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MAX-PLANCK-INSTITUT FÜR GESELLSCHAFTSFORSCHUNG  
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MPIfG Discussion Paper 13/6

**On History and Policy**

Time in the Age of Neoliberalism

Francesco Boldizzoni



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## **Abstract**

It is often said that history matters, but these words are often little more than a hollow statement. In the aftermath of the Great Recession, the view that the economy is a mechanical toy that can be fixed using a few simple tools has continued to be held by economists and policy makers and echoed by the media. The paper addresses the origins of this unfortunate belief, inherent to neoliberalism, and what can be done to bring time back into public discourse.

## **Zusammenfassung**

Es heißt, dass Geschichte wichtig sei, aber oft ist dies nicht mehr als eine Redensart. Ökonomen und Politiker halten mit Unterstützung der Medien auch nach der Großen Rezession an der Ansicht fest, dass die Wirtschaft ein mechanisches Spielzeug ist, das mit ein paar einfachen Werkzeugen repariert werden kann. In dem vorliegenden Papier betrachtet der Autor die Ursprünge dieses dem Neoliberalismus innewohnenden Irrglaubens und untersucht, wie geschichtlich-zeitliche Zusammenhänge zurück in den öffentlichen Diskurs gebracht werden können.

## **Contents**

1	A science of change	3
2	Natural law and the mechanical clock	4
3	Social engineering	6
4	Modern myths	7
5	Pseudohistories	9
6	History and the emperor's new clothes	10
	References	11

## On History and Policy: Time in the Age of Neoliberalism

When Queen Elizabeth II visited the London School of Economics in November 2008, in the middle of the credit crunch, she asked a seemingly naïve question that would resonate worldwide: “How come nobody could foresee it?” It took eight months and a seminar organized at the British Academy for some of the country’s most influential economists to respond (Stewart 2009: 1). “In summary, Your Majesty,” they concluded in their letter of July 2009, “the failure to foresee the timing, extent and severity of the crisis and to head it off, while it had many causes, was principally a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole” (Besley/Hennessy 2009).

A few weeks later another missive reached Buckingham Palace. It was signed by ten heterodox economists, admittedly expressing a minority view. They pointed out that the mainstream “overlooks the part that many leading economists have had in turning economics into a discipline that is detached from the real world, and in promoting unrealistic assumptions that have helped to sustain an uncritical view of how markets operate” (Hodgson et al. 2009). While they emphasized the “typical omission” of psychology, philosophy, and economic history from the theorists’ academic training, they did not explain what particular advantage the study of history should bring about, apart from a reference to the awareness of “historical precedents.” Similarly, Lord Skidelsky, Keynes’ passionate biographer, called for the reform of economic education. It was clear to him that the Master was back and ready to bowl over his narrow-minded successors. He elaborated a bit more on the role of history and other *Geisteswissenschaften*, arguing that their study would alter the economists’ perception of economics as a “natural” rather than a “moral” science (Skidelsky 2009: 189).

The topic I address here, namely the relationship between history and policy, is problematic indeed. Historians would be tempted to say that one should not suggest such a link because the past does not repeat itself and history has no lessons to teach; not to mention the risks and dangers of presentism.

In selecting the questions to be asked, the historian is always influenced to some degree by the context in which he lives and by the problems of his time.<sup>1</sup> To a large extent, the extraordinary growth of economic history in the 1930s was due to the great economic

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This paper is based on a public lecture the author held at the Max Planck Institute for the Study of Societies in Cologne on January 24, 2013.

1 This is what Benedetto Croce famously argued with his phrase that “All history is contemporary history,” a view also shared by R. G. Collingwood. It is interesting to note, as Richard Evans does (1997: 30–31), that this idea took shape in the interwar period.

turmoil and social distress of those years. Another golden age for the discipline (but also for the Western economies, in this case) was the postwar period, when experiences of economic development needed to be put into perspective. This kind of dynamics can be observed in all historical subfields. The present fortunes of gender history or environmental history – just to mention a couple of examples – would have been unthinkable fifty years ago.

