

Illiberal liberalism: An existential threat on Europe

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Greece is back to centre of European history, and there it stands like a paradigm. The way Europe deals with Greece reflects Europe's own image like a mirror. Europe after the Greek crisis will no longer be the same as it was before.

In a fine essay on so-called "Neoliberalism" published by the European Institute of LSE, the philosopher Simon Glendinning quotes a passage from Plato's *Republic* where the governance in states is compared with captaincy on ships:

"Suppose the following to be the state of affairs on board a ship. The captain is larger and stronger than any of the crew, but a bit deaf and short-sighted, and similarly limited in seamanship. The crew are all quarrelling with each other about how to navigate the ship, *each thinking he ought to be at the helm...* They spend all their time milling round the captain and doing all they can to get him to give them the helm. If one faction is more successful than another, their rivals may kill them and throw them overboard, lay out the honest captain with drugs or drink or in some other way *take control of the ship....* (Plato, *The Republic*, 488b, p. 282; in Glendinning, 2015, pp. 12-13).

Glendinning's essay is worth reading not only because it digs deeper beyond the popular but vague notion of neoliberalism as "all that is bad in our world", but also, indeed mainly, because it aims to show that "the history of efforts to realise the classical *liberal* conception of human flourishing – efforts to achieve the emancipation of rational subjectivity – have been subject to more than one *neoliberal* usurpation or coup by some faction or (as I will put it) *community of ideas* that wants to achieve hegemony" (pp. 12-13). Furthermore, Glendinning locates the degeneration of this latest variant of liberalism into its opposite on the stage of contemporary Europe. In this perspective, this degenerative process is particularly harmful because it goes beyond the boundaries of a particular philosophy or social doctrine. The fact is that the foundational values of liberalism (though not each and all of its implications) are integral part of the *re-construction* of Europe after World War II. If liberalism degenerates from inside, *and if this goes unnoticed* whether from inside or outside, the whole constellation of ideas and values on which Europe's identity rests - let alone plans for a future and better Europe - are under threat of collapse. Here are some sparse, modest thoughts of a non-philosopher (from within the *community of ideas* of economists) on Europe under the threat of illiberal neoliberalism.

The economic sphere of human life is, notoriously, where the "neoliberal coup" has manifested itself with the greatest force, though Glendinning details how other spheres have also been invested, not least the political one (unsurprisingly, in view of getting

firm control of the helm of the ship). As to economic neoliberalism, according to many scholars it can be thought of as

"a hegemonic movement that seeks the *limitless extension of the market model to all spheres of life*; a kind of realisation of ourselves as *homo economicus*. [...] It is construed as an ideological conception that says every problem has a market solution or a solution within the logic of the market. Proponents of it might say: the aim of applying market-orientated reasoning *everywhere* is to optimise the conditions for human flourishing *in general*" (Glendinning, 2015, p. 10)

But isn't this "ideological conception" anything but one view of man and society in a free competition with other conceptions? And isn't the very purpose of free society to let one conception prevail - *peacefully, temporarily, and reversibly* - on the others? And, therefore, what's all the fuss about? These objections should be taken, and pondered, seriously. However the symptoms of the process of illiberal degeneration of neoliberalism are also to be taken seriously. Precisely because they converge to *tampering the mechanisms of free society that render the prevalence of one conception on the others peaceful, temporary and reversible*.

The first symptom is the TINA rhetoric: There Is No Alternative. It is astonishing how systematic (and unconsciously?) is the resort to the TINA rhetoric in the neoliberal camp of economists. TINA is the basic ingredient communication and "pedagogy" of the EU leading institutions towards reluctant governments and public opinions. TINA is the taboo that the Troika first and foremost wants to preserve intact in the Greek saga. TINA is astonishing because the first notion you get as a freshman is that economics exists inasmuch as you face (at least) two alternative ways to reach the same goal. If anything, the motto of the liberal economist should be TIAA: There Is Always an Alternative. Indeed, one of the manifestos of contemporary liberal thought is a book entitled *Free to choose* (Milton and Rose Friedman, 1980). Free to choose what? The Friedmans talked about the *personal* sphere of choices, which, in the spirit of liberalism of all vintages, should be "maximized". But equally essential is freedom to choose in the *public* sphere, where each individual should be confronted with alternative political options. This is granted by what is by and large called *democracy*. In some cases political options differ in the goals they set for society; in other cases, most notably in modern Western societies, they differ in the policy actions taken to achieve shared goals (e.g. growth of standard of living, good and stable employment, good health, personal security, etc.) - or should I write, they *ought to differ* ?

