

Recovering from The Great Recession: A Comparative Analysis of the Nature and Effectiveness of Global Reactionary Policy to the 2008 Financial Crisis

By Evan Truscott

The 2008 'subprime' financial crisis caused intense economic recession and instability on an international scale, creating the need for immediate reactionary and interventionist policy from most governments. With a wealth of large-scale dedicated studies to this specific topic emerging in recent years, we have a unique opportunity to synthesize these findings in a way that could indicate potential effective policy actions. This paper intends to identify, categorize and compare an array of policies enacted by utilizing a specific cross section of nations similar in political culture (Australia, New Zealand, and Canada), in an attempt to broadly assess and isolate global trends of reactionary policy making and the effectiveness of these policies, in nations of comparable institutions, over a relatively small time frame.

Being the most recent major economic downturn, and the alleged worst since the great depression (The Guardian 2008), it should be somewhat clear why the 2008 financial crisis would a desirable topic of contemporary study across disciplines. Politically speaking, this crisis was a catalyst for a wave of policy output both social and economic in nature, as world leaders attempted to mitigate the negative effects of this downturn. The purpose of this paper is to specifically identify the nature of these policies and their degree of effectiveness in relation to the category of policy that they reside in. As this was a global recession, the potential list of nations for study is long, so for precisely this reason this paper chooses to specifically use the commonwealth nations of Australia, New Zealand, and Canada as the sample group. These countries are generally accepted to be very similar in political culture, and this was a conscious choice in attempts to diminish the range of dependant variables and focus more acutely on the effectiveness of policy by category. The main dichotomy between the types of policy implemented by these three nations is that of public spending and social services versus revenue-side measures and tax cuts. It is coincidental and interesting to note that quite often these opposing schools of thought on recessionary policy are also divided along ideological lines, with social services and public spending seen as the leftist or liberal position while revenue-sides measures and tax cuts are generally associated with right wing or conservative ideology. Although in this paper ideological lines are not the topic of observation, the effectiveness of social policy versus fiscal policy emphatically is. It is the thesis of this paper that social reactionary policy is overall more effective in mitigating the

negative effects of an economic downturn, due to their nature of specifically targeting unemployment on a public scale, as opposed to fiscal reactionary policy that hopes that increased liquidity and ease of lending will revive the economy and restore GDP and unemployment to an acceptable level, and in this way employs indirect means.

In addition to being commonwealth nations with similar political cultures, all three nations in this instance implemented federal stimulus packages that included multiple categories including public policy and fiscal measures, to greatly varying degrees. Australia allocated the greatest amount (as a percentage of GDP) to their own stimulus package at 7% (Starke 2013), and this capital was primarily targeted at a new national building and job creation plan. Conversely, the stimulus package employed by New Zealand and Canada were not only less funded, at 5% (Starke 2013) and 3.2% (World Bank 2013) of GDP respectively, but were starkly rooted in the fiscal and revenue-side in nature, with the largest share of the stimulus package in both instances earmarked for tax cuts across multiple levels of industry in the hopes of reversing the falling annual GDP growth rate. In addition to the national building and job plan initiated by Australia, part of the stimulus package was aimed at social services at the state level, effectively re-investing in the automatic economic stabilizers that were already in place in the form of employment insurance and welfare programs. Canada also invested to a much lesser extent in public spending, providing approximately \$26.1 billion to social policies including additional employment insurance, investments in infrastructures of universities and colleges, but the lion's share of this social policy budget was allocated to public infrastructure and social housing construction (at approximately \$14.5 billion (Bernard 2014)). But this expenditure is dwarfed when compared to the \$200 billion (Bernard 2014) earmarked by the Canadian government to provide liquidity to the Canadian financial system, which was specifically disbursed through the Extraordinary Financing Framework in attempts to maintain the velocity of lending to businesses and consumers. In contrast to both Australia and Canada, New Zealand invested in no large-scale social services in direct reaction to the 2008 crises (Starke 2013). To summarize the specifics of the stimulus packages created by the three nations in question, we can categorize the Australian policy set as primarily social in nature, the Canadian policy set as primarily fiscal with minor social policy integration, and the New Zealand policy set as almost exclusively fiscal.