There is nothing wrong in acknowledging the influence exerted by the present on the questions we pose; what is important is not to let the present drive our search for the answers, because this would mean that we no longer respect the otherness of the past. This threat, however, is omnipresent, whatever the point of departure of historical investigation.

History does not help avoid the kind of mistakes made in the past, nor does it help make the right decisions on the basis of past experience, as if it was a learning-by-doing exercise. I am not much convinced by the lessons-from-the-Great-Depression literary genre, which has experienced an impressive revival in recent years. History cannot be useful if one expects from it such trivial and mechanistic prescriptions.

The Great Depression and the so-called “Great Recession,” although comparable in intensity, are two very different phenomena, generated by different causes. The crash of 1929 was the tip of the iceberg in an overproduction crisis, or the last and most vehement symptom of the market saturation that was affecting the American economy in the twilight of the “Roaring Twenties.” On the contrary, the origins of the 2008-9 crisis are to be sought entirely in the financial sector, in the speculative motives of rentiers, the excessive power of investment banks, and the poor system of rules allowing such things as the “subprime bubble” to happen. Nevertheless, an analysis of the two phenomena shows the existence of common mechanisms at work, and these mechanisms are related to the inherent instability of capitalism, something on which both Keynes and Schumpeter would agree. But analogies stop at this very general level, precisely when we abstract from the plane of individual historical situations to consider the economic and social system – an old-fashioned Marxist would call it the mode of production’ – of which they are a part. This is where the study of the past meets social theory.

The opposite of the “lessons-to-learn” take on history is the view that “the past is worth studying for its own sake.” I can subscribe only partially to this proposition. This view is beneficial as long as it serves to discourage those who wish to draw some immediate, practical utility from the study of history. However, such a statement fails to recognize the deeper motivations that lead humankind to question the past. If the past is dead, that is, if it no longer relates to us in any way, there would be no reason to deal with it, except for antiquarianism. On the contrary, we clearly continue to deal with the past because we feel that, no matter how distant and different it is, it is not alien to us. This does not apply just to the historian but also to the layperson, as history, even its academic practice, is always tied to memory (Douglas 1986: 69–70).

## 1 A science of change

Rather than thinking of history as the science of the past, we may look at it as the “science of men in time.” This concise definition, which we owe to Marc Bloch, means that the object of history is society, not the individual. History is therefore a social science, one approaching its subject matter from a very special angle, that of time. In other words, it is a “science of change” (Bloch 1992: 21–22).

History, then, deals with the evolution of societies across time. Yet, the sense of time, that is, historical sense, is by no means universal. The need to maintain public memory, a need common to all societies, can be regarded as universal. But there are ways to construct shared memories without taking time into account.

The ancient Greeks had no historical sense, not in the current meaning of the term, and this remains surprisingly true from the Archaic period until the time of the Roman conquest. After all, they had no historians, and those who wrote about contemporary history, like Thucydides, did not really consider themselves as such. The Greek collective memory lay in the “timeless myth” (Finley 1975: 14–15). We find similar examples in many other ancient non-European civilizations in the Near East as well as in South and Central Asia (Woolf 2011: 31, 92, 171).

The need to entrust collective memory to history rather than to the myth does not seem to depend so much on having a cyclical or linear conception of time (the latter being common to most written cultures) but rather on how fast time is perceived as passing.<sup>2</sup> In a society that does not experience dramatic changes there is no need to make sense of these changes. It is not by chance that studies of economic history tend to flourish in developing countries, as is happening today in China and Latin America. Traditional societies are normally not interested in their economic past (and perhaps have more pressing concerns) while postmodern societies are keen to forget it.

Prior to the British industrial revolution we find no accounts that we may call economic history, at least in the Western world. One reason for this is that nothing unusual was happening in the economic sphere to create a sense of discontinuity. The other reason is the superior status traditionally attached to political events, another belief that was starting to be challenged at that time.

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2 Cf. Koselleck (2004). Jack Goody (1977: 14–15, 2006: 24) indicates that a writing culture is necessary for developing both a linear conception of time and historical attitudes but this is clearly not the same as saying that it is a sufficient condition.



