The Business History of Economic Life:
What is the State?

Emma Rothschild, November 2015
The early twenty-first century has been the best of times, so far, for the various inquiries that correspond to the history of economic life, the history of economic thought, financial history, economic history, business history, the history of capitalism, the history of political economy (and so forth.) This is not unexpected. Economic history, in a capacious sense, has been the outcome, as in the 1890s and the 1930s, of times of economic turbulence. “The economic historian knows something of the long trends of productive energies and social pressures that have brought us where we are,” Edwin Gay, first Dean of the Harvard School of Business Administration and first President of the Economic History Association, wrote in 1941, in the first volume of the *Journal of Economic History*; “the statesmen who are to guide the future should use that knowledge. It is one of our major tasks to see that he does.”

This paper is about a subject, the economic life of the state, that has been almost invisible in the recent history of economic history. Almost invisible and also almost illicit; a sort of black hole, in the sense that if the economy is defined as that which is not the state, then the state is both inside and outside the economy; “a black hole is by nature invisible… [it is] cut off from communication with the rest of the universe… it still exerts gravitational forces, and its presence could be detected by its effect on other visible bodies.”

It is easy to see why this should be so. All the varieties of inquiry that make up (capacious) economic history are defined in relation to a universe – the universe of the “economic” or the “economy” – that has itself been defined in opposition to the state. The idea of the economy – of the “economic system as an enormous conglomeration of interdependent markets,” or the “economic cosmos” as a “concatenation and mutual dependence of... quantities” -- was a discovery, in the established chronology of the history of economic thought, associated with the great European economists of the eighteenth century. It was founded on an observation of the world: of “all these riches,” in the expression of the French economist A.R.J.Turgot (who first used the expression “the economy,” in 1770, in a sense very close to that of twentieth-century economists, “the economy would thereby become even more active in the accumulation of capital”); needles, animals, landed property, cash, seeds, jewels, instruments, warehouses,
which are “continually exchangeable,” and which “all represent money,” just as “money represents them all.” But it was also founded on a conception of what the economy was not. It was not the state, and it was defined in distinction to the state. The activities of government were uneconomic; they constituted the limits of the economy, or an outside intervention in the economy, or both.

So economic history, to the extent that it is the history of the economy, or of economic life, is the history of that which is not the state. The history of economic thought is the history of thought about the economic cosmos. Business history is in an accounting sense the history of the non-state. As in the standard national income and product accounts of the United States, there is business and there are the “nonbusiness sectors of the economy—households and institutions, government, and the rest of the world.”

This is all very unfortunate. It is unfortunate, at least, to the extent that the varieties of capacious economic history are concerned with a “slice of the real world,” and seek to “represent the essential features of its real terrain.” It is unfortunate, too, in that there are so many amazing sources for the economic history of the state, or the history of the economic state. The history of economic thought about the state is an intriguing story, full of detours and diversions, from the early nineteenth-century critique of Adam Smith as the exponent of government as no more than a wilde Ehe, a “wild marriage,” to the disputes about the “relativity of economic theory,” within the Harvard economics department, out of which the Harvard Business School emerged in 1908; and from A.C. Pigou in Cambridge, England in 1912 to the “Pigou Club Manifesto” of 2006.

The history of “medium” or popular economic thought is a story of astonishing rhetoric about and depictions of the state, over the course of more than two hundred years. The economic history of the state is the story of a vast industry or sector, whose consequences for the rest of the economy are almost entirely invisible in the unspectacular statistics of national income accounts; statistics of which the history in relation to government activity (or "agency activities for the body of consumers as a whole") is itself a fascinating story. The business history of the state has been a series of episodes, for the most part, in the biographies or autobiographies of financial leaders who have “gone to Washington,” or had a time of public service.

What I would like to do, in this paper, is to outline some approaches to an economic and business history of the state in the United States in the late twentieth century. I will be
concerned, in particular, with an episode – the response to the financial crisis of 2008-2009 – that was described at the time as both historic and transitory. The perspective, in general, will be of what is euphemistically called the “history of economic life;” in particular, the business history of economic life.9

Economic Destiny

The theory of the state has been very close to the surface of political life in the United States, at least since the presidential election of 1980. “When Prime Minister Thatcher was here recently we both remarked on the sudden, overwhelming changes that had come recently to politics in both our countries,” President Reagan said in March 1981; “at our last official function, I told the Prime Minister that everywhere we look in the world the cult of the state is dying.”10

A generation later, the 2012 presidential election was identified, from the earliest primaries, as a vast and abstract contest of economic ideologies. It was described as a conflict between the forces of the market and the forces of the state, or between opposing views of the role of government in the economy. “When the heavy hand of government replaces the invisible hand of the market, economic freedom is the inevitable victim,” Mitt Romney said at the University of Chicago in March 2012, and then, in Missouri in June 2012, “America is on the cusp of having a government-run economy.”11

It was this view of economic destiny, in turn, that inspired the elusive coalitions of opinion in National Federation of Independent Business v. Sebelius, or the US Supreme Court decision about the Affordable Care Act, with its poetic eighteenth-century intonations. To sanction the Act under the powers of Congress to regulate commerce, Chief Justice Roberts wrote, would have the effect of “fundamentally changing the relation between the citizen and the Federal Government,” drawing all power into “the impetuous vortex” of the legislative department. Acceptance of the Act would mean that “the idea of a limited government power is at an end,” Justice Scalia wrote for the (temporary) minority; the Commerce Clause of the US constitution would become a “hideous monster” whose devouring jaws spare “nor high nor low, nor sacred nor profane.”12
The gravest charge against the economic policies of the Obama administration, for the Supreme Court majority and for the Romney campaign, was thus that they had been equivalent to a rising from the dead of despotic government. Yet these policies were shaped, from the outset, by an enduring and sometimes hectic anxiety about government intervention in the economy. The economic role of government had also changed in profound respects, over the period since the 1980s, in ways that call into question even the distinction between the economy and government, or between the market and the state.

An Episode in the Economic Life of the State, Part 1

Even practical men, men of business experience, have theories of the state, and the financial-industrial crisis of 2008-2009 was an unsettling excursion into new realms of thought. "Surrounded by photos of Ronald Reagan in the White House and at his Santa Barbara ranch, I lay awake, tormented by self-doubt and second-guessing," Treasury Secretary Henry Paulson wrote in his memoir, On the Brink, of an anxious night in November 2008, in the Westlake Village Inn in Simi Valley, California (where he was about to deliver a speech at the Reagan Presidential Library on the “need to reinvigorate market capitalism”): "of all the rough nights I'd endured throughout the crisis, this one was by far the worst."\(^{13}\) It was a time of "unprecedented government intervention," one of his Treasury colleagues lamented a few weeks later.\(^{14}\) As President George W. Bush said at the American Enterprise Institute in December 2008, "this is a difficult time for a free market person."\(^{15}\)

These tormenting times were unpropitious -- as President Herbert Hoover's experts on recent social trends observed in the course of an earlier economic upheaval, in 1933 -- for "distinguishing permanent from temporary forces."\(^{16}\) But the course of the crisis was shaped by ideas of the market and the state, and by the effort to distinguish long-term and short-term changes. This was in part a matter of economic history, or of the characteristics of the "new economy" of the 1990s, of the "new age of markets," and of the much-described financialization of the US economy.\(^{17}\) It was also a matter of the changing characteristics of government, or of the history of the economic state.

