

# Prologue

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Twenty-five years or so ago, Western intellectual pundits proclaimed the “end of history”. The end of the Cold War, the disruption of the Soviet Union and the triumph of global liberal-market capitalism signalled the death knell of the pre-history of polity and society.<sup>1</sup> What instead would replace it was a new stage of development. Clearly, this was not envisaged in the form of a paradise. The world would still have to live with social tensions, wars and struggles against the modernising powers. In many parts of the world, resistance against modernity would be robust. In the long run, however, there was no doubt which of the forces would win or lose. The future belonged to a global liberal capitalist world order, which would pave the road to democracy. Some optimists connected global capitalism to the imagery of a democratic world government as the coronation of the liberal triumph. Nothing demonstrates better than the end-of-history talk in the early 1990s the relevance of the statement by Keynes about the power of ideas of economists and political philosophers quoted in the epigraph of this book.

Western imagery based on a mutually reinforcing connection between liberal capitalism and democracy might still provoke some attraction, but few believe today, as they did 25 years ago, in such an automatic link. Capitalism is as discredited as socialism and the term “post-democracy” is a new concept that tries to describe the complex situation of modern politics and react to the problems involved when using the term “democracy”.<sup>2</sup>

Those who have abandoned the idea of an end of history after 1989 but seek to defend capitalism from its critics now make use of neo-institutional theory. But such institutionalism is seldom more than a cloak for neo-classical economics. Hence, in their celebrated work *Why Nations Fail. The Origins of Power, Prosperity and Poverty* (2012) Daron Acemoglu and James Robinson argue that the key to economic prosperity is to find the right mix of (Western-based) institutions, especially secure property rights, low corruption, parliamentary institutions and likewise. From this backdrop, they conclude, it is not difficult to understand why North Korea is ten times poorer than their former countrymen in the south. Writing in 2011 they hail the Egyptian protesters at Tahlil Square

in Cairo. They have understood the basic fact that “Egypt is poor precisely because it has been ruled by a narrow elite that have organized society for their own benefit at the expense of the vast mass of people”.<sup>3</sup> Only four years ahead and under military rule not only Egyptians would feel that this naïve enthusiasm has failed. It is not because Acemoglu and Robinson were wrong to emphasise the role of good institutions for economic prosperity. Rather, they make two major mistakes. First, these two economists (Robinson is also a political scientist) neglect the ambiguities of historical development *per se*. Confident in their (in this case institutional) models they underrate the unforeseen twists and turns history makes over time – of such this book will provide ample examples. Secondly – and this is even more important – they have not properly understood the global loss of legitimacy for Western-style institutions which have become even more acute after the financial meltdown of 2008. Instead there is at the moment a general uncertainty about where we are heading. However strongly the message “the West and the Rest” is bellowed out – Niall Ferguson even uses this line as a subtitle for his book and TV series “Civilization”<sup>4</sup> – the old models are to some extent compromised. There is a search for new models and what we here call “tales” or “master narratives”. More than anything else our present is characterised by the search for such new convincing and legitimising narratives. To put very long lists of what poor countries have implemented in terms of institutional change in order to get rich, as Acemoglu and Robinson and Ferguson do, simply does not do the trick. There is even a fundamental unease concerning the basic question: what constitutes richness and the wealth of a nation?

The question of this book is how past models or narratives have become discredited and how the euphoria after 1989 has turned into confusion and how the utopia became dystopia, the illusion disillusion. We address the question by focusing on the major interpretative frameworks of political economy since the nineteenth century. Institutions are important, of course, but our point of departure is the argument of John Maynard Keynes quoted above as the epigraph of the book: the ideas of economists, both when they are right and when they are wrong, are more powerful than is commonly understood. They might even be more powerful than vested interests. In this perspective we ask whether there are other examples in history of similar dramatic shifts in the interpretations of the economy as around 1990 and after the collapse of the financial markets in 2008. We investigate the three master tales of Karl Marx, John Maynard Keynes and Friedrich Hayek. All of them outlined the prospects of a better and a more economically efficient world with more social justice, however defined. They are also chosen as cicerones

because they showed their own world in all its ambiguities and paradoxes. Indeed, not because they were always right or gave perfect answers. Rather, because of their contradictions, which makes them still worthwhile to return to in order to make the past intelligible for us. Capitalism has since the middle of the nineteenth century been the motor power of economic growth and societal transformation. It has been a radical force threatening old social relations and taken for granted orders. The three tales of Marx, Keynes and Hayek have been three different ways to mend, embed or alternatively abolish the radical forces of capitalism, the first by an emancipated working class, the second by means of the national state and social engineering, and, lastly, the third through the self-playing mechanism of the marketplace.

Hence, Chapter 1 deals with world and narrative, which we call the Tale of Marx. This Tale emerged against the backdrop of the rise of global industrial capitalism, which emerged after 1850. Hence, the artisan workshop world on which Adam Smith in 1776 built his vision of a global division of labour for the wealth of nations, from its British bridgehead shifted to the world of industrial capitalism where everything became bigger and faster, more potent but also uglier than Smith could have imagined. New forms of property and of poverty emerged. Accumulation of fortunes went in tandem with destitution. The ruling elites discerned threats of new revolutions and social uprisings, and began to thematise what they called the social question. Contract-based wage labour was brought together in ever larger numbers in ever-more concentrated workplaces and began to join forces and unionise for a common confrontation of their working standards and wages. The top-down debate on the social question shifted to the bottom-up class question. This was where Karl Marx entered the stage, writing and talking charismatically about how he envisaged a classless society without social injustice. The task to embed the motor power of industrial development was given to the working classes. The Tale of Marx was the interpretation of global capitalism as the unfettering of the dynamism of industry, global trade and finance. At the same time it was recognised early that its results were contradictory. The chains of the productive forces had indeed been lifted but far from leading to a utopian order of free trade and peace it instead created social clashes, nationalism and imperialism. In fact, the Tale of Marx ended with the big knell of World War I with the Russian revolution as one its consequences. Marx's attempt to straddle the contradictions of global and industrial capitalism did not totally disappear, of course. When the contradictions of the revolution revealed themselves as the practices of Stalinist terror the narrative lost capacity to convince any more. A new narrative was slowly emerging during the

interwar years in response to the turmoil of war and revolutions, mass unemployment and social destitution.