Adam Smith, David Ricardo, Thomas Robert Malthus, and Karl Marx wrote about the great transformations that were shaping the first modern economy. Each of them captured some particular aspect (Boldizzoni 2008: chs. 3–5). All of them, except Ricardo, who was a clever yet rather uncultivated man, also tried to understand how things had evolved.

Thus, for example, Smith tells us that everything began when, “for a pair of diamond buckles perhaps, or for something as frivolous and useless, [the feudal lords] exchanged the maintenance ... of a thousand men for a year, and with it the whole weight and authority which it could give them” (Smith [1776]1976: 418–419). That is indeed a description of the early origins of capitalism, although it is probably inaccurate and certainly stylized. Neither Smith nor any classical economist ever used the word *capitalism*; nonetheless, they started formulating historical hypotheses.<sup>3</sup>

## 2 Natural law and the mechanical clock

During the Enlightenment, however, the seeds of a dangerous idea were planted. Philosophers speculated about the existence of a natural order extending to the social sphere and mirroring natural law. Since the principles of natural law were inscribed in reason, they could only be understood through reason, which means deductively. Therefore, human institutions had to be explained not in evolutionary terms, but rather as the outcome of a social contract. This entailed the negation of time.

Despite recent claims about the existence of a Radical Enlightenment in economics, one more concerned with social justice than “moderate, mainstream Enlightenment,” economic thought of the eighteenth and early nineteenth centuries generally acknowledged the operation of natural laws in this domain and sought to protect them from the interference of politics.<sup>4</sup> Such laws, like the law of diminishing returns and the iron law of wages, were assumed to be universal and eternal. This is what led Friedrich List to label the classical theory “cosmopolitical economy,” which to him meant intellectual utopia. “True political economy” had to take national and historical specificities into account (List [1841]1856: 189ff.).

Theories of natural order developed into a weak form and a strong form with Smith’s moral philosophy and subsequent economic analysis situated in between. The weak formulation stayed within the limits of economics. It argued in favor of free trade based on the advantages that this would bring to the actors and to society as a whole. This

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3 On the history of the word “capitalism” see Kocka (2010: 9).

4 I have not forgotten Ferdinando Galiani (1728–1787), the exception that proves the rule. He was anything but a radical thinker though, *pace* Jonathan Israel (2010: ch. 3).

view was typical of physiocracy. Smith's big picture is certainly a dynamic one, but the actors' psychology, including the representation of sympathy, is already tainted with materialist reductionism. And, in the *Wealth of Nations*, the invisible hand performs the same role as the mechanical clock does in Newtonian cosmology.<sup>5</sup> Once it has been set in motion by the Great Clockmaker, the clock runs on its own.

Then we have the strong formulation, fathered by Thomas Hobbes. Hobbes wrote little about markets, but the *Leviathan* is unquestionably the first treatise where politics is reduced to modern economic terms and "practically all human relations are contract" (Labiano 2000: 144). He argued that men are selfish and bound together by fear. Only out of fear are they willing to give up some of their freedom and transfer it to the state, an artificial body responsible for third-party enforcement. The decision to enter into society is an economic decision in that it involves the buying and selling of rights. In this way, economic order creates political order.

Late nineteenth-century scientism helped turn economics into a natural science, a sort of social physics; or, at least, it fostered this illusion (Mirowski 1989: ch. 5). This phase of neoclassical economics lasted until the Great Depression and was resumed after World War II. For the next twenty-five years it had to coexist, both in theory and in practice, with Keynesianism. So great had been the shock suffered by Western economies during the interwar period that the idea of simply putting Keynes aside was out of the question, however tempting some found this idea. But as soon as confidence was restored, a chain of events was set off. Supply-side macroeconomic instability in the 1970s offered an argument against state intervention, which was said to be ineffective. The Chicago revolution led to a paradigm shift and the rational choice program redefined economics as a general theory of action. The slowdown of growth and accumulation of public debt brought conservative governments to power in the United Kingdom, the United States, and West Germany. Moreover, the decline and fall of the Soviet Union strengthened the pride of this right-wing establishment. In the very same year that Francis Fukuyama proclaimed the "end of history," the Third World was bound to implement economic policies prescribed by the Washington Consensus (1989). The age of neoliberalism had reached its peak (Harvey 2005: 13).