There were two large arguments about the state, in general, in the established economic thought of the past generation. One was that the state was needed to enforce the rules and
institutions of markets ("creating a suitable framework for the beneficial working of competition.")\textsuperscript{18} The other was that there was a role for the state in providing or subsidizing goods which all (or almost all) individuals want, and which markets do not produce, usually because they are very large-scale, such as national defense, or very long-term, such as the construction of levees by the Army Corps of Engineers. There was the protective state, which enforces well-defined rights, and the productive state, which provides goods and services that would otherwise “be provided suboptimally or not at all.”\textsuperscript{19}

The government intervention of 2008-2009 was different. It was large-scale and short-term. It was a success, in the historical retrospect of its principal figures, because it was so vast in scope – it prevented a “systemic event,” or a “system-wide crisis” – and so limited in time. It saved the system and it did not interfere with the system. There was no catastrophic crisis in financial markets, and no increase in unemployment in the United States to historically unusual levels (at least in respect of the overall unemployment rate.)\textsuperscript{20} The intervention took place over no more than a few months, and it cost no more than a few billion (or tens of billions) of dollars.\textsuperscript{21}

For the diverse critics of successive government policies, the events of 2008-2009 were an instance, rather, of the sacrifice of the long term to short-term objectives. The bailout of banks and “nonbanks” – the almost-banks of the new financial-industrial economy – made the financial system even more vulnerable, because so many institutions were defined as “systemically important,” or "too big to fail," and so many traders came to believe in their own impunity. The bailout of the auto companies consolidated the political influence of the auto-industrial complex, reinforced the preference for environmental (and energy) policy by regulation, or subsidy (as opposed to a carbon tax, for example) and impeded efforts to prevent long-term and catastrophic climate change. There was no such thing as the evanescent, in the long life of the state.

These are grave charges. But there was another, more insidious, and even more momentous transformation. For the state itself, in the course of the financial crisis, was a short-term enterprise. It was a government on a limited-term contract, in the most perilous of its economic policies; a rental or capital-services state. A generation after the free-market intellectual revolution of the late 1970s, with its promise of a “new economic prosperity based on reducing government interference in the marketplace,” the state was almost exactly the same size
as it was before the Reagan revolution. But it was a different kind of state, transient and insecure.

“Responsibility to the Marketplace”

So what really happened in the course of the government intervention of 2008-2009? The protagonists’ tale is a dramatic story, full of anguish and the sense of historical destiny. It was “our nation’s economic history” that was unfolding, in Paulson’s description. The story began, in On the Brink, with a conversation between Paulson and President George W. Bush about “the next crisis,” soon after Paulson became Secretary of the Treasury in 2006. “I was convinced we were due for another disruption,” he wrote of his earlier self; “I detailed the big increase in the size of unregulated pools of capital such as hedge funds and private-equity funds, as well as the exponential growth of unregulated over-the-counter (OTC) derivatives like credit default swaps (CDS). ‘All of this,’ I concluded, ‘has allowed an enormous amount of leverage – and risk – to creep into the financial system.’” Bush, who in Paulson’s and other accounts played the sympathetic role of Christian, or the Pilgrim, was amazed. “‘How did this happen?’ the president asked;” and then, “‘How much of this activity is just speculation?’”

By the spring of 2008, the anticipated disruption had begun. There was “the first of many nights” of sleeplessness, agitation, and working “against excruciating deadlines to try to save the system.” The impending failure of a New York investment bank was averted, with the help of a $30 billion loan from the Federal Reserve; in the summer, the housing finance companies Fannie Mae and Freddie Mac were rescued with emergency legislation, and the assistance of another investment bank and a New York law firm (both of whom, in Paulson's account, “with exemplary citizenship during the crisis… agreed to represent us [the US government] for free and with no indemnification.”)

In September 2008, the investment bank Lehman Brothers filed for bankruptcy, “the biggest in US history,” after efforts to orchestrate its sale failed. “‘What if the system collapses?’” Paulson asked his wife; “I am really scared.” This was followed by another impending failure, of the insurance company American International Group (AIG), a vast conglomerate, with its origins in fire, maritime and life insurance in early-twentieth-century Shanghai (“American Asiatic Underwriters”). AIG was “like a hedge fund sitting on top of an
insurance company,”” in Federal Reserve Chairman Ben Bernanke’s summary, quoted by Paulson, and it was “entwined in every part of the global system, touching businesses and consumers alike.” 28 President Bush was again the voice of common sense or common incredulity. “‘An insurance company does all this?’” he asked, in another account. 29

The Troubled Assets Relief Program (TARP) was devised in mid-September, at breakneck speed (“the public and Congress will hate $500 billion,” one of the Treasury officials told Paulson, “but I’m not sure they will hate $700 billion any more.”) On September 29, the House of Representatives defeated the TARP legislation, and stock market values fell by more than $1 trillion. Three days later, revised legislation was passed by the House and the Senate. Paulson went fishing: “surrounded by shorebirds, I caught and released half a dozen redfish,” and “felt like myself for the first time in a long while.” 30

Paulson’s book provided a remarkable sense of the franticness of the public or government process. The Treasury and Federal Reserve officials stayed up all night. Paulson was sleepless and nauseous. There was an ever-shifting cast of characters: individuals and firms representing the government, some of them working "for free," “staff from the Terrorism Risk Insurance Program,” part-time advisers who “would work around the clock,” consultants on the value of mortgages (“the Fed had brought in BlackRock”), and temporary Treasury employees or contractors (“I impressed on him the nature of our emergency.”) Things were forgotten (“in the rush we had not consulted with the FDIC chairman – or even notified her”). Everyone was “rushing” and “crunching:” “there was no time to consider niceties like news conferences,” “at that point, I considered congressional hearings to be a waste of time,” and “we had no time for a normal bidding process.” 31

There was a redoubtable sense of destiny. “All of us here are thinking about the system,” Paulson described himself as telling bank executives at the outset of the crisis. By the end, he recalled “some of the darkest moments… this country had ever seen,” and “the higher goal of saving [the] system.” 32 The expression “systemic risk” had a very specific connotation during the crisis (under the FDIC Improvement Act of 1991). 33 There was a technical definition, by international convention. 34 There were new terms of art: “systemically important financial institutions or, as they are now generally known, ‘SIFIs.’” But the words “system,” “systemic” and “systemically” are also used in an incantatory way in the histories of the events of 2008;
more than 160 times in *On the Brink*. There was an elision of meaning, from the “financial system” to the “whole system,” and from the “money market system” and the “banking system” to the “free-market system.” The higher goal, for Paulson, was of “saving a system that, even with all its flaws, was better than any other I knew.”

The tension by which Paulson was tormented in the Simi Valley Inn -- between market principles and public duty – was evident throughout the history of the crisis. There was the increased government expenditure, the “billions of taxpayer dollars,” and the government ownership of industry, or the “specter of nationalization;” “they had effectively just nationalized the nation’s financial system,” in Andrew Ross Sorkin’s account of early October 2008. There was the sense of having abandoned the ideal of competitive markets, or even “the semblance of competition.” There was the dislike of regulation, and the sense of a duty to impose new regulations (“a new regulatory structure, not new regulations”). There was doubt about the openness of financial markets and financial information (“there was a dark side. The market became opaque… and difficult to understand even for sophisticated investors”).

There was doubt, most insidiously, about the nature of risk and uncertainty. A conversation in September 2008 with the heads of JPMorgan, Goldman Sachs and other Wall Street firms about the effort to avert the Lehman failure, Paulson wrote, “had to trouble every free-marketer in the room;” “where would it end?… Potential investors assessing any bank’s balance sheet would have to consider not only its assets and liabilities, but whether it had properly accounted for the risk that it might have to bail out any one of its competitors.”

“You have a responsibility to the marketplace,” Paulson was quoted as telling bank executives, as the Lehman crisis worsened. The purpose of the “government intervention,” President Bush said in October 2008, “is not to weaken the free market. It is to preserve the free market.” But there was a sense, at the same time, of awesome expectations in respect of state power. “‘Everybody is just pursuing his self-interest,’” a former Lehman banker told Paulson; “‘you have to do something.’” “‘No one thinks there is any risk whatsoever, in anything,’” another Lehman trader had said in 2007; Paulson recalled being asked by a prominent banker, “‘Isn’t there something you can do to order us not to take all of these risks?’” Regulation was bad, and it was also good. Another prominent banker was described as being in a foul mood, in September 2008, after talking to the head of the Securities and Exchange Commission: as he
recounted, the SEC chairman, “a free-market zealot, seemed… to be almost intentionally ineffectual, as if that were the proper role of government regulators.”