To measure the effectiveness of these nations and their policies, the metric chosen in this paper is annual GDP growth rate and Unemployment rate, measured annually at regular intervals between 2008 and 2012. These rates were chosen because they are barometers that are inherently economic in implication, and therefore should provide a more reasonable representation of how well a nation recovered from this economic crisis. New Zealand, although performing better than the OECD average between 2008 and 2012, had a relatively slow and stable correction (perhaps reminiscent of the automatic correction of the market) from -0.7% annual GDP growth rate in 2008 to 1.5% in 2012 (Starke 2013). Their unemployment rate however, spiked from ~4.1% in 2008 to ~6.4% in 2010, and moderately increased again to ~7% in 2012 (Starke 2013). This results are unsurprising, considering the stimulus package employed by New Zealand consisted almost entirely of revenue-side measures, which seems to have resulted in a stabilization of GDP growth rate, but ineffective in curtailing rising unemployment. In contrast, Australia's stimulus package appears to have been effective in stemming the rising rate of unemployment, going from ~4.1% unemployment in 2008 to ~5.2% in 2010, before falling slightly to ~5% in 2012 (Starke 2013). They were also successful in stimulating the rate of GDP

growth, progressing from an annual growth rate of 2.2% in 2008 to 3.8% in 2012 (Starke 2013). Initially this seems to confirm the thesis that social policies are more effective in mitigating the effects of economic crisis, as Australia was able to effectively recover from their rising unemployment rate, and still raise annual GDP growth by a significant amount. Lastly, Canada had a more drastically fluctuating GDP, declining steeply from 1.2% in 2008 to -2.7% in 2009, before rising a dramatically to 3.4% in 2010, and settling at 1.7% in 2012 (World Bank 2013). Concurrently with this comparatively tumultuous period in GDP growth, unemployment showed an overall rise from 6.1% in 2008 to a peak of 8.1% in 2010, before dropping to 7.3% in 2012 (Statistics Canada 2013), still above the nominal rate before the financial crisis. In the case of Canada, we cannot draw as firm conclusions, due to the more mixed approach to their stimulus plan than New Zealand and Australia, but we can draw the correlation that the relatively mitigated rise in unemployment could have been due to the percentage of GDP the Canadian government did earmark for social policy, and the wildly fluctuating annual GDP growth could then be seen as arising from an overdependence on fiscal policy on the part of the Canadian government.

In conclusion, this paper has found examples of a possible political cleavage between social and fiscal reactionary policy, and from observing how focused on social policy the Australian stimulus package was, and how effectively Australia recovered both in terms of unemployment rate and annual GDP growth, we may say that in this case social reactionary policy was more effective in mitigating the negative effects of an economic crisis than fiscal policy, by a moderate degree. It is important to note however, that this correlation could arise from extraneous factors, such as the effectiveness of individual policies, rather than the categories of social and fiscal, or the effectiveness of the governments themselves to see these policies through, but in either case, in the time frame between 2008 and 2012 in these three countries, the governments who applied social reactionary policy more effectively controlled for the detrimental effects of the 'subprime' crisis.

References

- Bernard, PM 2014, 'Canadian Political Economy and the Great Recession of 2008-9: The Politics of Coping with Economic Crisis', *American Review of Canadian Studies*, 44, 1, pp. 22-48, *EBSCOhost*, [December 6, 2015].
- Starke, P 2013, 'Antipodean Social Policy Responses to Economic Crises', *Social Policy & Administration*, 47, 6, pp. 647-667, *EBSCOhost*, [December 6, 2015].
- Statistics Canada*, 2013. Available from: <<http://www.stats.gov.nl.ca/statistics/Labour/PDF/UnempRate.pdf>>. [December 6, 2015]
- The Guardian*, 2008. Available from: <<http://www.theguardian.com/business/2008/apr/10/useconomy.subprimecrisis>>. [December 6, 2015].
- The World Bank*, 2013. Available from: <<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>>. [December 6, 2015].