The offer of alternative economic policy choices is part and parcel with democracy. Creating such alternative choices is a fundamental task of free economic research in a free society. True, the public opinion and policy makers want quick, simple and sure solutions, but this tendency should be resisted because free, open, conflicting, economic research is essential to the democratic process. This does not mean that policy making should become an endless academic debate. The antidote to the *hybris* of TINA is the commitment to the TIAA principle according to which any solution winning the policy contest in a given contingency should be *temporary and reversible*. This fundamental ontology of economic science and deontology of the profession of economist survived for almost two centuries, that is until the so-called "New Classical Counter-revolution" (counter to Keynes and the Keynesians) that took hold in the late 1970s. From this point of view, the regressive methodological shift of the new classicals -or better, neoliberals- was the idea that (macro)economics was in disarray

as a science because it was the battleground of competing schools (mostly Keynesians *versus* monetarists, but not only) engaged in *controversies* over theory and policy. This idea was reminiscent of the neopositivist assertion that scientific controversies can only be semantic (confusion on the meaning of *words*) because no controversy can stand before the objective truth. Find the objective truth in the economic world, and controversies will disappear. By the advent of the neoliberals in economics that idea of science had been disproved as naïve, if not ideological: science advances muddling through controversies, from one to the next, as the objective final truth (if any) is not attainable by human finite means. Nonetheless the neoliberal counter-revolution produced a genetic mutation of the role and purpose of economic research and of the economist in society: establishing *the* single paradigm, *the* single methodology, *the* single blue book for policy makers. TINA is only the obvious consequence. After propagating all over the world, this new economist gene has seriously been weakened by the Great Recession, except in Europe around Berlin, Brussels and Frankfurt.¹

The next stage of illiberal degeneration is *from TINA rhetoric to TINA enforcement*. At this level, the design, and even more the subsequent implementation, of the European Monetary Union stand out as a unique case in the world, and perhaps in history. Possibly because, as Joe Stiglitz once said, the US is the first world exporter of theories that are not applied at home. Indeed, everything begun with the US brand of the public choice theory (also loosely known as "modern political economy") which grafted onto *the* single paradigm of perfectly self-regulated markets the behaviour of political actors, parties, governments as self-interested agents. If the free market economy allocates resources efficiently and is self-stabilizing in the face of all sorts of shocks, intrusion of the government can only be the problem, not the solution -as President Reagan carved in stone. If the previous heavenly view of civil servants unmistakably devoted to the public good would go too far in the opposite direction, the new view contained pernicious germs. One is the subtle message that the set of institutions that we call *democracy* sheds a dark shadow of inefficiency onto the economic system. The second is that, therefore, some *limitations of democracy* may be beneficial to economic efficiency.

As to the first message, the technical version is that the selection mechanism of actors in competition for government does not set sufficient constraints against, and/or send the wrong incentives for, self-interested behaviour of elected (power appetite, re-election, etc.), individually or in coalition with lobbying groups, to the detriment of economic efficiency (which is by construction *coincident with general welfare*). Excess deficits, debts and inflation are only few of the many troubles that may arise. Can anyone deny that these are quite important problems challenging the design of institutions? But what is the best solution? According to the neoliberals, first, subtract powers wherever possible: so keep the government's hands off monetary policy and pass it onto an independent institution. Second, since the *Magna Charta* was drawn eight centuries ago, constitutions are there in order to set limits to the power of the sovereign, whether dynastical or elected by the people. If (abuse of) the *discretionary power* of the sovereign is the problem, constraining it within *rules* (possibly of constitutional level) is the solution. The *rules rather than discretion* solution of the

¹ Here the survival strategy of the gene has been: inhibit controversies and what remains is the objective truth.

neoliberals (Kydland and Prescott, 1977) opened the highway leading straight to the Fiscal Compact via Maastricht Treaty and Stability and Growth Pact.

Where does the illiberal virus lie then? It lies not so much in the abstract principle but in its practical implementation. Who is entitled to draw the line between *agenda* and *non-agenda* of the government, and where should it be drawn? The fundamental fact is that constitutions are essentially contracts which tie society and its ruling institutions in a mutual pact based on *shared values, rights and duties*. But in the real world contracts, all contracts, are typically incomplete. Meaning that no one possesses all the knowledge, information and predictive capacity in order to detail the prescribed behaviour in all possible future contingencies. Therefore constitutions contain general principles and prescriptions (e.g. "the government is committed to maintaining sound and sustainable public finances"), while control of compliance *in particular contingencies* is delegated to third party institutions, e.g. constitutional courts that rule on the basis of informed and conscious *human judgement*. Facing the lack of a common constitutional spirit, the EMU institutional designers, instead of resorting to cautious and prudent human judgement, have taken the opposite way, with an increasing obsession for *specific and quantitative details* in the vain pursuit of objective and uncontroversial rules to dispense with human judgement. The result is just the opposite, as testified by the indigestible mess of the rules for the "Excessive deficit procedure": overcomplicated, opaque, disputable.