Chapter 2 will outline the Tale of Keynes. To some extent it can be seen as a backlash against the emergence of global capitalism and its contradictions, which had emerged during the nineteenth century. In the mature industrial powers in the West – as well as in the Soviet Union and in what at this time was called the developing world – the attention from the role of the working class to the national state as a means to prosperity took over. This new narrative, which we call the Tale of Keynes, was especially developed against the backdrop of the Great Depression in the 1930s but during the imageries of permanent affluence in the 1960s Keynes's sophisticated theory became a political toolkit for how to manage, not to say manipulate, the economy. The government ("the state") became the guarantor for economic growth and full employment through the political definition of economic variables like inflation, budget deficits, investment and employment levels. This was the toolkit of the governments that operated with assumptions of mutually reinforcing dynamics between mass consumption and mass production where redistributive tax politics would provide purchase power of the masses boosting the demand side of the economy, which, in turn, was the key to the employment-promoting mass production. The political implementation of his narrative and the application of the toolkit occurred in great variety but they all ended with political overexploitation of financial resources, and protests from the left against remaining social inequalities and from the right against high-tax politics. The imagery of permanent affluence ahead maintained by what in retrospect proved to be a vulgar application of Keynes ("the toolkit") was part of a transformation of the Western democracies to what is better described as technocracies. At the height of what in the booming West European economies of growth was interpreted as permanent affluence, just before radical voices began to claim that it was harvest time, the mainstream parties began to abandon their representation of specific interests developing a catch-all approach scrambling together votes far beyond their core constituencies, becoming office-seeking technocratic apparatuses cutting their ties to interest representation with a basis in the civil society. The rupture to interest politics paved the way for the overexploitation of financial resources.<sup>5</sup>

This was not what Keynes had argued for. When the reconstruction boom after World War II had replaced what was destroyed, albeit at a higher level of standard than before the war, economic stagnation in the 1970s replaced the promise of permanent growth through the mutually

reinforcing dynamics of mass consumption and mass production, and mass unemployment replaced full employment.

The Keynesian loss of capacity to convince was concomitant with the fall of the international post-war order around the dollar. The Vietnam War overstretched the American financial resources and the capacity to guarantee the value of the dollar on which the economy was built. The failure of the dollar to guarantee the monetary stability led to high inflation. The collapse of key industries after the levelling out of the reconstruction boom led to high unemployment and stagnation of the growth economy. High inflation and high unemployment was a situation that the Keynesian toolkit did not expect. The new concept of stagflation tried to explain the situation and marked at the same time the exit from the Keynesian narrative.

At the same time the polarised structures of the Cold War became more complex. What at that time was called the Third World began to challenge the primacy of the Western world and the concentration of economic growth there. The world was searching for new economic prophets who could reduce the complexity.

Sustainable economic growth emerged in the 1980s in the Third World. South-East Asia and later China and other countries took over the dynamics of economic growth from the West in a changing international order. Supply-orientated approaches to economic performance replaced Keynes's focus on demand. The question became less about the distribution of the yields of the economy in order to maintain purchasing power among the consumers, and more about economic growth *per se* in the hope that the surplus somehow would generate new growth. In particular, the new growth came from new parts of the world when the old industrial centres in the West declined or collapsed. The interest in income distribution eroded and the tale of Keynes lost capacity to convince.

Chapter 3 will, against the backdrop of loss of legitimacy for the Keynesian narrative, discuss the emergence of the powerful vision of Hayek of free market economies emancipated from political control, with the market as a kind of self-playing piano establishing the good society of law and order and social justice. The main role of the state became to monitor that nobody broke the market rules. The consequence of political passivity that followed in the wake of the attraction of this theory was, in the end, the financial collapse of 2008. This chapter will also reflect on the narrative consequences of the changing international order after 1990 under the label of globalisation.

The vision of a liberal market economy, which emerged after the theories of Adam Smith, was based on a theory for the wealth of nations through the means of division of labour in an artisan economy – with

pin-makers as the point of reference of the model.<sup>6</sup> It got exposed to strains when this “Smithian” model of economic growth was replaced by a “Ricardian model” of factory and machinery and wage work based on private contract replaced the master–apprentice relationships of the handicraft economy. Wage work restructured the labour markets and in the wake of industrialisation followed a growing attention in the public debate of what was experienced as a social problem, which was not caused by the wage-workers themselves, but increasingly was seen as systemic. Recurring crises with mass unemployment – the term was invented in the 1880s – and new forms of poverty undermined the simple artisanal decentralised market economy of Smith. Before unemployment got a name, Marx referred to the phenomenon in terms of a reserve army of labour which continuously was mobilised and de-mobilised. The workers began to organise their protests against the working conditions and when they in the 1870s had grown considerably in number and intensified their protests the social question became the class question, a hope for many but a threat for others. The formation of the working class promised a new place for the workers in the world and threatened the established order. The time of Karl Marx had come. He gave the emerging working class a voice.

The model of Marx was a source of inspiration in the Russian revolution, which ironically occurred in an agrarian economy rather than industrial. He remained a point of reference that in the Soviet Union was ever-more seen through the filter of Stalin. Marxism was transformed into Stalinism. In the West, Marx continued in many respects to inspire the social democrats in their reform-orientated approaches to the social problems, but after the experiences of the Great Depression in the 1930s, with general mass unemployment, their point of reference in their struggle for more social equality became more Keynes than Marx.