The financial industry changed continually, under the gaze of the regulators, in a metamorphosis of non-SIFIs into SIFIs, investment banks (regulated by the SEC), commercial banks (regulated by the FDIC), and bank holding companies (regulated by the Federal Reserve). As the banking supervisor of the New York Fed asked the chief financial officer of Morgan Stanley, in the idiom of the institution as person, “’if all else fails this weekend, will you agree to become a bank holding company?’” There was security in size, and security in being regulated. Timothy Geithner, then the president of the New York Fed, had the “bold idea” that “what you really need is for the president to get the authority to guarantee any liabilities for financial institutions.” He was also described as “writing out various merger permutations,” in an “insta-merger strategy;” “Geithner had always liked the idea of merging Citigroup and Wachovia.”

But the state, too, changed its form. There was disdain for “government inefficiency” when Paulson arrived at the US Treasury, in Sorkin’s account. “He knew he would have to bring in seasoned Wall Street veterans who knew what it meant to work hard,” and he needed “good relationships with all the Wall Street CEOs:” “if he needed ‘deal flow,’ he preferred to get it directly from them, and not from some unconnected Treasury lifer whose job it was to figure these things out.” The individuals who “saved the system,” or who “intervened” in the market, were indistinctly public and private: a banker who “wanted time to pursue public service,” a “soft-spoken” lawyer who “had been involved in nearly every major banking transaction of the last three decades,” housing finance advisers to the Treasury working “for free,” or for a “payment which would barely cover the costs of their secretaries’ overtime,” a “senior adviser” on a “part-time basis,” two “contractors” with nominal salaries. These were individuals who understood the system, as distinct from the unconnected public officials, childlike in their inexperience. “I need some adults,” Sorkin reported Paulson as saying in the summer of 2008, “feeling somewhat desperate.”

An Episode in the Economic Life of the State, Part 2

The successive phase of the intervention of 2008-2009 – the “auto bailout” – was a version of the same story. It was described as being concerned with the economic system, more
than the “financial system,” and with the real world of employment – of “hardworking Americans far beyond the auto industry”– more than with the confidence of credit markets. It engaged different interests, and different swarms of lobbyists. It was the “largest industrial restructuring in history,” in the account of Steven Rattner, the Obama administration's “financial viability adviser” for the auto industry, and “undid one hundred years of collective bargaining.” But there was a striking continuity with the earlier policies: the same TARP, the same shifting cast of characters, the same financial institutions, and the same haunting anxiety about the market and the state.

The rescue of the auto industry began in the last months of the Bush administration. Bush announced in mid-December 2008 -- in “a difficult situation that involves fundamental questions about the proper role of government” -- that the financial rescue package would be used to provide loans to GM and Chrysler. On Christmas Eve, the Federal Reserve approved the application of the GM Acceptance Corporation (GMAC), the automotive financing affiliate of GM, to become a bank holding company. The “expeditious” procedure was justified, in the Federal Reserve order, by the “unusual and exigent circumstances” of the times, or by “emergency conditions,” including “rare and unusual situations.”

The operation proceeded with very little interruption in the Obama administration. In his book Overhaul, Rattner described himself as arriving in Washington DC on a cold day in early January 2009 (“Mr Rattner goes to Washington,” or “my physical entrance into political life”). His “first official day on the job” was in February and he left five months later, having taken his colleagues in “Team Auto” out to a celebratory dinner at a Mexican restaurant: “’In this deal, in this incarnation,’ I said, ‘you have epitomized what it means to serve your country.’” In April and June 2009, GM and Chrysler entered what President Obama described as a “quick, surgical bankruptcy.” The bankruptcy lasted 42 days for Chrysler and 40 days for General Motors, at the end of which there emerged “new Chrysler” and “new GM” (also known as “Government Motors”) of which 72.5 percent was owned by the US and Canadian governments.

There was a similar anxiety, in the two stories, about government intervention. The director of the National Economic Council, Larry Summers, who was one of the heroes of Rattner’s narrative (“I would leave convinced that there could be no happier future circumstance than the chance to work for him again”), was described as “particularly leery about the risk of
permanent government involvement;” “the root of Larry’s response was his distaste for
government intervention in the private sector.” There was a consensus about bad government; “a
long-standing and appropriate aversion to industrial policy,” or “Japanese-style intervention,”
and to “industrial-policy goals, such as the development of electric vehicles.” There was a
continuing effort to describe good (or “quick,” or “limited”) government. Summers was quoted
as developing an extended metaphor of military incursions, “‘We’re already in Vietnam… I can
imagine doing something in Cambodia… There’s no way we’re going into Laos,’” and, a few
pages later, “he didn’t want us crossing into Laos.” 49

There was continuity, too, in disdain for the ineffectiveness of government, or its lack of
information. The legislative process was for Rattner “an enormous, pointless distraction,” and
the rescue “succeeded in no small part because we did not have to deal with Congress;” “either
Congress needs to get its act together or we should explore alternatives.” The executive branch
of government was described as ill-informed or no more than decorative. It was made up of
“what the communications department called potted plants,” or figures in the background of
photo opportunities, as in a meeting of the Cabinet Auto Task Force: “nearly all the attendees
understood this session was purely ceremonial, but a couple – such as Energy Secretary Steven
Chu – weren’t yet versed in the ways of Washington and thought they were there to provide
substantive input.” 50

The cast of characters, in 2009, was even more miscellaneous than in the earlier rescue.
The temporary auto team included “a fiercely driven young expert in corporate restructurings,” a
“capable helper” from “a private equity firm,” “a superstar who had worked for [Rattner] at both
Lazard and Quadrangle,” “a thirty-one-year-old investment analyst” who had “volunteered his
’spare time,’” and a “youthful but experienced pro” in “financial services investing.” These were
short-term employees of the US Treasury or the TARP program, or unpaid advisers. There were
also the consultants, as in the financial rescue of a few months earlier. The Treasury was advised
by “a team of experts” from Boston Consulting Group. The United Auto Workers were advised
by "Lazard." There was a team from "Rothschild" who “had advised on the Bush bailout plan,”
and “became our indispensable guide;” they “knew all the tools and techniques,” including
preparing a “financial model” of GM, as well as a chart of “maps showing Chrysler’s major
facilities and listing the members of Congress in whose districts they sat.” 51
The new teams were experts in abstract attributes: understanding, or information, or decisiveness. They were endowed, above all, with the right sensibility. “I wanted to bring the discipline of private equity to GM,” Rattner wrote, and the rescue was “private-equity-style investing at its best,” with “no public shareholders to distract it.” The new chief executive of GM, at the end of the story, was known for his impatience and toughness, and “on top of that determination, he [brought] the private equity sensibility I value[d] highly.” The outcome of all this decisiveness was nothing less, in the end, than a new model of public life, or government intervention: “our model” of how to “cut through the government bureaucracy, make decisions, and move forward so effectively.” Rattner described his own, transitory time in government as unexpectedly difficult, “even after years of having my nose pressed to the glass,” or of looking at politics from the outside (“limiting my involvement in politics to fundraising, serving on a few think-tank boards, and writing the occasional op-ed.”) But government was itself, in the new model, either transitory or part-time or both. It was a short-term state.

The Consequences of Intervention

The cataclysm that Paulson so feared – the possibility that “the financial system might vaporize and with it, the economy” – did not happen. The non-event had been described in an imposing series of environmental/industrial metaphors (a “disaster movie,” a “meltdown,” an “implosion,” bleeding to death or a catastrophic computer failure), and in historical similes. The financial crisis of 2008 was considered to be like the crisis of 1931, just as the crisis of 1931, in its time, was described as being like the banking panic of 1907. But the worst, or one of the worsts, was averted. The catastrophe of the auto industry was also averted, in the sense of a “disorderly liquidation” of General Motors, with momentous consequences for the renown of the United States (because of GM’s importance in business history) and for regional and national employment. To do nothing, President Obama said at a Chrysler plant in Toledo, Ohio, “would have made a bad recession worse and put a million people out of work.”

