NORGES BANK

On learning from history –

Truths and eternal truths

A collection of articles based on presentations
at a seminar arranged by Norges Bank and
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NORGES BANK OCCASIONAL PAPERS No. 46

On learning from history –

Truths and eternal truths

A collection of articles based on presentations at a seminar arranged by Norges Bank and the Norwegian Academy of Science and Letters on 13 November 2012.

Oslo, 2013

On learning from history – Truths and eternal truths

A collection of articles based on presentations and plenary debate at the fifth seminar arranged by Norges Bank and the Norwegian Academy of Science and Letters on 13 November 2012.

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From 2008 onwards Norges Bank and the Norwegian Academy of Science and Letters have arranged a series of annual seminars on selected topics of general interest for a wide audience. The topic for the seminar in 2008 was *"On keeping promises"*, the topic in 2009 was *"On transparency"*, the topic in 2010 was "*On making good decisions"* and the topic of the fourth seminar in 2011 was "*On managing wealth"*. Proceedings from these seminars have been translated into English and published in Norges Bank Occasional Papers, see the link below to http://www.norges-bank.no/en/about/published/speeches/the-norwegian-academy-of-science-and-letters/ .

The fifth seminar in this series was arranged on 13 November 2012 and this time the topic was *"On learning from history – Truths and eternal truths"*. Deputy Governor Jan F. Qvigstad, Norges Bank, gave a speech about the topic and there were two invited commentaries reflecting the views of Church (Helga Haugland Byfuglien, Presiding Bishop of the Church of Norway), and medicine (Anne Kveim Lie, University of Oslo) respectively. Political Editor at the Norwegian daily newspaper VG, Hanne Skartveit, gave a speech on the same topic during the seminar dinner. We have also included lightly edited minutes from the plenary debate at the seminar which offers a broad range of views and perspectives on learning from history.

It is our hope that this booklet will provide food for thought and reflection. Norges Bank is also pleased to announce that we are en route in our preparations for the next seminar in this series. The topic for the 2013 seminar will be "*On institutions*".

Oslo, April 2013

Øyvind Eitrheim

On learning from history – Truths and eternal truths

Jan F. Qvigstad*, Norges Bank

Introduction

All scientific and scholarly disciplines have a particular, and not immutable, set of truths. Mathematics and theology are possible exceptions, though for different reasons. As the late Professor Knut Sydsæter underscored when assisting me with this speech; in mathematics new results are proved on the basis of fundamental axioms and become new truths. Theology also relies on truths, even eternal truths. Even if logical proofs of God's existence have long been an important pursuit, it is safe to say that the truths in theology today stem from faith.

The discipline of economics can readily be formulated in the language of mathematics, and economic models are usually tested empirically before gaining acceptance. Conflicts arise when theories that appear to be patently true are unsupported by empirical evidence, or when contradictory theories find support at the same time. In other words, we economists are in a borderland between faith and the strict proofs of mathematics.

The notion of learning from history cannot easily be explored without invoking the American physicist Thomas Kuhn. This year is the 50th anniversary of the publication of his groundbreaking work, *The Structure of*

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* I have received valuable assistance in preparing this speech. Outside the Bank, I would like to thank Mike Bordo, Marc Flandreau, John Llewellyn, Henrik Mestad, Henrik Syse and Knut Sydsæter. At the Bank, I would like to thank the following persons in particular for their contributions: Øyvind Eitrheim, Amund Holmsen, Jon Nicolaisen, Øystein Olsen, Øystein Sjølie, Birger Vikøren and Mari Aasgaard Walle. I would also like to thank Helle Snellingen for her contribution to the English text. Contact information: Norges Bank, P.O. Box 1179 Sentrum, 0107 Oslo. E-mail: jan.qvigstad@norges-bank.no.

*Scientific Revolutions***.**[1] According to Kuhn, disciplines progress within an established set of truths – a paradigm. Observations irreconcilable with the paradigm are tolerated as inexplicable. Eventually, however, the number of inexplicable observations can become so overwhelming that the paradigm breaks down. New truths have to be established – a paradigm shift occurs.

Such shifts can be painful. The old paradigm will usually be defended by those whose training lies in a more distant past, often persons in positions of leadership in academia and government bureaucracy.

Long before Kuhn, Henrik Ibsen touched upon the same idea in *An Enemy of the People*. Doctor Stockmann talks about the few who attain the new truths, unlike the compact majority that have yet to embrace them.