The 1870s saw the first major economic crisis of industrial capitalism, at the time referred to as the Great Depression. The 1870s was the start of a lengthy crisis of economic liberalism. The workers intensified their unionisation and the voices of the class-struggle language became louder. The capital representatives responded to the workers’ protests as well as to the hazardous dimension of capitalism by building up organisation and administration for predictability and reliable labour relations. The state began to intervene in the clash of interests between capitalism and labour by legislation and social insurance systems. The state as well as the industrial companies developed administration for social welfare and minimal labour standards. The state, the capital owners and the labour representatives built up ever stronger organisations. Against this background, some thinkers have talked about the emergence of a new stage of

organised capitalism or organised modernity from the 1870s and during the following decades replaced an earlier more market-based liberal version.<sup>7</sup>

This response to the crisis in the 1870s stepped up during World War I when the mobilisation for the war efforts promoted national tripartite coordination. However, the war also promoted speculation against the backdrop of the scarcity of resources. After the brief peace crisis in the early 1920s new expectations in the future promoted a different kind of speculation. The bank and stock market collapse in New York in October 1929 spread to Europe and brought an abrupt end to the assumptions of automatic economic growth. The second version of the Great Depression arrived and brought a level of unemployment never seen before. Like the first version it ended with a world war. This was the world of the narrative of Karl Marx, which continued to give meaning far beyond his death. Capitalism was a system that proceeded from crisis to crisis, but the crises were in the long run a lethal mechanism built into the system. At the end, after the final crisis, the future belonged to the working class. This scenario provided hope for the *miserable*.

In the 1930s Marx connoted ever more Soviet Stalinism and Comintern. In the search in the West European democracies for a point of reference in the social democratic struggle against unemployment, rather than capitalism as such, Keynes became ever more a point of reference.<sup>8</sup> The search for solutions to the clash of interests in the economies began to focus on social compromise rather than class struggle. The framework after World War II was the Cold War which in the West promoted interest mediation rather than class interest and in the East sustained an ever more petrified Marxist rhetoric which had ever less to do with Marx.

Keynes's main intellectual contribution was his outline of a model for mutually reinforcing dynamics between mass consumption and mass production. The demand capacity of the masses through their purchase power and preparedness to spend it because of their belief in the prospects of a better future, triggered mass production in a virtuous circle of economic growth and full employment. Keynes emphasised the political management of the economies and the governments' redistributive politics in order to maintain the purchase power of the masses. Keynes, in a variety of interpretations, provided orientation in the Western world under demarcation to the communist regimes in the Cold War. The Keynesian welfare states guaranteed democracy through economic growth and redistribution.

The problem of unemployment constituted the thrust of the social and the class questions from the 1870s until the 1930s, but during the reconstruction boom in the 1950s and 1960s it more or less disappeared

as a problem in the West. Sure, there were remaining social problems in the West European core countries but the solution to them was rather seen to be of a technical nature and a matter of attuning where the new key concepts were full employment and mixed economy. The pre-war threat of unemployment and destitution shifted to the post-war promise of full employment and affluence. Keynes nurtured the shift through his emphasis of the role of mass consumption for the growth-generating mass production, and on the role of confidence in the future as the motor of mass consumption. He brought a social psychological dimension to the narrative about the economy. The difference between capitalism and socialism was played down and some people began to talk about their future convergence and merger. Others talked about the mixed economy or the social market economy. Capitalism was planning and state as much as competition and market, planning and state for consumption-promoting confidence in the future. State represented also an overall political responsibility for social standards and social inclusion through redistributive income politics, which, in turn, underpinned the confidence in the future and the mass consumption. This was the world of the Keynesian welfare state, the boom and bonanza years, *les trentes glorieuses*, *das Wirtschaftswunder*.<sup>9</sup>

This world was less universal than one wanted to believe. It was restricted to the Western sphere of the Cold War. The dream was brief. The dollar collapse in 1971 in the wake of financial overstretch through the Vietnam War was the end of the short phase of reconstruction of what had been destroyed in the war, under adjustment and updating to new technological standards.

In a desperate attempt to save the collapsing dollar order, the US administration hoped to stabilise the situation through higher oil prices and lobbied behind the stage for the oil price shock in the autumn of 1973, which initiated the beginning of a new international world order but not as the US government had thought. The new era meant a decrease in the power for the old European industrial economies and a growing scope of action for those Third World countries producing raw materials or bulk industrial products. The probably most visible expression of the declining power was the collapse of key industries like coal, steel and shipbuilding, and the emergence of mass unemployment for the first time since the 1930s, a development that generally was considered impossible since the Keynesian interpretative framework provided the toolkit for the management of full employment economies. The memories of the impact of the social protests in the 1930s on the political system came back and alarmed European governments. They intervened with massive subsidy packages to stop or slow down the industrial collapse. The

accumulation of massive state debts accelerated inflation under conditions of economic stagnation, a development that ran counter to conventional theoretic economic wisdom. The new phenomenon acquired a new name: stagflation.

For the followers of Keynes – the Keynesian macro-economists after 1945 – this implied that Keynesianism was less solid, less sustainable and less universal than they had believed. Its motor had really been the reconstruction of what had been destroyed during the war by means of American dollars, but in the long run, i.e. after a couple of decades, it was clear that the dollar failed to redeem the expectations invested in it. Continued economic expansion would require a larger dollar stock that was incompatible with the gold guarantee as the financing of the Vietnam War demonstrated. Keynes had in vain warned of these developments when the post-war order was negotiated in Bretton Woods in 1944. Therefore, the problem was less the tale of Keynes than the failure of the dollar of which he had warned. He had back in 1944 suggested a world currency, the *bancor*, without gold ties.

