

It's not just the economy, stupid; it's whether the economy is fair

Written by Wesley Widmaier, Australian Research Council Future Fellow, Griffith University

Most experts say globalisation spreads wealth, bringing people out of poverty and nations closer together. But right now some politicians and their supporters are arguing it simply increases inequality. What's really going on? Our Globalisation backlash series offers some answers.

In the aftermath of the global financial crisis, America's Obama administration faced a dilemma. The public wanted banking reform. But administration pragmatists like US Treasury Secretary Timothy Geithner feared that yielding to populist voices might threaten recovery.

Geithner argued that if recovery could deliver "results", populist appeals for reform should abate. Even if the public did not comprehend why the administration limited its reforms, this would be forgiven if the administration could enable a recovery. As Geithner put it in late 2009:

"The test is whether you have people willing to do the things that are deeply unpopular, deeply hard to understand, knowing that they're necessary to do and better than the alternatives. We'll be judged on how we dealt with the things that were broken in the country."

Yet, the past few years have suggested just the opposite. Even as growth has revived and unemployment has fallen, populist pressures have only increased.

Despite important differences, the Tea Party and Occupy movements and the Bernie Sanders and Donald Trump campaigns have all emerged to question the administration's ties to Wall Street and suggest that fairness remains a core concern. This suggests a paradox: where reform is repressed on ostensibly pragmatic grounds, the result may be less to prevent populist reaction than to inflame it.

Initially, the early global financial crisis spurred public demands for reform. Popular calls urged limits on executive bonuses (particularly as they had been paid by the very firms receiving government aid) and an end to bailouts of firms considered "too big to fail".

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Indeed, Obama himself initially urged such reforms. He denounced excessive bonuses as “shameful” and pledged that “top executives at firms receiving extraordinary help from US taxpayers will have their compensation capped at \$500,000”.

However, administration officials also feared that too much reform might threaten recovery. For example, Geithner opposed the president’s own rhetoric, insisting that “the most important thing was to repair the banking system, not to get caught up in vilifying it”. Bill Clinton put it even more colourfully to Geithner, suggesting: “You could take [Goldman Sachs CEO] Lloyd Blankfein into a dark alley and slit his throat, and it would satisfy them for about two days ... Then the bloodlust would rise again.”

Geithner’s hope was that a rapid recovery would avert 1930s-styled populist excesses, as an economic result would speak for itself. This would lead him later in the year to stifle efforts at limiting bonuses – even those paid by firms that had received taxpayer bailouts – and ensure that the eventual Dodd-Frank financial reform legislation left scope for the continued provision of bailouts to large firms.

To be fair, in the short run, emphasising recovery may have been the smart thing to do. As John Maynard Keynes wrote in an open letter to President Franklin Roosevelt in 1933, in the depths of the Great Depression:

“You are engaged on a double task, recovery and reform – recovering from the slump, and the passage of those business and social reforms which are long overdue.”

In this context, Keynes warned:

“Even wise and necessary reform may ... impede and complicate recovery. For it will upset the confidence of the business world and weaken its existing motives to action before you have had time to put other motives in their place.”

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Recognising the need for some degree of discretion, Roosevelt concentrated in his earliest months on restoring confidence in the banking industry and increasing corporate power as a means to raising profits. Yet over the next several years, his more far-reaching [New Deal reforms](#) would provide the foundation for breaking the power of finance for a generation – and in the process elevate the market power of labour.

Roosevelt recognised – as do psychologists – that repressing pressures for change often does not make them go away. Instead, it simply defers their emergence to a later date, when they re-emerge in distorted, darkened form.

Put differently, the paradox may be that the utilitarian approach Geithner favoured, even as it reflected a desire to limit populist excesses, contributed to their later intensification.

Results, in this light, do not speak for themselves in sustaining popular support. It is not enough to design good policies if they are not understood. The challenge is also to make them understandable.

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