The most distinctive feature of neoliberalism vis-à-vis classical liberalism is its ambition to transform society. Exchange no longer occupies center stage. As Michel Foucault put it in *The Birth of Biopolitics*, "the problem of neo-liberalism is rather how the overall exercise of political power can be modeled on the principles of a market economy ... to discover how far and to what extent the formal principles of a market economy can index a general art of government" (Foucault 2008: 131). Neoliberal policies aim to impose competition as the basic rule of social interaction. This explains the growing interest in law and politics on the part of economists, as reflected in the creation

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5 On Smith's moral philosophy and its interpretations, see Broadie (2006); on Newton's influence Hetherington (1983).

of hybrid academic fields. The economic analysis of law is now forty years old. The new institutional economics, established later in the 1970s, has gradually evolved into a theory of the state. Political economics (not to be confused with political economy) gained momentum in the 1990s. It considers political systems and constitutions from the standpoint of efficiency and suggests ways to set the “rules of the game” that may promote social and cultural change.

### 3 Social engineering

Today, this neoliberal social engineering project is pursued by think tanks such as the American Enterprise Institute, the Cato Institute, and the Heritage Foundation, but also by university-affiliated ones such as the Stanford-based Hoover Institution and the Mercatus Center at George Mason University. The latter, for instance, gathers an interdisciplinary team of social scientists under the hegemonic leadership of economics. They present themselves as united in a common mission: “Mercatus research, as our name implies, is focused on how markets solve problems,” not only American problems, but “problems in the world,” including African poverty, financial crises, natural disasters, health care and social security, government spending, and, last but not least, social change.<sup>6</sup> Sociology, political science, law, and history are constrained by the straitjacket of the new institutional economics and used to confirm the pre-packaged theorems of global competition and growth.

Europe, too, has become a generator of neoliberal ideas and is home to more than one hundred think tanks, most of which are part of the Stockholm Network, established in 1997. Transatlantic associations and “discussion groups” have been around longer than that, thus ensuring cooperation between corporate lobbyists, politicians, and opinion-makers. There are nuances indeed, and one could legitimately argue that the prevailing doctrine on this side of the Atlantic has rather grown out of postwar ordoliberalism. Yet I will disregard such differences because they are outweighed by two common elements: the tenet that economic order creates political order, and a passion for social engineering. In fact, no social engineer could imagine a better lab for experimentation than the European Union as it presently stands. Some of its inherent features make it particularly suitable. To begin with, it is a supranational polity, not a federation of nations, which appeals to the Enlightenment utopia. Market integration and monetary unification have preceded any serious attempt at political unification. Therefore, the Eurozone finds itself in a rather odd situation: national economic policies are conditioned to a somewhat large extent by the centralized monetary policy of the ECB and

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6 See <<http://mercatus.org/content/about>> [accessed August 2012]

by decisions of the European Commission, whose officials are not elected. This is part of a wider problem known as the European Union's "democratic deficit," a term coined many years ago to describe the lack of accountability of European institutions.

In 2011, an unprecedented step was taken when former EU technocrats were catapulted to top government positions in Athens and Rome. Jürgen Habermas was among the first to announce this "quiet *coup d'état*" in his penetrating essay *Zur Verfassung Europas* (Habermas 2011). Italy's prime minister, Mario Monti, had the singular fate of being called upon to rescue the country from international speculation after he had spent many years on the payroll of Goldman Sachs, a remarkable junk-bond producer (Streeck 2012: 64). He is certainly a modern champion of the free-trade "cosmopolitanism" about which List wrote, as is evident not so much in his theoretical work, dating back to the early 1970s, as in his international lobbying activities. It is interesting to note how his austerity plan and projected structural reforms were justified to the public, as if it was *the economy*, not politics, that demanded them. The reforms were neither good nor bad – they were necessary. This rhetoric of objectification, so to speak, whereby the economy is attributed an independent and neutral existence, was promptly embraced by the leading media. The main parties also endorsed it, as long as it was convenient for them. After all, this is the country of Machiavelli.