The fact that Keynes had been right in 1944 was forgotten in the 1970s. Keynesian ideas progressively lost credibility in the wake of accelerating unemployment, growing public budget deficits, and increasing inflation. At the end of the 1960s, Keynes's narrative had begun to lose interpretative and legitimising power for quite other reasons. The political left criticised the Keynesian welfare state for not being egalitarian enough and the political right accused it of having become a suffocating tax-collecting apparatus. The radicalisation of the language of the employees about more equality and co-determination pushed the social democrats and the trade unions towards a more radical political approach. The employers and the representatives of organised capital reacted to this radicalisation by cancelling the corporatist bargaining arrangements between the governments and the confederations of the trade unions and the employers, which had emerged during the implementation of Keynesianism, and began to individualise the labour contracts and separate core employees from occasional employees. Temporary employment, with subcontracting and leasing arrangements, replaced fixed employment. Marginalisation and division grew on the labour markets. Moreover, the counter-offensive of the employers contained the radical wave of the workers and canalised the labour market organisation in new directions. New kinds of company identification replaced old solidarity ties in the labour movement. Hayek's moment was about to arrive.

Gradually the horizons and images of a new organisation of labour and of the economy as a whole emerged. One early symptom of the

demarcation of the old order from the new appeared when management and labour in collapsing industrial enterprises mounted the same barricades in response to having to compete for taxpayers' money with corresponding groups in competing companies. Ties of solidarity within the trade unions, which had developed into a national network over many decades, were first stretched, then severed, in the fight between companies for survival.<sup>10</sup> The overall impact, not only on trade unions and the labour market, but on the whole organisation of society, was tremendous. National patterns of class solidarity established over a period of a century and more began to mutate into company-related habits of identification and into new experiences of social exclusion for considerable sections of the working class. Mass unemployment did not represent the same political problem and threat to social stability as was first anticipated in the 1970s. The protest potential was diluted through marginalisation and division.

The extent of this transformation varied from society to society, but the trend as such was general. The locus of employment security moved from the state to the company level. Frequent references to the Japanese myth of life-long employment as a model to emulate underpinned this shift. However, the belief in job security at the company level was brief. Thus a new heuristic framework emerged which suggested that the key to long-term job security was permanent preparedness to adjust to and confront new challenges on the labour markets. The welfare state of full employment became the risk society of continuous challenges. Flexibility became the new keyword, which shifted the responsibility for employment from the company to the individual, who became the centre of the emerging neoliberal universe.

The new flexibility language of the 1980s based on concepts such as "lean production", "slimming down", "the flexible company", "outsourcing", and so on, showed that a new basis of responsibility and certainty could not be socially constructed on the foundations of the company.<sup>11</sup> The emerging focus on the individual was linked to the new refuge for disappointed hopes and expectations: "the market".

Hayek worked in a theoretical tradition that propagated budgetary rigidity instead of Keynes's proposal that governments should expand the economies through budget deficits in times of decreasing demand, as an instrument to increase purchasing power and re-establish the virtuous circle of the economy.<sup>12</sup> Whereas demand was the key instrument for Keynes in order to manage the economy politically, Hayek denied that there was any scope for political management of the economy. Prices were, according to him, the regulator that determined the performance of the economy; the prices for labour and for products. Should they be too

high, demand would automatically decrease and the price level would follow suit until it had reached its natural equilibrium.

Hayek's principles were based on the argument that unemployment was not a consequence of the lack of demand, but instead depended on excessive wages. Therefore, only wage restraint and balance in public affairs could restore the economy. These principles had been applied during the 1920s in order to save the gold standard, and again at the outbreak of the Great Depression some years later in order to restore confidence in the economy. However, the mass unemployment that followed upon the collapse of the world markets discredited the theory. Hayek did not give up, though, and he continued to develop his theories. In *The Road to Serfdom* (1944) he argued that fascism and Nazism were not a response to the crisis of economic liberalism and capitalism, but the continuity of socialism. Later, he developed his argument, maintaining that even those government interventions in the economy that did not question the market economic principles as such in the long run would lead to the abolition of freedom and the emergence of serfdom.

The dream of markets automatically providing employment and a better world for all through improved resource allocation was as brief as the dream of permanent full employment in the 1950s and 1960s. The constant of the industrial capitalist order during the almost two hundred years since the 1830s is its fragility in terms of employment and prospects for general social welfare, and in terms of its oscillation between the state and the market as coordinating institutions. The reiterative cycle of speculation and crisis represents continuity. This outline of the historical phases and faces of industrial capitalism constitutes the framework of the three tales of the book.

## TALES AND MASTER NARRATIVES

We must explain here what we mean when we speak of “tales” and “master narratives”. This is not another book on the history of political economy in a technical sense, or on the development of economic doctrines. We are not so much interested in exegetic questions about who said what first or in constructing lineages of intellectual progression.<sup>13</sup> Rather, our “tales” concern the dominant interpretations of the economy that occurred in a certain time and place as an outcome of the evolvement of industrial revolutions and the creation of global capitalism from the middle of the nineteenth century up to now.<sup>14</sup> The tales, or “master narratives”, had a theoretical core and a key figure; a normative authority who convinced but also polarised; who moulded opinions through

debates. Hence, we are interested in the legitimising and interpretative power of the three tales rather than in the theories as exegetics. Our attention is to the socioeconomic and political framework in which a narrative about the economy broke through and attracted support as well as when it lost its convincing capacity. Moreover, we are interested in competing narratives and in the question of what narrative took over when as well as in their entanglements. The focus of the book is on these intertwining experiences of economic life and political practices on the one side, and theoretical and political reflections on them on the other side.