But there is more to that. The key to fiscal regulations in a monetary union is to strike a balance between allowing wider room for countercyclical fiscal policy *vis-à-vis* the loss of the monetary instruments, and preventing reckless fiscal policy. Whether the rules set by the Maastricht Treaty and subsequent modifications are well balanced is matter of controversy ever since their conception (Buiter et al., 1993). This is only natural because finding the right balance is highly sensitive on theory, modelling, quantitative methods, evidence *and their changes over time*. It is however inevitable that the more detailed are the rules, the more they are tied to a particular combination of those factors. By "constitutionalizing" the rules we end up constitutionalizing a particular economic doctrine, which therefore seizes the helm of the ship. Even worse, as constitutional rules are in principle subtracted from the ordinary legislative process, so a particular economic doctrine elevated to the constitutional rank is *ipso facto* subtracted from the ordinary scientific game, as witnessed by the obdurate pursuit of "austerity" all over Europe in the name the sacred rules notwithstanding adverse evidence and growing criticisms from the rest of world.² *This is TINA square.*

Another, more important, example lies at the very core of the EU task of policy enforcement: structural reforms. These emanate from an economic doctrine where the economy's capacity to produce, create jobs and grow does not depend on aggregate demand, but only on endowments, technology, preferences and market structure (the so-called "supply side" of the economy). The growth capacity of the economy can only be fostered by improving these fundamentals, and in particular by enhancing efficiency (deregulation) in the labour and product markets. *It is uncontroversial* that Europe needs a new growth strategy for the 2000s. But growth theory has ever been, and still remains (fortunately), a *controversial and unresolved research field*. Neither the assumptions, nor the policy implications, nor the evidence of the EU orthodox theory are sufficiently uncontroversial to be constitutionalized. Theory and history (of Europe

² See footnote 1

itself) offer "varieties of (successful) capitalism" each with different growth engines, policy strategies, role of government and markets, rooted in such deep factors as societal habits, cultures and values that economists pack up in the sacred notion of *preferences*. Why should then the EU governments and peoples (unlike other governments and peoples in the rest of the world) forget about their preferences and be subject to a particular model of economy?³ Why can't each pursue a different, tailor-made, growth strategy? And why any growth strategy different than the orthodox one is dubbed as "non credible"?

The problem has, eventually, exploded dramatically in the Greek crisis, when the new Greek government dared raise those questions before the EU and ask a change of approach in order to service its debt in a sustainable way, also in consideration of the disastrous conditions of the country after four years of orthodox treatment. In fact, one among the many astonishing aspects of this Kafka plot that has gone almost unnoticed is the unusual level of detail (again details) of the Troika plans. As an example, I have never heard of plans where creditors establish the VAT rate sector by sector, or what assets the government should sell (when in fact the buyer is known) or what specific public employees it should fire. Usually debtors are required to subscribe some intermediate targets upon which they are controlled, but which they can pursue with some discretion on the means. Note that this was not a special treatment for Greece. It is indeed the normal *modus operandi* of officials who are committed to enforcing a particular policy strategy, and *who think they know how do it always and everywhere*. That this "one-size-fits-all" policy is a failsafe way to fatal mistakes has been known since the World Bank's and IMF's mismanagements of emerging market crises in the late 1990s. It emanates from the pernicious *pretence of knowledge* that von Hayek had already condemned some decades earlier as a consequence of the "scientist" drift of modern economics⁴. Were von Hayek alive, he might remark that the repeated failures of the Troika plans to deliver the expected results is reminiscent of the story of planned crops in the Soviet Union: dismal results were disguised, scapegoats were found and punished, and people was fed with the "next-time-will-be-different" rhetoric.

The hazardous Tsipras-Varoufakis strategy eventually turned into a violent backlash against their own people. Maybe they were unable to produce a convincing alternative renaissance plan for the country, maybe the Greeks are unable to understand what is their own good, maybe the referendum has been an outrageous breach of the *unwritten* rules the EU games by a Stranamore game theorist. But the option to change the approach to the Greek problem has never been given a chance, in spite of a wide array of critical warnings and alternative proposals elaborated by the best experts in the world.⁵ This is a message for all: no pass through lane. Yet it is utterly incredible that we are asked to play a game where alien officials can be parachuted from nowhere to anywhere pretending to possess more knowledge, information, and entitlement than our governments in order to reshape in detail our economies for our own good notwithstanding our own will. It is a violation of fundamental principles that a sovereign government is forced by external agencies, or even by other peers, to follow

³ Which, by the way, is not the one followed by Germany.

⁴ "The Pretence of Knowledge" is the title of The Nobel Prize Memorial Lecture that Hayek gave in 1974. Its opening sentence is the following: "The failure of the economists to guide policy more successfully is closely connected with their propensity to imitate as closely as possible the procedures of the brilliantly successful physical sciences" (p. 3).

⁵ See footnote 1

a specific policy strategy drawn from a particular view of the economy and society instead of another.⁶ This is not the kind of sovereignty devolution that can legitimately be asked to, and obtained by, any democratic government for the progress of Europe (Junker, 2015). *This is just exponential TINA*, and the beginning of the end of liberal Europe.

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⁶ Chronicles report that the German Finance minister Wolfgang Schauble reacted to President Obama's pressure for a no-Grexit solution proposing an exchange of Greece for Puerto Rico (the Commonwealth of Puerto Rico, on the verge of default, is an extraterritorial state of the United States). Yes, we are not (yet) Puerto Rico. Also the German economist Daniel Gros laments this unfortunate circumstance (Gros, 2015)