crises. Scholars are increasingly focused on the role of economic ideas in shaping public policy and political life during such periods. This degree of interest can be traced to attempts to make sense of the fundamental changes that have taken place in the previous three decades in the governing models of most capitalist democracies (Heilbroner 2011, p. 13). The failure of the Keynesian compromise reinvigorated primary conflict and discussion concerning the role of ideas in shaping the definitions of economic interests adopted by leaders and policy agents. Regardless, there is a significant uncertainty concerning this topic, especially due to the fact that different countries demonstrate varied outcomes during financial crises. To address this uncertainty, scholars have searched for new bases to examine the changing conditions and guide the current discussion on the topic. The current consensus among many of these scholars is that ideas form the basis of most of the definitions of economic interest because “they have acquired extraordinary power in reconfiguring the course of public policy” (Bradford 2009, p. 17). However, these scholars barely agree on the question of why some ideas grow rapidly while others of comparable intellect value are ignored by leaders and policy agents in the event of a financial crisis. This paper will focus on the extent to which ideas influence the definitions of economic interest adopted by national leaders and other policy agents during economic crises.

### **A Review of Literature**

The following literature review considers findings from various scholars regarding the significance of ideas in leaders' and policymakers' definitions of economic interest during financial crises. Most scholars of economics concede that these definitions can either be strengthened or eroded during such financial times (Carney 2017, p. 14).

According to Gilpin (2017, p. 10) the current reality is that ideas are founded on “structural-economic” determinants and are rooted in capitalist production relations. These ideas play a significant role in state revenue reliance on capital as well as democratic politics and the policymaking process. The rationale of the “capital limit” described by this author is such that it removes from study policy ideas that seek to compromise the prerogatives of economics, or stated differently, do not provide enough material incentives for business, or given aspects of the business community in a country, to cooperate.

In a similar argument, Bradford (2009) holds that:

...analysts of policy innovation and the role of economic ideas must still attend to the interests of capitalism's most powerful collective actor: business. Relying on systemic power in the capitalist accumulation process, and extraordinary resources in democratic politics, business, more than any other social interest is well-positioned to force compromises on other actors in the translation of new economic ideas into policy practice. (p. 68)

Bradford (2009, p. 69) defines the general economic interest in relation to the ideas of policymakers concerning structural factors including patterns of international competition and the entry of new technologies and techniques of working. In this way, the author holds that ideas

form the core of any definition of economic interest and claims that the particular inclinations will be influenced by the sectorial profile, export dependence, and ownership structure that mark most capitalist economies. Additionally, the author finds that even though the definition of economic interest may vary over time, the capital limit is enough to allow a relatively wide array of public policy outcomes.

The current literature concerning the extent to which leaders and policy agents draw on ideas to define economic interest has opened consideration of how these ideas are vital in explaining what Peet and Hartwick (2015, p. 99) refer to as “third order change” involving alterations in every goal, instrument, and contexts of public policy regarding economic interest. Such breaks mostly occur during the event of an economic crisis. According to these authors, such fundamental breaks, as separate from incremental modifications, tend to involve political realignment and debate concerning economic interest. The authors then make two important advances on previous approaches to the role of ideas in the definition of economic interest. First, they conclude that history is characterized by extended periods of relative stability, but punctuated by several instances of economic crisis that grow into “branching points” from which the definition of economic interest is changed. In this way, these instances of economic crisis become the subject of substantial research for the purpose of policymaking. Second, the focus on historical openness and variations shape the perceptions of the limits of materialist approaches.

Gilpin (2017, p. 6) endeavors to capture the limits of several alternative approaches, and also the possibilities for, important public policy changes regarding economic interest. In his study, the author even explains why following a financial crisis some ideas tend to dominate public debate concerning this topic while others do not seem to matter. The author presents a

discussion for the relationship between ideas and the politico-economic ideologies and the “causal pathways” presented by Peet and Hartwick (2015, p. 119).

Gilpin (2017, p. 8) holds that ideas tend to create meaning for leaders and other policymakers, and that they are critical in clarifying the purposes and instruments of economy-related policies. Additionally, this author holds that:

At times of economic crisis and profound policy failure, there will be strong demand for new conceptual road maps. It is, however, equally clear that in such exceptional circumstances a range of ideas will make authoritative claims about desirable futures. The critical questions thus become which contender prevails, why and how? In other words, settling the question of when new ideas matter brings into focus more challenging problems about subsequent processes and outcomes. (p. 9)

This author examines two separate decades of economic crisis so that he can bring about a better understanding of the role of ideas in the dynamics of large-scale policy changes. First, he considers the period between 1935 and 1945 which were marked by the Keynesian compromise. These were the years of the Great Depression. Second, he considers the years between 1985 and 1995 which witnessed an equally dominating neoliberal “restoration”. This period is often referred to as the Early 1990s Recession. Gilpin (2017, p. 10) finds that in both crises, as well as other economic crises in the past three centuries, there was an intensive struggle between two or more alternative economic policy ideas. In all these cases, some ideas became more accepted than they were before the crisis whereas some were strongly refuted.