These were counterfactual successes, and they are not easy to evaluate. One phase of the TARP policies in respect of financial institutions “was a major reason for the halt in the panic,” in the summary of the Stanford economist John B. Taylor, and “others brought the panic on in the first place.” “the best that one can say about the policy response is that things could have
been even worse, a claim that I disagree with and see no evidence to support.”\textsuperscript{55} The auto rescue was a success in the terms in which it was defined, as summarized in the initial title of Rattner’s position of “financial viability adviser” (“this was not a managerial job; it was a restructuring and private equity assignment.”)\textsuperscript{56} General Motors, Ford and Chrysler exist.\textsuperscript{57} Employment in motor vehicle and parts manufacturing, which was 876,000 in 2008, had recovered to 877,000 in 2014. (Employment in gas stations was 881,000, by comparison, and employment in motor vehicle dealerships was 1,861,000.)\textsuperscript{58}

The enduring consequences of the “government intervention” are less encouraging. The early theories of the intervention – that it would be large-scale and short-term, or that it would save the system without interfering with the system – were fanciful in a world of economic agents with expectations about the future and histories (or memories) of the past. There has been a reasonable expectation, since 2008-2009, that large financial institutions will be rescued by the government in the future. The pressure for such rescues would be more intense, because there are more institutions that are systemically important, or too big to fail; the banks and bank-like institutions would take greater risks, because they are more secure; there is a reasonable expectation, too, that the process of government intervention (or the “policy response”) would be chaotic and partial. The obscure “political process,” the “lack of transparency,” and the unfairness of the policies -- “the (correct) perception that those who were responsible for creating the crisis were the recipients of the government’s munificence,” in Joseph Stiglitz’s description -- have been the object of widespread criticism.\textsuperscript{59}

These were consequences that Paulson anticipated, in the long and frightening nights of 2008. “‘We’re very aware of moral hazard,’” he quoted himself as saying at the outset of the financial rescues, and then, towards the end, “the last thing we need today is an even more concentrated financial services industry.” But the compensating benefit that Paulson also anticipated – that the emergency policies would buy time for a “fundamental” reform of the “objectives of financial services regulation,” nationally and globally, and of a regulatory system that he described as “hopelessly outmoded,” and “rife with duplication, gaping holes, and counterproductive competition” – has only in part been fulfilled.\textsuperscript{60}

The concentration of the financial industries in turn brought a new concentration of political power. Sorkin’s “Afterword” to \textit{Too Big to Fail}, in 2010, provided a vivid description of
the political relationships that were an immediate consequence of the events of 2008-2009: “Wall Street swarmed Washington with some 1,400 lobbyists, paying the top ten lobbying firms $30 million to push back on most of the significant reform efforts.” There were new provisions about patents for financial products and services, a "Financial Services University,' a two-day conference for Congressional staff members, where 'visiting professors' gave presentations on Dodd-Frank", and overall expenditure on financial influence at a rate of some $200 million a year. 61

There were comparable arguments that could be made about the consequences of the intervention in the auto industry. GM was identified as being too big to fail (or to fail for more than 40 days) and the automobile industry was determined to be of special national importance. It was subsidized in at least three ways, by government direct investment, by incentives to buy new cars (“cash for clunkers”), and by the continuous flow of encouragement or uplift (as in, for example, a White House blog post of May 2011, “another-big-week-american-auto-industry.”) 62 There was a new and intimate relationship between the automobile industry’s own swarms of lobbyists and the government they were seeking to influence. They were themselves the government, and the government was them.

In relation to energy and climate change, the collision between short-term and long-term objectives was dramatic, and similar to the effects of the financial rescue. The creation of the auto-industrial society in the United States had been founded, over almost a century, on implicit and sometimes explicit subsidies to a particular pattern of automotive use, through publicly supported construction of highways and of the infrastructure of low-density land use, and public subsidy of the long-term costs of energy use. 63 The explicit support that began in 2008 created a reasonable expectation that these subsidies would continue. The rhetoric of the hybrid economy, or of high-energy, low-carbon growth, with a Chevrolet Volt in every front yard, created the expectation of continuing support for the development of electric vehicles. So too did the new, cordial regulation of the US “fleet” of automobiles, settled over the period until 2025, in the spirit of the new regulations of the 1970s, or the cordiality that brought to the world the almost unregulated light truck, or the SUV (the Sports Utility Vehicle.) 64

The most spectacular transformation in the fortunes of “new GM” was meanwhile its expansion in Asia. In the self-description on the company’s website, in 2011, “GM’s largest
national market is China, followed by the United States.” GM sold 3.5 million vehicles in China in 2014, compared to 3.4 million vehicles in North America. The North American market was eerily profitable. But the Chinese market was more promising, and a high-energy hybrid economy for the world would be a dystopia of nuclear power, new coal-fired electricity plants, and uncontrollable change in the global climate. The sales of GM and its joint ventures in China were in any case only incipiently hybrid. GM-China noted the especially ebullient sales of the “SLS luxury business sedan,” and the “SRX light utility vehicle,” as well as the “Captiva SUV.” GM-India was also ebullient, and distinctively retro, in respect of the Chevrolet Cruze: “It’s longer, wider, meaner and the biggest car in its class – both in size and attitude.” This was a government-sponsored expansion of the worldwide automobile industry, already government-subsidized over three generations of public expenditure on the infrastructure of automobile use, and more generations to come of expenditure on mitigating the costs of climate change.

The Line between Economics and Politics, circa 1933

The report Recent Social Trends in the United States, which was commissioned by Herbert Hoover in 1929, and published just before he left office in early 1933, was concerned, among other things, with "that instability in our financial institutions which has played such havoc with our economic life," with "combinations in banking," and with the "relations between banking and business," which were "so universal, intimate and sensitive." It was an inquiry into American culture, and into the causes of the economic and financial crisis of the times -- including "ignorant, inefficient and lax public supervision over the financial institutions of [the] country," the "excessive multiplication of credit," the "colossal wave of speculation in urban real estate" and the purchase by banks of securities "normally regarded as unfit for banking investment." It was a study, in part, of the consequences of the new financial economy of the 1920s, including the development of the "arts of financing and selling" and the proliferation of bankers, brokers, insurance and real estate agents.

Hoover's report was also, and most portentously, an inquiry into "the problem of the interrelationship between government and industry." There were new "forms now only dimly discerned," the committee wrote, and "semi- and demi-autonomous industrial groupings in varying relations to the state." "Practically, the line between 'pure' economics and 'pure' politics
has been blurred in recent years," they concluded; "shall businessmen become actual rulers; or shall rulers become industrialists?" \(^\text{70}\)

This is the line that was blurred in the crisis of 2008-2009 as well. The much-described “financialization” of the American economy was a matter of the rise of financial services industries, of the relationship between financial and other enterprises, and of the changing understanding of economic innovation. The accounts of the transformation are familiar. Financial and insurance services, which provide about 4 percent of total employment, account for more than 12 percent of corporate profits. \(^\text{71}\) Even the icons of American manufacturing that were at the center of the crisis were substantially financialized, through their lending activities; the bank associated with General Motors had assets worth more twice those of GM itself, and General Electric made about half of its profits through the finance company GE Capital. \(^\text{72}\)

The finance and insurance industries were also considered to be the source of inventiveness – of “financial innovation” – throughout the rest of the economy. Together with the information industries – and in the closest cooperation with them, as the technologies of buying, selling, and estimating risk changed beyond recognition – financial industries were at the heart of the “new age of markets” of the 1990s. \(^\text{73}\) “Is credit securitization really a technological advance?” the authors of one of the early studies of the new industry asked in 1988, or is it “no more than ‘a game of regulatory mirrors’ – no real new technology, but only a temporary exploitation of certain regulatory loopholes.” Their answer was reassuring: “it draws its lifeblood not from regulatory arbitrage but from the way it handles risk. In this respect, it is fundamentally more efficient than conventional lending.” \(^\text{74}\)

The promise of financial innovation was presumed to be that it would encourage entrepreneurs to take risks, start new businesses, invent new goods and services, and employ new workers. There were risks, to be sure, but there was also insurance against risk. This, too, was one of the subjects of desultory or “outreach” conversations in the months before the crisis. “Market participants and regulators had become complacent about all types of risk,” Paulson recalled telling reporters, and Sorkin quoted a “top distressed-debt trader” as concluding that “no one thinks there is any risk whatsoever, in anything.” \(^\text{75}\) The difficulties of the financial institutions were intricately connected, in the fall of 2008, to the regulation of the insurance industry. But in a more capacious sense, the entire financial industry was selling insurance, from
hedge funds to credit default swaps.