The oppositions, continuities and discontinuities between and within the three narratives moulded together a kind of overall legitimacy. Taken together they put forward prospects of economic development and growth, and mediated the impression that the future was manageable, even if in different ways and with different goals, through political management or through autonomous market forces. The clash between them entangled them and kept them together. We do not believe that the tales or master narratives were hegemonic in the sense that everyone more or less believed that Marx, Keynes or Hayek had the right answers to the issues of economic growth, distribution or the (in)visible hand; on the contrary they were often fiercely debated and contested. At the same time they were hegemonic in the sense that they formulated narratives that one could not escape from, but instead had to reflect on and come to grips with.

There was a strong ideological dimension in the three tales. The tales shared with ideologies that they were not long chains of thought consistent over time and separated from each other, but borrowing from each other, flexible and adjustable to interpret and provide guidance to a variety of situations. Taken together, one can see them as an arsenal of arguments about the economy, not three separate arsenals. Arguments of various origins were brought together to interpret a situation and solve a problem.<sup>15</sup> There were intellectual tensions, ambiguities and contradictions within each of the three tales as much as between them.

There was also a utopian dimension to the tales. This was the case because they all had a pretention to predict the correct behaviour in future problem situations, which is impossible for the reason that history does not repeat itself. There are certainly reiterative structures and continuities but also continuously new elements and dimensions. No situation is identical to its past. There are always new circumstances and challenges. Therefore, we cannot immediately learn from history and if we cannot predict the future then we cannot predict the proper action to be taken in the future. The economists often circumvent this problem by

assuming that humans are following certain action patterns, defined as rational, intentional and conforming to universal laws. The broad historical school of institutional economy has convincingly confronted this assumption, arguing that human action is always contextual and open as to direction and outcome because it must be related to the unpredictable actions of other humans.<sup>16</sup> However, this human condition does not make the predictions about the correct action to an economic problem meaningless. Even if the action does not follow the prediction, it is nevertheless used as a legitimising point of reference either through the argument that it is the matter of an exceptional case or through the argument that the action indeed follows the prediction. The utopian prescription becomes apologetic description. What Martti Koskenniemi has demonstrated for international law is applicable also for economic theory.<sup>17</sup>

Applying this view, we do not consider the three tales as separate narratives in sequence one after the other. They were entangled in discourses on the economy where they reinforce or confront each other. The narrative of Marx emerged in the polemics against the liberal master narrative developed by followers of Adam Smith in the beginning of the nineteenth century and the classical economists after him, and provided guidance and action orientation when liberalism, against the backdrop of an extensive period of economic stagnation and crisis from the 1870s onwards, lost the capacity to convince. The narrative of Keynes emerged as an alternative corrective to the liberal idea in a state of new crisis half a century later. When Marx and Keynes lost credibility, neoliberalism emerged as a corrective, emphasising the belief in economic automatic performance emancipated from political obstacles. From the 1920s/1930s onwards all three narrative strands coexisted. One of them might have been predominating, even hegemonic, at certain points in time, but the challenge from the other two was always at least potentially there. They existed over time as mixed forms rather than pure types. Of course, in the communist world from the 1920s until the 1980s the narrative differentiation and clash of exegetic interpretation occurred within the framework of the Marxist tale.

The imageries of Marx, Keynes and Hayek constituted each other mutually. The world their narratives reflected upon was the emergence and development of industrialism, a new capitalist global economy and the tensions they created. The central tension in the narratives on the economy was around the social question that emerged in the 1830s and almost two hundred years later is still with us.

## THE GLOBAL APPEAL OF THE THREE TALES

Our three masters are all Europeans. Can we thus really expect the rest of the world to be particularly interested? What had their tales to do with what happened in villages and cities in the rest of the world?

First, we must remind ourselves that what Europe (and its offshoots) did and thought had implications for the rest of the world during the nineteenth and the first half of the twentieth century. Thus, for better or worse, the West was the ruler of the world. Not of course in any total sense, as most of its great schemes went astray and became blurred in the face of local opposition or deep structures in place and history that refused to adapt to its orders. However, despite oppositions and shortcomings, Europe and its offshoots were paradigmatic; the model to emulate or struggle with. If one does not acknowledge this ruling position of the West it is almost impossible to grasp what was going on in the world during the nineteenth and twentieth centuries.<sup>18</sup> Paradoxically, this at the same time means that what happened elsewhere affected the worlds of Marx, Keynes and Hayek deeply. Hence, we must take the “global view”. Europe’s dominance (including its offshoots) cannot be studied in isolation from what occurred in the rest of the world.

Marx and Hayek were global thinkers transcending boundaries. Keynes needed boundaries – national or imperial or, after 1945, Western – in his emphasis on the political management of the economy from Bretton Woods onwards. His emphasis on political management required a bounded institutional setting. When he had to make a choice between empire (imperial preference) or the welfare state for Britain after 1945, he seems to have preferred the latter.

The prescriptions that the Keynesian and Marxian narratives presented for development outside the core Western industrialised countries in order to kick off industrialisation and modernisation competed over the right solution. Development aid was linked to the power struggle between the West and the East in the Third World.<sup>19</sup> Both the Western and the Eastern tale allowed for spending and budget deficits. Thereby, spending did not necessarily mean expenditures for welfare but also for warfare. Borrowing from the West and the East nurtured Third World regimes.

When the Vietnam War and the Afghanistan War put increasing strains on the cash flow from the West and the East to the South, the World Bank intervened in the 1980s to block the flow from the West using Hayek as the legitimising point of reference. The discourses on development aid began to stress better protection of property rights and the necessity of a smaller but smarter state authority in the former colonies.

The old civilisation mission continued with the new neoliberal language and the accompanying moral of financial austerity and self-reliance. “State” began to connote “political corruption”. The new language emphasised the responsibility of the ex-colonies themselves for the development of sustainable market economies. Hayek took over the storytelling. Keynes and Marx were prophets framed in the context of the Cold War.

