

**Keynote speech: SOCIAL POLICY AND THE GLOBAL CRISIS
BUDAEST 2-4 SEPTEMBER 2010**

ABSTRACT

In the twentieth century, two empires collapsed in collective delusion: the Third Reich succumbed from the delusions of race, the Soviet Empire from the delusions of class. This 'can't happen here', in the open societies of the West. And yet, capitalism has come close to breakdown due to the delusions of the free market. Economists and financial specialists *en masse* regressed to a doctrine that denied the regulatory role of the state and the integrating functions of civil society in favor of a lapidary construct of unfettered markets with human actors as incentive-driven monomaniacs. How could this primitive economics have spread so widely and endured so tenaciously? This is one, maybe the only, question that primitive economics can answer: it paid off.

Two core ideas of social science in the twentieth century were especially targeted by primitive economics: the notion of collective goods created in collective action had to be demolished and the notion of state-induced income transfers had to be vilified as necessarily counterproductive. These are exactly the twin foundations of the welfare state. Primitive economics legitimized earnings on capital, no matter how disproportionate, and it set out to delegitimize any measure that could have improved the share of labor in the national income.

What loomed in the past twenty years or so, was the emergence of a financial regime, operating almost completely without external controls, giving free rein to whatever scheme bankers came up with and operating a shadow market of monetary manipulations largely unconnected to the productive economy. Precisely because bankers initially did fulfill a real and essential economic function, they could use it as a lever to create a sphere of unbound collective privilege and personal profit. The fast and vast increase in scale known as 'globalization' provided them with the opportunity to evade regulation by any single government. In many respects, this financial regime is similar to the military regimes in which foreign threats allowed officers to abuse their real protective function so as to create a sphere of economic group monopolies and unfettered personal prerogatives.

Social scientists will have to revive economic history, institutional economics and the theory of trade cycles. They will have to reconnect economics with the science of politics and society. They will have to reinstate the triangle of market, state and civil society and they must take a pragmatic stance in trying to identify the desirable equilibriums between these three. One major stabilizer in this mixture will be social policy.

Abram de Swaan
May 1, 2010