There were two senses in which the securitization of the 1980s, 1990s and 2000s was genuinely innovative. The first had to do with probability, or with the old idyll of "using chance to oppose chance itself," in "the application of calculation to... financial placements," and even in the interest of "the entire mass of society." Securitization in this respect reduced the cost of credit. It failed, in 2008, because the industry had calculated wrong, on the basis of insufficiently long time series, or insufficient understanding of correlated risks, or both.

The other innovation was to do with regulation. The new financial instruments were not insured, but they looked as though they were insured. The finance industry, even more than the automobile industry, existed in and was formed by government regulation. Like the auto industry’s sports utility vehicles or SUVs, the finance industry’s "SIVs" (or “the now-notorious structured investment vehicles” of regulated banks, in Paulson’s description) were outside or on the edges of regulatory oversight. The rise of the contemporary financial industry has been widely attributed to the “free market reforms” of 1999-2000, or to the repeal of the distinctions between banks and investment banks, and the deregulation of trading in financial derivatives. But it owed even more to the regulations which were not reformed, and to the circumstance that the industry still looked -- or looks -- like a regulated or protected business. It had its FDIC and its Securities and Exchange Commission (SEC) and its Federal Reserve and its NRSROs (“nationally recognized” rating agencies.) It was not so much a game of mirrors, as a mirror of the state. It was not actually secure, but it looked secure, and that is what it has so far turned out to be.

There were at least three principal explanations for the financial crisis, in the retrospect of economists (or of economists who were adept in the technologies of financial innovation.) The first was that there had been an excessive expansion in housing finance, and in particular in the credit provided to low-income households by the “government-sponsored enterprises” Fannie Mae and Freddie Mac. The crisis was in this sense the consequence of misconceived government intervention. The second was that the regulatory system for financial institutions was inadequate (in conception, or enforcement, or both): “regulatory policy [failed] to administer effectively financial regulations on the books,” or, more severely, “the existing financial infrastructure failed miserably during the crisis.” The third was that there was a crisis of understanding: “the
fundamental cause of the financial crisis is that market participants, as well as the regulators, did not understand the risks inherent” in the new securitized assets, or “the whole market misunderstood the risks.”

It was the third explanation which posed the deepest problems for economic thought. The regulation and legislation of financial institutions is full of references, as it has been for generations, to the figure of the “sophisticated investor,” the “commercial actor,” or the owner of assets who provides his or her “informed consent.” But if the new financial technologies were so difficult to explain that the “whole market” could have misunderstood them, then they were the wrong technologies to be embodied in retail securities, or at least in a retail securitization with “systemic risks.” This is the problem of the political economy of knowledge, and it is closely related to the failures of public regulation, or public “infrastructure.” It is related, too, to the most enduring theories of the free-market economy.

The financialized economy of the early twenty-first century was almost unrecognizably remote from the world that was imagined in what is (misleadingly) described as “neo-classical economics.” “Does the market follow business activity or business activity the market,” Paul Samuelson asked in the first edition of his *Economics*, in 1948. His answer, in the optimistic post-war world, was that “the psychological effects of market movements no longer have primary importance, but are in the nature of a grim national sideshow.” The new economy was remote, too, from the world of hundreds of thousands of competing buyers and sellers that Adam Smith imagined, or of the silent exchanging men of late nineteenth-century economics. It was remote from Hayek’s universe of distributed knowledge. It was an oligopoly of regulated sellers, in which a competitive market in systemic understanding (the very smart versus the very very smart) is surrounded by an ocean of ignorance.

The new economy was remote, most insidiously, from the economic promise of risk itself. For the risks that were the cause of so much anxiety in the crisis of 2008-2009 were not really risks at all, in the distinction made by one of the greatest founders of free-market economics, Frank Knight, between risk (which is measurable) and uncertainty (which is not). They were incalculable and uninsurable -- even in an economy of which the principal product was insurance, and the principal technology of production was calculation – because they were risks, or uncertainties, about character, friendship and whim. It is for this reason that the
conversation Paulson described about “where would it end” was so subversive; the meeting which turned on the question of whether "potential investors assessing any bank’s balance sheet would have to consider… whether it had properly accounted for the risk that it might have to bail out any one of its competitors.” For the conversation was about the probability of being protected, not by institutions but by individuals, and by individuals who were at once one’s old friends, or old opponents, or new officials, or new secretaries of state: whether one had accounted for the risk that one would have to bail out one's competitors.

The Financialization of the State

The “financialization” of American politics was the consequence of these trends in the economy. There is no particular novelty in the political influence of a dominant and expanding industry, in the United States or elsewhere. There is nothing new, either, in the political influence of financial interests, in any society in which there is public debt (or public surplus). The role of money in politics, which ebbs and flows with the principles of the moment, has been particularly lush in the US since the decision of the Supreme Court in the Citizens United case, in 2010. But this, too, is the continuation of long-term cycles in US public life. There is even nothing new about the oscillating exchange between the dominant industries of the times, and the highest offices of public life. Only a small minority of the individuals who served as US Secretary of the Treasury in the 20th century were employed, in their earlier lives, outside the financial and related industries.

It was the political consequences of “financial innovation” that were really revolutionary. For it is the circumstances of the new financial industry – that it looks more regulated than it is, and is less secure than it seems – that make the political influence of the industry on the regulatory and legislative process so decisive. It is the complexity of the new financial instruments, and their relationship to changes in regulation, that have imposed a conception of public life in which the only individuals who can contribute to economic policy, because they have the capacity of understanding financial innovation, are individuals who have experience of employment in the financial industries, or prospects of future employment, or both. It is the incalculability of these prospects, and their dependence on personal and political friendships – their Knightian uncertainty – that has changed the politics of financial policy from something
like a competition (of the best and the richest) to a novel of friendship and revenge.

These new circumstances of political life have been widely lamented for their effects on democratic practice. The process of democratic deliberation, or decision-making, has been described as overwhelmed by the exigent forces of the market, or the financial press, or the publicly accredited rating agencies, or the China Investment Corporation and the European Central Bank. There is “government by emergency,” in economic as in national security. This is in part the outcome of the new financial technology, which is so instantaneous and so unintelligible (or so susceptible of being misunderstood.)

But the financialization of politics has had a different and even more novel effect, which was described in intimate detail in the memoirs of the crisis of 2008. One can think of the events they depict as the provision of a political service: the sale (or the gift) of the temporary services of financial, political and management experts, including experts in decisiveness and in “private-equity sensibility.” Or as a consumption service: a fleeting, logistically complicated spectacle, like a gala charity dinner, or a pop-up restaurant. The short-term services of all these occasional public servants were also the image, in a more important sense, of the modern idea of the economy. They were like “capital service flows” in reverse, into the depreciated capital of the state. It was the financialization of the state, even more than the financialization of the economy and of political life, which was the innovation of the post-Reagan economy and of the financial crisis.