Thus for several months Mr. Monti, like the emperor described in Andersen's tale, "marched in procession under his beautiful canopy ... and the chamberlains walked along behind carrying the train that wasn't there." In February 2012, he declared to *Time* magazine that Italians had to be educated in the values of competition and meritocracy and that he was committed to changing their mentality. One does not need to be an anthropologist to realize how wishful such thinking is. Then history materialized in the form of social conflict, and the government had to face the hostility of the trade unions, the pharmacists, the teachers, the students, the students' parents, the elderly, and the unemployed, not all of whom fit comfortably in the category of "rent-seeker." In the summer, the *Wall Street Journal* reported in a more sober tone: "Mr. Monti says he is doing what he can to change Italy – and Italian behavior – but he needs parliament to approve laws" (Galloni/Wolker 2012). Thankfully, let me say.

#### 4 Modern myths

In his recent book *The Illusion of Free Markets: Punishment and the Myth of Natural Order*, the law scholar Bernard Harcourt puts forward an interesting thesis with a Foucauldian flavor. He argues that "the notion of liberty associated with contemporary free markets is a historical artifact," because these are "as fully regulated as any previous economic order," although in a different way (Harcourt 2011: 242). Where a public rhetoric exists of the state as a night watchman, it pushes the state's regulatory appara-

tus to focus almost exclusively on the repression of deviance, leading to the “paradoxical alchemy of market liberalism and legal despotism” (ibid.: 241). The target here is the law-and-economics approach and its influence on the US judicial system, but a similar paradox emerges when we consider recent developments in public choice theory. The rule of the market is pushed to such an extreme that its coexistence with democracy is questioned and the tyranny of the majority is blamed for forcing elected rulers to pursue irrational policies (Caplan 2007). Curiously enough, one of the arguments used to justify the facts of 2011 was that the technocratic governments were appointed under a “state of emergency.” This concept of *Ausnahmezustand* has an interesting intellectual history and, as we know, a tragic one.

The title of Harcourt’s book contains the word *myth*. Is this to be understood in a purely metaphorical sense? If we take Sir James Frazer’s concept of myth literally, as a representation arising out of a misunderstanding of natural laws and leading to baseless “policies” (the rituals), then even modern faith in the natural order of markets has a mythical character. Frazer, however, would be rather disappointed, for this would subvert his tripartite, stage-like theory of human culture, where magic precedes religion, which in turn precedes science (Frazer [1890]1980). Why mankind still needs myths in the age of disenchantment is an interesting question that is left to our anthropological colleagues to answer.<sup>7</sup> Myths are harmless until they start invading the terrain of science, that is to say, when they are taught at university and enter textbooks. Should myths be viewed as models for policy-making and embraced by governments and international organizations, the consequences can be serious. The devastating impact of the “Chicago boys” on the Chilean economy and society in the 1970s and 1980s obviously represents a worst-case scenario, for it was the result of a deliberate plan of “ideological transfer” from a neocolonial power to a satellite country (Valdés 1995). The effects of their policies, however, are not related to the brutal overthrow of the Allende government and could have been equally serious if such policies had been implemented under democratic rule.

It is the duty of historians to dispel the myths of pseudoscience. This makes them responsible to society.

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7 Two important works on modern myths, from the fields of comparative religion and psychoanalysis, are Mircea Eliade, *The Sacred and the Profane* (1959), and D. W. Winnicott, *Playing and Reality* (1971), particularly ch. 1.

## 5 Pseudohistories

Unfortunately this task is complicated by the fact that historians have no monopoly over the past and its uses. Paradoxically, history itself can be abused and interpretations of the past reduced to instruments of persuasion (Boldizzoni 2011). The resulting narratives can be categorized as pseudohistories.