### **Theoretical Framework**

A large portion of recent work in comparative and international political economy has emphasized policy innovation and institutional reform. There is a substantial theoretical framework concerning the role of ideas in creating change in economic policies. The main argument here is that moments of economic crisis and failure in policy constitute the critical junctures in the history of a state when there is no consensus among policymakers, there is a great level of uncertainty concerning economic interests, and an evident openness regarding future directions (Negishi 2014, p. 23). Many of the current theoretical arguments hold that crisis conditions render economic interests ambiguous, thereby complicating the decision-making process. Additionally, a nation's capacity to address radically modified circumstances should not be ignored as is the case during relatively normal economic conditions. At such critical junctures, interpretative concerns regarding how national and societal leaders and other policymakers make sense of external situations, conceive, or reconceive economic interests and design strategies become particularly crucial. In such cases, ideas become increasingly important in determining economic interests.

Also, the current ideology regarding the role of ideas in defining economic interest is that "when ideas are introduced into state politics following an economic crisis, they do not simply outweigh other factors already present" (Béland and Cox, 2010, p. 91). Rather, they tend to cause changes in the composition of other aspects in the political sphere, including definitions of economic interest. In such a case, ideas act as binding agents that enable existing definitions of economic interest to be reconfigured.

Peet and Hartwick (2015, p. 119) present three "casual pathways" concerning the extent to which ideas influence political definitions of economic interest in the event of a crisis. As

“roadmaps”, revealing the way beyond crises, ideas can influence the definitions of economic interest and, therefore, enable leaders to arrive at decisive actions even though such financial times are associated with uncertainties. As “focal points and adhesive” for social coalitions, these ideas are the significant currency for policymakers to negotiate political realignments regarding economic interest. As “institutionalized discourses”, ideas present the operational narrative and organizational structure for leaders in implementing public policy concerning economic interest.

### **Discussion**

For economic crises, it is possible to create a suitable discussion regarding the extent to which ideas shape leaders’ and other policymakers’ definitions of economic interest. Such a discussion would integrate structural and institutional factors in order to shed new light on vital junctures when such definitions are created. Rather than consider how institutional factors influence ideas during such financial times, this paper is aimed at discussing how these ideas influence the policymaking process concerning economic interest. Also, there is a special consideration for the role of economic crises in the debate regarding economic interest.

Just before the Great Depression, Keynesianism and neoliberalism were arguably the dominating ideas. However, as the Great Depression kicked in, the capitalist cycle almost collapsed and paved way for the complete adoption of the Keynesianism. Keynesianism was favored by leaders and policymakers since it was mostly aimed at addressing the distress brought about by mass unemployment and called for a thorough and consistent public intervention into the economy. Regardless, there were other new ideas in the political realm, which meant that policymakers started viewing regulations for the labor market and investment planning as well as expenditures on public works as critical instruments for addressing the existing economic interests. These ideas formed the foundations of policies aimed at progressive wealth

redistribution via universal public provision of social amenities as well as income support in many of the countries significantly affected by the crisis. However, such an alternative approach was vulnerable to significant challenges, especially since it was a threat to capitalism. The approach called for a substantial overhaul of the existing economic structures and, therefore, failed to concentrate economic interest authority.

However, towards the end of the 20<sup>th</sup> century, the Early 1990s Recession presented new challenges and the ideas embodied by Keynesianism were consequently deemed to be somewhat ineffective in many capitalist countries. There was an increasing need for ideas that involved global free trade, deregulation, and monetarism. This paved the way for neo-liberalism, whereby policymakers sought to “substitute the market for the state” (Bradford 2009, p. 19). Neo-liberalism was introduced to counter the perceived limit Keynesianism, whereby policymakers were seen to be acting in a manner that undermined the economic interests of the people.

### **Conclusions and Implications for Current International Trends**

This paper has focused on the extent to which ideas influence the definitions of economic interest adopted by national leaders and other policy agents in the event of global financial crises. The review of literature and theoretical framework presented illustrates the current knowledge available regarding this topic. Also, the paper is effective in demonstrating how economic crises tend to affect ideas and, therefore, the choice of policy by leaders and other policymakers regarding economic interest.

The implications of all these for an advanced understanding of the power of ideas during financial crises are evident. Analysis of the institutions of political representation demonstrates a lot concerning the process by which leaders and policy agents define economic interests in terms



of ideas. There is an understanding of the process by which leaders introduce new ideas, and how these ideas are adopted and embedded (Blyth 2013, p. 14). To gain a proper understanding of the constituents of such ideas, however, it is important to analyze the structure of capitalist dynamics and the role of leaders and policy agents during financial crises. Overall, it can be inferred that innovative dynamics illustrate formidable path dependencies. That is, once it is concluded that certain ideas are governing models, they channel future policy thoughts of leaders and political outcomes through certain paths. In the future, is expected that in many countries, it is only those policy ideas that exert considerable less demands on the accountability, mobilization, and debate which will become the governing models.

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