*The Economic History of the State*

There was almost no economic theory or economic history, over the same period, of what it is that the state does, and how it has changed over time. For the US state, or government, had changed profoundly over the forty years in which it was in the hands of its critics. These changes are not entirely easy to see, or to see with economic statistics. The depiction of the state in the statistics of national income and product, which is a product of the period of wartime mobilization of the 1940s, is a subject of great historical interest. Government was depicted in the initial “Stone/Keynes” system of national accounts as an extension of individual households, which undertakes "agency activities for the body of consumers as a whole"; and by the founding officials of the modern US national accounts as the source of “goods and services provided on
behalf of the population as a whole, which it has been found better to secure collectively than individually.\textsuperscript{89}

To start with what has not changed. The core economic activity of the US government – value added of the federal government, excluding defense (defined as the compensation of government employees plus the depreciation of government capital) – is almost exactly the same size, as a share of gross domestic product, as it has been throughout the postwar period: 1.32 percent in 1947, 1.78 percent in 1970, 1.52 percent in 1990, and 1.54 in 2014. State and local government value added increased as a share of gdp, but mostly in the period before 1976.\textsuperscript{90} The thin blue line in Figure 1 is unpromising as an invitation to economic history.

Figure 1

The transformation in government is more visible in relation to the composition of government expenditure. The substantial increase has been in government transfer payments, and particularly in social benefits. The federal government now spends more than five times as much on social transfers as it spends on its core nondefense activities, as seen in Figure 2.\textsuperscript{91} Government social benefits accounted for 11.9 percent of the personal income of US households in 1970; they have now increased to 16.9 percent, as seen in Figure 3. Personal taxes, over the same period, have fallen from 13.3 percent of personal income to 12.1 percent.\textsuperscript{92}
But the most momentous changes in government are less visible, and more difficult to depict. All are concerned, in one respect or another, with the financialization of the state. The first has to do with so-called tax expenditures, or “special exclusion[s], exemption[s], or deduction[s]” affecting personal and business income, which are measured in relation to a
conception of normal tax, and amount to approximately four times the cost of core federal
government non-defense activity, in a recent estimate, or at least 5 to 6 percent of gdp. They
include mortgage interest deductions, special tax treatment of racetracks, biomass energy, smart
electricity, and Medicare drug prescriptions.

A second change is in the role of the state in providing loan guarantees. The main
scholarly study of federal lending and loan insurance concluded – in 1958 – that the “growth of
federal credit programs has been so rapid that they now constitute what is in fact a second
financial system,” with loan insurance and guarantees, in particular, having increased
“spectacularly.” The expansion has continued ever since, with a vast array of solar and other
“smart” energy projects added to ventures in housing, small business, and agriculture. “The
identification and measurement of [the programs’] influence is exceedingly difficult,” as the
authors of the 1958 study wrote. So too is the measurement of the cost – the contingent risk –
of the extraordinary inventory of insurance and guarantees accumulated by the US government.
These activities, too, even as measured by the subsidy costs of loan insurance, are virtually
invisible in national income and product accounts.

The third change is in relation to the market economy itself. For the two dominant
industries of the past generation are both, in different respects, the direct outcome of government
intervention, or at least of government regulation. The expansion of the health industry, which is
so important in overall employment -- it employs more people than the manufacturing and
information industries combined -- was made possible by government transfer payments, by
government expenditure, and by government regulation. It was founded, long before the
Affordable Care Act, on government financing of health care. The expansion of the financial and
insurance industries, as has been seen, was made possible by government regulation of finance,
and by the circumstance that even the most innovative of financial instruments looked like the
products of an insured or protected industry. There were risks, to be sure, but there was also
insurance against risk.

The final change is the one that has been the subject of this essay, or the transformation
of the state itself into a short-term enterprise. It was a financial or business service, offered by a
fluctuating cast of temporary officials, advisers, consultants, and experts, in an ever-changing
relationship with the officials of the enduring or monumental state; the “unconnected Treasury
lifers.” It was a government of the best and the brightest, or of individuals selected for abstract qualities of understanding, sensibility, or decisiveness, who at the end of the story return their costumes and go home.

There is a subject for economic history, in all this; an economic history of the state, which is also, in part, a history of the economic state. Paulson mentions almost in passing that “I have almost never needed to take notes,” “my phone log has inaccuracies and omissions,” and “I don’t use e-mail;” one of the temporary Treasury advisers, quoted by Sorkin, exclaims in the midst of the housing finance crisis that “we need to reconstruct the record.” The ephemera of public life – powerpoint presentations and text messages and track-changed documents – are almost certainly gone forever. But there will be a public record of who constituted the state over the generation of the Reagan economy, and in the course of the financial crisis: of who was employed by the US Treasury and the New York Federal Reserve, and on what terms; or of who was authorized to enter the Treasury building and the White House; or of public expenditure on economic regulation and the budgets of the SEC and the FDIC. There will be a prosopography of the new economic state, eventually, and even a history from below of the Treasury, the House Banking Committee, and the Council of Economic Advisers.

*The Economic Theory of the State*

There is a related subject, which is the economic theory of the state. The memoirs of the crisis provide a poignant depiction of the fears of the times; of reflections on market capitalism and responsibility to the marketplace, or on industrial policy and “intervention” and what it means “to be a free market person.” There was a continuing, anxious effort to classify the “good” and the “bad” state. The bad state was in general the economic state, or the state that intervenes in the economy; the good state is sometimes no more than the constitutional or protective state, or the state that acts on the basis of unanimous (and deliberate) public choice, or the state that reduces its own stateliness.

The military or national security state was less bad than the economic state. (This seems to have been the point of the extended figure of speech of limited interventions in Laos and Cambodia, and of Paulson’s remark of September 2008, “this is the economic equivalent of
war.”) The economic state was less bad in respect of the macro-economy than of the micro-economy. The intervention was less bad because it was so short-term (it was “quick” and “surgical”); or less bad because it was based on long-lasting rules; or less bad because its effects would last for a short time (“stimulus” was better than intervention in the form of government expenditure); or less bad, even more confusingly, if its effects would endure (government expenditure was better if it was for one-time capital projects, like buying subway cars, than for current projects, like paying bus drivers).

The ontology of a universe divided into the market and the state, with intermittent “interventions” or “interferences” by the state in the market, was meanwhile oddly unquestioned. A generation earlier, theories of the state were at the very center of “conservative economics.” The sources of the new economic theory included Hayek’s (and Frank Knight’s) horror of the cold, monstrous state, Adam Smith’s evocation of the unlimited competition of individual buyers and sellers, and R.H. Coase’s demonstration of the inefficiency of state intervention. But they also included the critique, by the public choice theorist James Buchanan -- in what he described in 1973 as a new “theory of the state” -- of the established view of government, in “economic policy discussions,” as one of authority “vested in an administrator, a bureaucrat, an expert.” The state was instead, in Buchanan’s description, something very like the market, in which the official (or the “designated chooser”) maximizes the “potential rent on his right to choose for the group.”

The deconstruction of the bureaucrat or the expert was of enduring importance for conservative politics in the 1970s, 1980s and 1990s, and for the “political economy” of the capture of regulatory agencies, by the industries to be regulated or the regulators or both. It posed a dilemma for traditional conservatives within the new political coalition, in that it was a deconstruction, in effect, of an institution – the state – which had earlier been the traditional object of reverence for conservatives. But the military or national security state was still a public ornament, or a residual institution to be revered; there was also an original or constitutional state, for Buchanan and others, which was the object of reverence, as the constitutional source of the protection of rights.

The anxious discussions of the post-Reagan period about government intervention, which have involved both conservative and liberal economists, are a continuation of these old disputes.
But there are very few elements, almost forty years after Buchanan’s innovation, of a new theory of the state, for the changing circumstances of the times. The description of “economic policy discussions” during the financial crisis veered between the model that Buchanan described as “Pigovian,” after the economist A.C. Pigou (the official is “both informed and incorruptible”) and the model he described as “naïve” (the official chooses a project “if the costs that he bears are less than the costs that he, personally, secures”). There were rules, such as that the interventions of the state should be governed by rules, and therefore easier for the economy (or the market) to predict. But there was very little guidance as to changes in rules. There was very little theory, most insidiously, of the new circumstances of the US (and the world) economy, in which the state was a sort of market, with mostly short-term employees, at least in its most conspicuous functions; and the market was a sort of state, or a collection of exchanges which were enduringly dependent on government regulation.