Of course, the implementation of Hayek did not mean the same thing everywhere. China, for instance developed a capitalist market economy controlled and managed by state authority. The emphasis on the market as the provider of economic growth and allocation was new but went hand-in-hand with the old belief in socialist planned economy and five-year plans. The practices of the regime never referred to Hayek or Keynes but to Marx. Against the backdrop of growing strata of middle classes and the very rich, the Marxian rhetoric had ever bigger problems to convince and legitimise. However, this did not mean very much as long as the economy grew and fed these people.

It is interesting to note the sharp rupture around 1990, when the rise of the globalisation rhetoric accompanied the argued definitive shift from Keynes and Marx to Hayek. The neoliberal vocabulary connected the rhetoric for free trade in the present to the free trade ideal of the nineteenth century and arguments emerged that the globalisation after 1990 was the continuation of these nineteenth-century experiences.<sup>20</sup> Such arguments were obviously aimed at establishing historical legitimacy for the neoliberal global turn, but the question remains as to what this historical derivation is worth. What differences were there between the free trade of the nineteenth century and globalisation in the 1990s and 2000s? The nineteenth century not only involved free trade – and the extent to which it really was a century of free trade is debatable, as the book will show – but it was also the century of nation and empire building. Such empire and nation building was not necessarily a peaceful enterprise and it set boundaries as much as transcended them. Nationalism was protectionism at least as much as free trade. Hence, it is problematic, to say the least, to refer to the period of globalised trade as the wonderful world of peace and international understanding that, for example, Richard Cobden had envisaged in the 1840s, but rather as something definitely uglier. At the end of the long nineteenth century of argued free trade was 1914, which Cobden could not know about, but everyone in the 1990s must have known. The Hayekian tale about its relevance for the whole world through its emphasis on global free trade was biased and wrong in its attempt to build historical legitimisation.

The globalisation theory that emerged in the 1990s not only on doubtful grounds argues that it represented historical continuity, but also that the global economy was going to replace the political demarcation of the nation states, which were going to disappear. How does this argument fit with the recent observations of growing nationalism all over the world? We will discuss this question in the Epilogue.

The strong argument and the hegemonic orthodoxy in the 1990s was that in the long run globalisation would imply a new stage of world economic and political integration. Globalisation was the establishment of a market society at a world level, transcending the world of the nation states. The Hayekian tale pretended to have the universal prescription for both rich and poor countries. Also, the Marxian and Keynesian narratives operated with universal claims but they at least saw stages of development before their stories would be applicable for all. They problematised the road towards the standard of the most developed countries. The neoliberal Hayekian tale promised more affluence than ever before by loosening the political ties that so far had restrained innovation and economic incentives. While there would still be inequality in terms of income, equality was redefined, from politically guaranteed, relatively equal living standards as an end goal to equal opportunities where equality at the end depended on the individual capacity to exploit these opportunities. Opportunities freeing the fetters of market expansion would imply that “all boats were lifted”.<sup>21</sup> In the long run this would lead to more economic equality – in terms of opportunities – as well as to increased political and cultural cohesion.

Only twenty-five years later much of the enthusiasm of this vision has undoubtedly faded. Rather, today the metaphor of an un-steerable ship without any known direction has emerged as a dominant metaphor. Instead of entering an elevated new stage, we fear the future and feel radical uncertainty and doubts about tomorrow. We sense a loss of control but also of legitimacy. There is a cry for new global institutions in order to match an economy that seems to become ever more globally entangled beyond political control. After a couple of decades of market deregulation, particularly concerning the financial markets, the global market looks more like a monster that operates out of control. Hobbes’s Leviathan seems to reappear. The impact on interpretative frameworks and mental structures of the collapse of the financial markets and the whole globalisation vision is difficult to exaggerate. The trust in the coordination mechanism offered by an invisible hand has collapsed. Against this background many today speak about re-regulation. Especially on a global level more legitimate institutions must be established, according to this argument. Even the establishment of

some kind of world government is called for. But neither how such institutions should look like, nor how they should find legitimacy, are clearly envisaged.<sup>22</sup> The previous superpower, the USA, seems to be in decline as much as Europe. The nineteenth century belonged to Europe and the twentieth century to the USA but we do not yet see any hegemon of the twenty-first century. The three tales were describing and legitimising action in the world of the nineteenth and twentieth century, but where can we find the tale for the twenty-first century?

Rising powers in Asia have not been able to establish any form of legitimising paradigm. Their economic, military and political potential is no doubt considerable but so are also the tensions within and between China, Japan, India, and other Asian countries. Where is the future? Without a case there will be no narrative. Asia is much less of a political or economic entity than Europe. Proclamations that we now live in what Ulrich Beck once coined “risk society” and that nothing can be regarded as absolute do not offer much of a comfort. In order to live comfortably in such a risk society, one must at least be able to calculate and compare risk. However, in our present condition we even have difficulties in defining what our options are. Where are we heading? How can we imagine the future if we do not know the answer to what options we have?

A world gaping at this situation perhaps dimly remembers that the fall of the Soviet Union in 1991 and 1992, combined with a neoliberal agenda of market deregulation once – only some twenty-five years ago – was regarded not only in terms of an inevitable forward march of history but also as a great victory for liberal values and freedom.<sup>23</sup> The rapid dethronement of Soviet puppet-state leaderships in the Eastern part of Europe seemed to be a distinct consequence. This optimism of steadfast progress and no return back now seems far away – this is written during the Ukraine crisis in the spring of, the Greek euro crisis in the summer of, and the refugee crisis in the autumn of 2015 – as we see a new language reminiscent of the Cold War evolving before our very eyes. The strong economic upsurge in the US, but also in Europe during the 1990s, seemed to indicate the positive role played by market deregulation. Especially, the loosening of the ties of regulation that had previously hindered the financial markets from operating more freely was regarded as a pivotal step. Given such a freedom the financial markets could generate a much greater operating capital than ever before, which could be invested and generate new prosperity providing the preconditions of democracy. Hence, the experts argued, there was a clear correlation between market liberalisation and political democracy. This was the illusion that has become today’s disillusion.

