LSE Government Department
The HotSeat Videocast

Dr Jonathan Hopkin discussing the reduction of the British state.
Recorded 1/7/2010.

Dr Justin Gest: Well, relief during this economic crisis has been demanded by consumers in the form of lower taxes and bigger government rescue packages; two things that don't necessarily go together. Hi, I'm Justin Gest. Welcome to the HotSeat. With us today to discuss the expansion, and perhaps reduction, of the state is Dr. Jonathan Hopkin. Thanks so much for being here.

Dr Justin Gest : Alright, so we have higher taxes right now, fewer programs and public goods, we have more regulation and yet fewer expenditures on the way. Is this exactly the reduction of the state or is this the expansion of the state?

Dr Jonathan Hopkin: Right, well we don't know yet. For the moment in the short term its certainly an expansion of the state because the state is having to take on some of the spending that the private sector has stopped doing. So the state is stepping in by expansionary spending policies and allowing the deficit to grow because the tax revenues are falling, so the state is taking the strain of the collapse of the private economy.

Dr Justin Gest: What areas exactly would you say are expanding or trying to be reduced?

Dr Jonathan Hopkin: Well, what's expanding is certainly the role of the state in maintaining the functioning of the financial sector because quite a lot of the money, some of the money is gone on stimulus programs, especially in the United States, direct government spending to try to get the economy moving. But quite a lot of the money has also been directed at making the banks solvent so that involves large amounts of cash being injected into the financial sector in one way or another so that's the major component of spending for the moment. In the longer term, that will be withdrawn if the banking sector returns to health and then governments are going to have to make big decisions about whether they try to maintain levels of government spending and try to close the deficit with high taxes or live with the deficit or whether they try to reduce the deficit by cutting programs.

Dr Justin Gest: Big decisions ahead, indeed. So how would you characterize the Liberal Democrat and Conservative positions. Where is there agreement and where precisely is there conflict right now?

Dr Jonathan Hopkin: Well, there is before and after on this because before the election they had very different positions. The Conservatives were arguing, albeit in a hesitant way, for much quicker deficit reduction and overall moving toward a reduction of the state whereas the Liberal Democrats were much closer to Labour's position that the life support mechanisms for the economy needed to be withdrawn very slowly and if that meant running a deficit for a longer time so be it. And overall the Lib Dems are more favourable to larger government intervention than the

Conservatives have been historically. Trouble is now they are in a coalition together and they've had to draw up a common programme and that programme, I would say, is much closer to the Conservative position than to the position usually associated with the Lib Dems.

Dr Justin Gest: Well, they do own the most seats in the house. So what does history tell us about the effect and duration of these types of changes?

Dr Jonathan Hopkin: Well, one important historical point that's been forgotten by a lot of commentators is that actually levels of national debt that we're running with at the moment are not that exceptional if you take the long view. British Government has been indebted to similar of greater extents in the past many times, coming out of the second World War the national debt was much bigger than it is now. So there is a tradition of heavy government borrowing, not only in Britain but in other advanced countries so its not that strange for the government to be heavily indebted or to run a big deficit. In the early 1990's under John Major, the deficit approached, didn't quite reach, but approached the levels it's at now. What's probably different is that we don't really expect the deficit to close automatically quickly as a result of a quick recovery of the economy. A lot of people are worried that the economy is going to carry on stagnating for quite some time due to a lack of world demand. And so there the historical lesson to draw on is probably the 1930's where the Great Depression which ultimately, in one way or another, led to the second World War was due to this long period of stagnation and the government's inability to get the economy moving again.

Dr Justin Gest: Alright, then looking ahead, what factors is the future of small or big government dependent upon?

Dr Jonathan Hopkin: Well, in the end it's politics. Part of what's going on, the British government is arguing very strongly that we need to reduce the deficit because markets will only give us credit for a certain amount of time and if we don't show willingness to reduce our indebtedness then the bond markets will start to punish us and we'll have trouble maintaining government spending and you'll get a situation like Greece which is effectively insolvent. So that is one concern; that the markets will start to worry about the solvency of governments. That is an important issue but its also worth remembering that there aren't too many places where people can invest their money at the moment; government debt is still pretty safe compared to most other kinds of investments so there is an extent to which the fear of bond markets may be exaggerated. So to the extent that it's a political decision that rests on whether governments follow a more neo-liberal conservative line which thinks the small state is best and the state shouldn't get too involved in the economy or whether one adopts a more Social Democratic or Christian Democratic view that the state should play an important role in the economy for not only reasons of equity but because this can in some way make the economy better.

Dr Justin Gest: If you were in a room with Nick Clegg and David Cameron what would you advise them?

Dr Jonathan Hopkin: Well, I'm not sure they would listen to what I advise them but, in my view, for the moment Britain can afford not to take particularly drastic measures. Sure, in the long run, the deficit has to be reduced, but there is no evidence of short term panic in the markets. The interest rates that Britain is paying its debt are historically very low because interest rates are historically low across the world economy. So for the moment this deficit can be maintained and I think we need to be very wary of reducing the deficit too quickly and creating a period of very high unemployment which lasts much longer than most people are ready for. In the 1980's, Britain had high unemployment for the best part of a decade and the long term social consequences and economic consequences were really very serious.

Dr Justin Gest: Alright, that will do it. Dr. Jonathan Hopkin you are off the HotSeat. Thank you very much for being with us. And thank you for being with us. Tune in next month for our next edition of the HotSeat.