The state has been managed, since 1981, by officials and economists who have a high degree of consensus about the “Smithian” critique of intervention in the economy. It is their state, and during the generation of their administration it has changed in profound respects which are not yet the object of new theoretical inquiry. There is very little “political economy” of competition policy in a financial economy with large and systemically important trusts. There is little economic theory of the “regulatory capture” of the SEC, the FDIC, and Federal Reserve, or of the “regulatory arbitrage” which has been so essential to financial innovation, with its “multitude of regulatory, tax and accounting issues behind every transaction.”102 There is no political economy, even, of the financial crises that have been such a continuing characteristic of the post-Reagan period.

These are failures, in turn, of empirical inquiry. The state has changed in multiple respects over the period in which it has been owned (or operated) by its critics. It does different things, and it is made up of different individuals, as is so evident in the memoirs of the financial crisis. The “market” or the “economy” has intervened in or interfered with the state, as the state has intervened in the market. Only the ontology endures. The state, in Buchanan’s new theory of the 1970s, was very like the market. But the market, or at least the financial industry, is now very like the state. It is itself a “government-sponsored enterprise,” under the implicit or explicit protection of the state (or of a shifting combination of executive, legislative and administrative
The state, in the meantime, or at least the parts of the state that are concerned with the financial industry, is no longer "very like" the market. It is the market, or a short-term business service.

There is nothing peculiarly conservative, or Republican, about these failings of theory. Liberal economists, too, have very little in the way of economic theories of the state. There are only a few “left-Burkeans,” or economists with a trembling reverence for the state. The implicit political theory of the moderate conservatives and moderate liberals who managed the financial crisis was Pigovian, in Buchanan’s sense. The most innovative political theory associated with the Obama administration, which is also a theory of the state, was essentially “super-Pigovian.” This is the theory of regulation by “nudge,” in which the intervention of the state in the economic choices of individuals was reduced, but the efficiency of the intervention was increased. It was the "architecture of choice," or the conditions under which individuals choose, which was determined by a super-regulator, who was presumed to be super-informed; the “most knowledgeable branch.” The “right to choose” for the group, in Buchanan’s terms, became a right to choose how others choose; a minimal state, which was also an invisible state, and a state which intervened in the innermost conditions of individual freedom.

So the really momentous question, as in the long-forgotten Romney campaign, was about the destiny of the state. The continuing transformation in the state was a familiar preoccupation in the early history of economic thought. It was much discussed, in particular, in the founding (or “original”) epoch of modern economic theory. Adam Smith is sometimes described as having “discovered” the market. But most of the Wealth of Nations was an inquiry, rather, into the relationship between the market and the state, and how it changes in different circumstances, as it was changing, sometimes dizzyingly, in Smith’s own times. “What is the state?” one of Smith’s oldest and closest friends asked in the House of Commons in 1773, in a debate about the East India Company; “and what if you say the Company is the state?”

The idea of the transformation of the state is also familiar from more recent episodes in the history of economic thought. It was the object of controversy, in particular, in the early-twentieth-century disputes over "social revolution." The historical explanation for the evils of the state, for Hayek, was that public institutions had been made prisoner, over the course of the twentieth century (or between 1929 and 1979), by the enemies of liberty; by relentless
individuals who had succeeded in usurping state power. This was the German-Austrian socialist Karl Kautsky's impossible dream of the previous generation. The challenge of the 1980s, for the Reagan revolutionaries, was of a sort of Kautskyism in reverse, or an effort to recapture the state, ministry by ministry, or regulatory agency by regulatory agency.

The difficulty with the neo-Kautskyism of the conservatives in the post-Reagan economy, as with the 1899 version, in the view of its critics, was that it was almost impossible to achieve, in respect of state institutions that were "bound by thousands of threads" to established power, and "permeated through and through with routine and inertia." Kautsky was himself a left-Burkean, in V.I. Lenin’s famous critique, with a "superstitious reverence" for the "ministries" of Vienna and London. It was an illusion, for Lenin, as it has been for the new conservatives of the early twenty-first century, to believe that the state could be reformed from within. What was needed, instead, was the "destruction and dissolution" of state power, and a “new type of state without a bureaucracy.” This was a work in progress, for Lenin in 1918, as it is in our own times: “Just when will the state wither away?”


9. The expression “history of economic life” has been used fairly widely, over the past fifteen years or so, as the description of, or a gesture towards, histories of the economy that do not use the technologies of economics, histories of economic thought that do not use the technologies of (high) intellectual history, and multiple other legal, cultural, or political histories of the events and sentiments of economic life. But the idea of a capacious history of economic life, like the expression, is not in itself new. The prospect of an economic cultural history, a *Nationalökonomische Culturgeschichte*, was much discussed in the 1860s as an alternative to the theories of the "Smith’schen Schule." The debates of the American Historical Association, in 1897, about the new relationship between history and economics, turned in


The (seasonally adjusted) unemployment rate reached a high of 10.1 percent in October 2009 and 10.8 percent in November 1982; the annual unemployment rate was 9.3 percent in 2009 and 9.6 percent in 2010, compared to 9.7 percent in 1982 and 9.6 percent in 1983. But the (seasonally adjusted) rate of unemployment among people aged 16-19 was much higher in the more recent crisis; there were 26 consecutive months of unemployment rates above 20 percent in 1981-1983, and 66 consecutive months in 2008-2014. Labor Force Statistics from the Current Population Survey, available at http://www.bls.gov/cps/cpsatabs.htm Table A-1. Employment status of the civilian population by sex and age.

The Troubled Asset Relief Program (TARP) is winding down… Treasury is now confident that TARP will cost less than $28 billion – a fraction of the $700 billion originally authorized. American taxpayers have already been repaid nearly $234 billion in TARP funds.” “What You Haven't Heard About TARP,” http://www.treasury.gov/initiatives/financial-stability/results/Pages/index.aspx, accessed on May 10, 2011.


On the Brink, pp. 45-47. The days in September 2008 that are at the center of Too Big to Fail, by Andrew Ross Sorkin, were “perhaps the most storied weekend in our economic history.” Andrew Ross Sorkin, Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System--and Themselves (New York, rev. ed., 2010), p. 557.

On the Brink, pp. 223, 236.


32


30 *On the Brink*, p. 331.


32 *On the Brink*, pp. 104, 408.


36 *On the Brink*, pp. 84, 92, 288, 352, 405, 408.

37 *On the Brink*, pp. 68, 107, 126, 146, 276, 345; *Too Big to Fail*, p. 530.

38 *On the Brink*, p.198.


40 *Too Big to Fail*, pp. 81, 125, 425, 429, 534; *On the Brink*, p. 70.
The chief executive of Lehman Brothers, as recounted by Sorkin, adopted the same idiom at a Congressional hearing, and “expressed his great frustrations… with the Federal Reserve for not allowing him to become a bank holding company over the summer.” *Too Big to Fail*, pp. 469, 510.

Too Big to Fail, pp. 459, 483, 499.

Too Big to Fail, pp. 48, 52, 67, 203; *On the Brink*, pp. 138, 157-158.


GMAC and the “GMAC Bank” were said to have assets of $244 billion, and “a long historical relationship with General Motors.” Federal Reserve System, “Order Approving Formation of Bank Holding Companies and Notice to Engage in Certain Nonbanking Activities,” December 24 2008, [http://www.federalreserve.gov/newsevents/press/orders/orders20081224a1.pdf](http://www.federalreserve.gov/newsevents/press/orders/orders20081224a1.pdf). GM itself was described as un-bank-like, or not “able to comply with the nonbanking restrictions” of the legislation governing bank holding companies. It was the use of a newly created trust to reduce GM’s ownership of the new bank that was justified in “rare and unusual situations.”

Overhaul, pp. 43, 44, 70, 245, 269.

Overhaul, pp. 24, 53, 61, 69, 72, 73, 118, 53, 308.