Until 2008 the economic thought on the good society and the social justice had ever since the days of Adam Smith and Karl Marx oscillated between the fiction of the market and the fictions of the state as point of identification, between the idea of the economy as self-propelling and the idea of the economy as politically managed. The shift from Keynes to Hayek was no doubt a shift from state to market; from economic political management to the economy as a spontaneous and free evolving force beyond political control; from demand to supply as the factor that triggered economic dynamics. Keynes had been keen to define a balance between the state and the market. With Hayek, the state disappeared as a point of reference. Its only task was to carry through deregulation and guarantee the freedom of the market from political intervention. This belief is probably the most prominent part of today's disillusion.

## THE LEAPS BETWEEN THE TALES: DIS-EMBEDDING AND RE-EMBEDDING

Karl Polanyi, a Hungarian economic historian in the USA, developed a particular view on the historical oscillation between the state and the market; between the dis-embedding economic and the re-embedding political forces. In his *The Great Transformation* (1944), he described how economic forces persistently tried to emancipate themselves from political regulations. The market forces dis-embedded themselves from politics in the conceptualisation of Polanyi. This dis-embedding, in turn, after a while provoked social protests and pressures on the political representatives, and the political responses to the protests led to new regulation of the economy, the re-embedding of the economic forces. One might see Hayek as the tale of the emancipative market people, Marx as the tale that gives voice to the social protest against the dis-embedding and Keynes as the tale that legitimises the political re-embedding.<sup>24</sup>

The question is what this oscillation between market and state, dis-embedding and re-embedding, is worth today. The movement was one of the most distinct expressions of the tensions between the economic, the social and the political since the beginning of industrial capitalism. The economic performance provoked claims for regulation, de-regulation and re-regulation. These claims often co-existed, but one of them often came out as the strongest and could at times achieve more or less hegemonic proportions. It was, of course, not so that dis-embedding meant de-politicisation. On the contrary, it was as much an expression of a political perspective as the opinion that required re-embedding. The

shift between market and state as points of reference, between dis- and re-embedding, was a sign of changing political power relationships. One might ask whether these dynamics are about to evaporate, i.e. whether the potential of social protest is declining. Where today are the protests triggering political re-embedding? We will come back to this question in the Epilogue, but already here we want to signal for the argument that today's social criticism seems to be formulated as ethnic nationalism and xenophobic attitudes to migrants and refugees.

To discuss the forces and counter-forces of global market expansion is to enter a territory that beyond Polanyi has been explored by historians and social and economic theorists such as Pierre Rosanvallon and Thomas Piketty. While Polanyi concentrated on the nineteenth and early twentieth century, and showed how in the wake of the industrial revolution changes in relative and absolute incomes tore the old social fabric asunder and led to new constellations of class formation and opposition, Rosanvallon extends this analysis to the feeling shared by many in the world of yesterday as well as today that they live in unjust societies.<sup>25</sup> Today this concerns many in the developing countries but also in Europe, Japan or the US. In most cases these feelings do not result in political protests. Under what seems to be some kind of silent tolerance of a growing chasm between rich and poor a mix of resignation, apathy, cynicism and some little amount of rage emerge. The scattered global protests, without co-ordination and proper targets, circumvent the political representatives because of the correct estimation that they seem powerless.

The question emerges whether the dynamics of leaps between the three tales and the start of an old story at a new level such as when Keynes combined thought from the social democratic and the liberal narratives is about to evaporate. The social question does not seem to look for a narrative any more. It is possibly so that it has found its answer in the growing language of ethnic nationalism and xenophobia.

The French economist Thomas Piketty has in rich empirical detail demonstrated how capital accumulation has led to growing social inequalities.<sup>26</sup> Over time a transfer of income from labour to capital has been a historical fact for the last forty years or so. Theoretically well founded or not, Piketty seems to suggest some kind of intrinsic power in the history, which erodes the legitimacy of the capitalist order and provokes feelings of injustice, which in turn have destabilising impacts on the social order. The differences between rich and poor grow within countries, whereas the global difference between the countries seems to converge.

The issue at stake goes beyond the question of inequality and injustice and hits the very foundation of social and political community of democracy. The global economic integration has resulted in social disintegration. Separation, marginalisation and “ghettoisation” are in operation all over the globe, and have resulted in what Rosanvallon calls a “denationalisation of the democracies” under growing social division.<sup>27</sup> However, there is not only denationalisation but also obvious signs of renationalisation expressed as growing populism and nationalism. We might experience a time where the social protests do not confront the economic order directly but only indirectly. Nationalism confronts poor people as well as the political elites who have failed to reregulate the economy after the failure of Hayek’s tale. Nationalism has again become a core value in reaction to the injustices that followed in the wake of the globalisation rhetoric; no less ideological but with a different content. The claims for re-embedding are finding their expressions through ethno-nationalism. This tendency is not only European. It can be found in many places in the world, including the quest for a new Caliphate in the Middle East challenging the national borders, lines that were drawn up by the British and French after the collapse of the Ottoman Empire during World War I (the Sykes-Picot agreement of 1916).

The three master narratives of Marx, Keynes and Hayek translated the experiences of social injustice to new horizons of expectations, which managed to mobilise populations and promote economic dynamics. Taken together, they are all an exemplary illustration of what Reinhart Koselleck described as the continuous oscillation between social critique and political crisis. Critique was as a general category inspired by the enlightenment philosophy and served in its specific application to undermine the belief in the predominating frameworks of interpretation. Critique opened up alternative horizons of expectations through new interpretations of the experiences in the past and the translations of them into action-orientation. The sequence of critique, crisis and political response to the crisis-driving critique produced dynamics.<sup>28</sup>

The dynamics are not derived from a kind of rational dialogical definition of truth but from clash of interests, where solutions have more to do with power than with truth. Also, the three economic narratives were full of power implications and interest clashes even if Keynes and Hayek preferred to talk about equilibrium and interest harmony. Marx thematised the interest clash much more.