Some time ago I was interviewed by a German newspaper and asked about my opinion of Reinhart and Rogoff's work on financial crises, which became an issue during the recent US presidential campaign (Reinhart/Rogoff 2009). Their argument is that high public debt has been the root of all evil over the past eight centuries, hindering economic growth and causing recessions. Hence they endorse restrictive fiscal policies as a panacea. I found this thesis bizarre, but stranger still was the fact that an amateur account comparing Florentine bankruptcies of the 1340s to Latin American defaults could serve to judge Barack Obama's effectiveness as a policy-maker.

There are clues that allow a trained eye to recognize pseudohistories at first sight, even from a book jacket. Whereas history is complex, pseudohistories typically make strong claims and propose one-size-fits-all interpretive keys. They bear such pompous titles as *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (Acemoglu/Robinson 2012). This is a work by Acemoglu and Robinson attempting to demonstrate that something is wrong with the cultural systems underlying Third World economies, as they failed to develop 'inclusive' institutions protecting individual property rights and fostering entrepreneurship.

Another influential contribution to this field is North, Wallis, and Weingast's *Violence and Social Orders* (North/Wallis/Weingast 2009). The title sounds just sinister. The subtitle, *A Conceptual Framework for Interpreting Recorded Human History*, is more informative about the book's modest scope. Douglass North and his co-authors have been advising the World Bank for some years on the issue of institutional barriers to development (The World Bank 2007: 53–54; see also North et al. 2013). In their view, most approaches to development have been unsuccessful because they did not address the problem of violence first. How can international organizations help solve this problem? Well, they should put the money in the hands of dictators. Once violence is under control, underdeveloped countries will know how to get rid of them and will eventually evolve into Western-style democracies and market economies. As you see, Hobbes strikes back. But he does so with World Bank money.

## 6 History and the emperor's new clothes

It is now time to return to our initial question about the purpose of history and how can it be useful in the public sphere. I would say that history is both a search for meaning and an injection of antibodies.

Sociology and history share a more realistic view of the economy as embedded in a meaningful system of social relations. This involves a common conception of rationality, institutions, and human culture. The way these have interacted over time to form the environment we live in is not self-evident and has to be uncovered. When the goal is to understand a living organism, which is what society is, a film is more informative than a snapshot.

Such an approach may well sound familiar to most humanistic social scientists, but to those outside academia – I mean laypeople, journalists, and politicians too – it probably does not. They are still trapped in what I would call the clockwork view of the economy and this makes it easier for the engineers to get in. However, something has changed since the latest recession. There are signs that the trust in the economic profession has diminished, and many people feel that these times of economic and social upheaval demand deeper understanding.

The public should be warned that economic systems are historically determined and be reminded that capitalism has evolved over time. Modern capitalism, democratic capitalism, and post-democratic capitalism have followed one another over the past three centuries. Further transformations can be expected, though it is difficult to predict the direction these will take. The public should also be made aware that the economy is a social construction, a man-made environment. It is not an iron cage constraining human action, nor is economic policy ever a one-way street.

When people are asked to give up job security because this is supposed to foster economic growth, they should not let this claim go unchallenged. When politicians are advised that higher labor productivity and a weaker welfare state are needed in order for Europe to compete with China on growth, they should be reminded that such a goal is unrealistic. Countries can industrialize only once. The economies of Western Europe took off a long time ago and are now close to what John Stuart Mill called a “stationary state.” The refusal to accept this is like the refusal to accept ageing as part of life. Like old age, the stationary state has its positive aspects. For example, it might bring about less pollution and more social justice.

Keynes firmly believed in the power of ideas. But this is not the kind of battle that can be fought from a university chair. The sorcerer's apprentices who are sacrificing society on the altar of utopia differ in one substantial respect from the “madmen in authority” described in the *General Theory*. They are not the slaves of some defunct economist for

their masters are alive and well. More importantly, the “technostructure” of which they are a part is the expression of vested interests, and their ideology is flexible enough to accommodate such interests (Keynes 1936: 383; Galbraith 1967; Crouch 2011).

The historian, as a public intellectual, is just as powerless as the child in Andersen’s tale. Nevertheless, he is in the position to say that the emperor is naked. This will not stop the procession, but at least the others will know.

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