Overhaul, pp. 93, 144, 301, 302, 304.

Overhaul, pp. 46-47, 56, 60, 69, 89, 94-95, 103, 182-185, 226-229.

Overhaul, pp. 5, 218, 225, 257, 294, 304.

On the Brink, p. 225.


On the Brink, pp. 109, 117, 277, 439, 441.


It was the source, also in 2014, of $6.6 billion in profits, compared to $2.1 billion for China. http://www.gm.com/company/investors/latest-news/news_detail_page.content_pages_news_emergency_news_2015_0204-4th-qtr-earnings~content~gmcom~home~company~investors~latest-news.html

Chevrolet-India was engaged, too, in the social production of the demand for automobiles, under not entirely encouraging circumstances: "The Chevrolet U First Camp held across the dealerships in Kolkata & Howrah received a 240% growth despite the city receiving 154 mm of rainfall, the highest for any single day in June in the last decade."


68 On "policies that subsidize sprawl" and climate change, see Glaeser, Triumph of the City.

69 Recent Social Trends in the United States, vol. 1, pp. 224, 244.


71 Figures for corporate profits before tax of domestic industries and full and part-time employment by industry, NIPA Tables 6.17D and 6.4D, available at http://www.bea.gov/iTable/index_nipa.cfm The value of credit market debt outstanding increased from $4.7 trillion in 1980 to $ 52 trillion in 2008, or from the equivalent of 1.7 times gross domestic product (gdp) to 3.6 times gdp. The financial sector’s own outstanding debt increased even faster, or from the equivalent of .2 of gdp in 1980 to 1.2 times gdp in 2008. Flow of Funds Tables F.6 and L.1, Board of Governors of the Federal Reserve System, "Flow of Funds Accounts of the United States," available at http://www.federalreserve.gov/releases/z1/current/data.htm

72 The General Motors Acceptance Corporation (GMAC, or the GM finance company) and the "GMAC Bank", which had expanded their interests from auto loans to mortgages and internet banking, had assets of $244 billion in late 2008; GM itself had assets of $91 billion. Value of total assets on December 31, 2009, “Q4 Highlights (Parts 2 and 3),” General Motors Company and Subsidiaries, Supplemental Material, available at media.gm.com, accessed on August 26, 2011. General Electric, which had succeeded GM as “the world’s largest company and an icon of American innovation,” in Andrew Ross Sorkin’s description, was also financialized; “roughly half of its profits in recent years had come from a finance company unit called GE Capital.” GE Capital described itself as "one of the world's largest providers of financing helping meet the financing needs for customers in more than 50 countries around the globe"; "'What does Citizenship mean in the context of GE Capital? What do you see as GE Capital's main Citizenship risks and opportunities?'...For GE Capital, Citizenship means delivering consistent financial performance fairly, responsibly and transparently." See http://www.gecapital.com/en/, accessed on September 18 2011. GE, too, was a recipient of government support, when the Federal Deposit Insurance Corporation (FDIC) agreed to guarantee “up to $139 billion of debt” issued by GE Capital, on the grounds that “though not a bank,” it was “systemically important,” on the basis of “criteria like size, credit rating, and connection to the economy.” “The financial industry had always been intended to be something of an unseen backroom support for the broader economy… Yet in the years leading up to the crisis, the finance sector itself became the front room,” Sorkin concluded in Too Big to Fail.


75 *On the Brink*, p. 93; *Too Big to Fail*, p. 125.

76 These are expressions of the eighteenth-century French mathematician and economist M.J.A.N Condorcet, with particular respect to social insurance. *Esquisse d'un tableau historique des progrès de l'esprit humain* and "Fragment de l'histoire de la Xe époque," in *Oeuvres de Condorcet*, ed. A. Condorcet O'Connor and M.F.Arago (Firmin Didot, 1847-1849), vol. 6, pp. 247-248, 591.

77 *On the Brink*, p. 70.


80 Shleifer, "Comment," p. 303.


84 See Richard White, *Railroaded: The Transcontinentals and the Making of Modern America*
The exceptions were not, in general, outspoken critics of finance and all its works. Future Treasury Secretary Timothy Geithner, as president of the New York Fed, had the “bold idea,” reported by Paulson, when that “what you really need is for the president to get the authority to guarantee any liabilities for financial institutions.” Rattner reported former Secretary Larry Summers, in the aftermath of one of Obama’s speeches, as being “unhappy with Obama’s words about the hedge funds, thinking them unnecessarily harsh… ‘I should have said something,’ he fretted.”

One of the events of the financial crisis of September 2008 that Sorkin mentions almost in passing was thus “a little-noticed change in the tax law that had occurred on Tuesday… enabling [merged banks] to save billions in future taxes”


One of the profound innovations of recent economic thought has been the development of a new way of thinking about and measuring capital, which has changed both the idea of capital and the possibilities of national income accounting. It is a way of transforming stocks (of things like assembly lines and patents and used computers) into flows of services: “capital service flows from durable goods.” It is an “annualization factor,” in the national accounts, and an instantaneous transformation, in really existing markets. The political process, in the events of 2008-2009, was like an input of service flows, in respect of the capital of the state. See Dale W. Jorgenson, "Information Technology and the U.S. Economy," The American Economic Review, Vol. 91, No. 1 (Mar., 2001), 1-32, pp. 11-12; “the cost of capital is an annualization factor that transforms the price of an asset into the price of the corresponding capital input.”


NIPA tables 1.1.5 and 3.2, available at http://www.bea.gov/iTable/index_nipa.cfm

NIPA table 2.1, available at http://www.bea.gov/iTable/index_nipa.cfm

Leonard E. Burman, Christopher Geissler and Eric J. Toder, “How Big Are Total Individual


96 These transactions pose serious and interesting difficulties for the depiction of government activities in national income and product accounts. The "longer term research issues" raised by government policies in the course of the financial crisis thus include "the treatment of deposit insurance," since "currently only premiums received by the government for deposit insurance are included in the NIPAs [national income and product accounts]; "how insurance payouts related to failed banks are treated;" and "the NIPA treatment of loans and loans guarantees," including the question of whether "the subsidy costs associated with these programs should be included in the NIPAs." Dennis Fixler, US Department of Commerce, Bureau of Economic Analysis, "Financial Crisis Policy Responses in the US National Accounts," OECD Meeting on Short Term Statistics, Paris, September 10, 2009, available at [http://www.oecd.org/std/fin-stats/43628380.pdf](http://www.oecd.org/std/fin-stats/43628380.pdf)


98 I am grateful for discussions of the virtual or other archives of the financial crisis with Luca Einaudi, Anna Paulson and other participants in the workshop, "What just happened? What's next? How will we ever know?", at the Joint Center for History and Economics, Harvard University on April 30, 2010; see [http://www.fas.harvard.edu/~histecon/crisis-next/](http://www.fas.harvard.edu/~histecon/crisis-next/)


101 “It is the public ornament. It is the public consolation,” in Edmund Burke’s words against the libertarian deconstructionists of the early French Revolution; we "should approach to the faults of the state as to the wounds of a father, with pious awe and trembling solicitude." Edmund Burke, *Reflections on the Revolution in France* (1790) (Oxford, 1999), pp. 96, 98.

102 This is the expression of the theorists of the technology of securitization, in 1988; Rosenthal and Ocampo, *Securitization of credit*, p. 5.
As N. Gregory Mankiw has written, "by bailing out almost every major financial institution that needed it, as well as a few that did not, the federal government raised the expectation of future bailouts, thereby turning the entire financial system, in effect, into a group of GSEs." N. Gregory Mankiw, "Comment," in Alan Greenspan, N. Gregory Mankiw and Jeremy C. Stein, "The Crisis," Brookings Papers on Economic Activity (Spring 2010), 201-261, p. 248.


V.I. Lenin, Speeches of March 8 1918 to the Seventh Congress of the Revolutionary Communist Party (Bolshevik), in Lenin, Collected Works (Moscow, 1965), vol. 27, pp. 133, 148.