The views on Keynes and Marx seem different after the collapse of Hayek’s world view in 2008 to how they were during the peak hours of neoliberalism. Experiences, which once were translated into optimistic

horizons of future expectations, have become experiences of disappointment. The experiences of communism after its fall around 1990 led to the outline of liberal horizons of expectations where there was no place for Marxist thought. Keynes, too, was put in the corner. The events in 2008 led to new experiences that caught up the liberal horizon of expectations and transformed it into new experiences of disappointment. The events in 2008 and the fumbling tentative political reactions to the consequences of these events ever since do not indicate any new narrative beyond the new-old one called nationalism, which connects the question of the economic foundation of social community to hostile competition with other nations, and welfare to warfare.

Today, the lack of expectations and of a new convincing tale about the economy is connected to the incapacity to look beyond our experiences of disappointment and shattered illusions. In the Epilogue, we will come back to this issue. Lastly, we do not argue that the trajectories of Marx, Keynes and Hayek are closed for ever. Rather than being intellectual revolutions and breakthrough of new world views, replacing old ones, the narratives are a matter of emerging and re-emerging counter-narratives confronting the hegemonic orthodoxy in tough and hardy struggles of interpretation. After the fall of Hayek it might be difficult to discern any counter-narrative. This is today's dilemma, upon which this book will shed light. Having said this, we also want to emphasise that we do not believe in the end of history. Our present is as open as it always was. The question is what direction the remaining social question will take and what narrative will accompany it. Neither history nor the social question has come to an end.

## NOTES

1. The influential interpretation provided by Fukuyama (1992) commented on the triumph of liberalism after the collapse of the Soviet Empire. The content of this book is more nuanced than the title suggests. The title refers to a *Zeitgeist* rather than to the arguments of the book, which outlines a gloomier future perspective than the title suggests. Fukuyama's recent books on political order have made it clear that he should not serve as a symbol of the naïveness that prevailed all over the world around 1990: Fukuyama (2011/2014).
2. Crouch (2004).
3. Acemoglu and Robinson (2012, p. 3).
4. Ferguson (2011).
5. For this development of democracies towards technocracies in the 1960s, see the posthumous work of Mair (2013).
6. This and the following themes are further elaborated in Chapter 1.
7. The term "organised capitalism" was coined by the Austrian social democratic neo-Marxist theorist Rudolf Hilferding in the early twentieth century when he argued that organised capital provided preconditions for a social democratic takeover of the state apparatus

- transforming it into a social-democratic welfare state. Hilferding (1906, 1910) Since the epoch was not only about organised capital but also about organised labour and about a corporate organisation of the state apparatus, a more relevant term for the period is the emergence of organised modernity. See Wagner (1990).
8. See further, Chapter 2.
  9. The expression *Les trente glorieuses* refers to the title of a book by Fourastié (1979) analysing the unprecedented economic expansion that took place between the end of World War II and the oil price shock in 1973, in France as well as in the other industrial countries. *Wirtschaftswunder*, economic miracle, was the corresponding term to describe the German development.
  10. For a case study of the shipbuilding industry which demonstrates this development, see Stråth (1987).
  11. Stråth (2000).
  12. For this and the following, see Chapter 3.
  13. For a discussion of the limits of the Whig version of the history of political economy, see Magnusson (2003).
  14. Close to this is the reference to the influential role played by “stories” and “story telling” emphasised by Akerlof and Shiller (2009, p. 51f).
  15. Freeden (1996).
  16. The literature concerning a general critique of neo-classical economics along such lines is humongous. Still, Hodgson (1988) is a very good introduction. For a modern critique from so-called behavioural economists, see, for example, Kahneman (2012).
  17. Koskenniemi (2005 [1989]).
  18. This is one of the leading themes of Landes (1998), as well as Findley and O’Rourke (2007). However, this reference to Landes must also be linked to a critical view on his argument that the beginning of the industrial revolution was an exclusively internal European issue. The economic take-off in the decades around 1800 was a result of contingency rather than causative dependence and Europe must be seen in its global framework of interactive dynamics between global economies and cultures rather than in its own universe as Pomeranz (2000).
  19. Gaddis (2005).
  20. See, for example, Lal (2006). For a critical discussion of the argument about continuity between the nineteenth and post-1990 era of globalisation, see Bordo, Eichengreen and Irwin (1999).
  21. For some representative examples of such views, see Lal (2006), especially Chapters 2 and 5, and Wolf (2004). On a forceful critique, see, for example, Stiglitz (2002).
  22. For a discussion, see Frieden (2006). Perhaps even more to the point is Gilpin (2001), especially Chapter 14, and the same author (2000).
  23. See endnote 1.
  24. Polanyi (2001 [1944]). Halperin (2004) has criticised the empirical basis of Polanyi arguing that the forces claiming re-embedding were much less homogenous than Polanyi assumes. Polanyi’s approach is top-down. He starts with the analysis of the overarching international system and then shows how that system shaped the development of local social institutions. Halperin argues for a bottom-up exploration of how social relations, conflicts and interests shaped the emergence of the state and the international economic structures. The criticism is relevant and must be integrated into a discussion of Polanyi but it does not invalidate Polanyi’s conceptual framework. Stråth (2016a, p. 22).
  25. Rosanvallon (2011).
  26. Piketty (2013).
  27. Rosanvallon (2011, pp. 382–92).
  28. Koselleck (1959). Koselleck emphasised the role of social communication and social conflict and referred to these processes as a form of permanent problem resolution, where social critique provokes experiences of crisis and attempts to integrate and channel the critique. The English translation (1988) has “modern” for the original German *bürgerlich*.