Social scientists, like economists, face some peculiar problems when attempting to learn from history. First, we do not have a laboratory in which we can perform experiments. Second, economic policy is part of the reality we observe. The outcome of a particular measure will depend both on shifting economic conditions and on economic agents' expectations of the effect of that measure. It goes without saying that in a situation like that, drawing useful lessons from history can be a challenge.[2]

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[1] Thomas Kuhn (1962), *The Structure of Scientific Revolutions*. University of Chicago Press.

[2] Here the natural sciences may be more stringent, and in some cases it may be easier to set up experiments that can refute the theory. For example, Einstein's theory of relativity was considerably strengthened, and Newton's theory shown to be insufficient, during the solar eclipse of 1919. Scientists were then able to observe that the light from distant stars was bent by the Sun's gravity, just as Einstein had predicted. Many scientists once believed that the Earth looks the way it does, with mountains and valleys, because the Earth was originally a red-hot mass that gradually shrivelled as it cooled. We know what an orange looks like after a long drying process or what clay looks like after being exposed to the air for a time. What was a smooth surface becomes wrinkled. It was 100 years ago this year that the German meteorologist Alfred Wegener proposed an alternative theory of continental drift. He used

Scientific truths provide a common basis for further research and development, but they can be a scourge if they are not challenged. The recognition of economic correlations lays the groundwork for good economic policy, resulting in a better life for more people. The outcome can be disastrous if the established truths lay the foundation for bad economic policies. Economics as a discipline has in the past hundred years undergone several prominent paradigm shifts, with widespread impacts and implications.

What have we learned from 1930 to the present day?

More than five years have passed since the turbulence in financial markets began. Today's situation resembles the one former Norges Bank Governor Nicolai Rygg described in his annual address in 1933: "The figures for world output are truly disheartening. A recent estimate of the number of unemployed is an appalling 30 million." Except for the phrasing and style, that speech could be a cut and paste from that address in 1933 to describe the situation today. The queues of the unemployed that we used to see in 1930s-vintage black-and-white photographs we are now seeing on television in living colour. Youth unemployment in southern Europe is especially high. The Red Cross is

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heuristic arguments based on studies of coastlines. Brazil has a coastline that is an apparent perfect fit with the Gulf of Guinea on the west coast of Africa. Even so, the theory was not accepted until it was given a proper theoretical foundation and empirical grounding. The breakthrough came 50 years ago, when the American geologist Harry Hess proposed his theory of sea-floor spreading, and by the end of the 1960s the theory of plate tectonics became established science. The Centre for Advanced Study, which is located here in the Academy, recently hosted a research group that is at the very international forefront of this field. Headed by Professor Trond Helge Torsvik, this group worked to incorporate the theory of plate tectonics into a broader theory of mantle dynamics as an explanatory model for movements in the Earth's crust. The aim is to understand the development of the Earth over several hundred million years. This is truly an ambitious example of learning from history. The Centre for Earth Evolution and Dynamics at the University of Oslo was in November 2012 awarded the status of Centre of Excellence in research.

setting up food banks in Spain. The middle class is being hit by higher taxes, lower pensions and unemployment. Political scientists tell us that this is a recipe for social and political unrest.[3]

In May 1945, the work began to rebuild our country after the Second World War. At that time, Friedrich Georg Nissen was the highest-ranking official in the Ministry of Finance. Nissen trained in the law, and the photograph of him in Einar Lie's book on the history of the Ministry of Finance shows a man formally dressed in a three-piece suit. He believed that the central government budget should be balanced each year. Fiscal policy was conducted based on this principle, which leading politicians also agreed with.[4] Tax revenue was to be spent, but not a penny more.

Broadly speaking, the prevailing paradigm up until the Great Depression of the 1930s – both in economic policy and in economic theory – was that the authorities' role should be limited to keeping domestic order and ensuring a stable and predictable regulatory and operating framework. Prices adjust automatically to supply and demand, and the general view was that markets were self-correcting. Following the Depression, a new truth emerged, with John Maynard Keynes and Norway's own Ragnar Frisch at the forefront:

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[3] Descriptions of the causes of the financial crisis that began in 1929 bear a striking resemblance to today's headlines: a massive and unregulated shadow banking system, global imbalances and substantial income inequality (see John Kenneth Galbraith (1997): *The Great Crash, 1929*, Houghton Mifflin.

[4] "More than anyone else", Einar Lie writes, "he adhered to the fiscal policy convictions that he brought along to the postwar Ministry of Finance, which bore the stamp of his experience from a time without sufficiently stringent regulation of government finances". Einar Lie and Christian Venneslan (2010) *Over evne. Finansdepartementet 1965-1992* [Beyond our power. The Ministry of Finance 1965-1992], Pax forlag

prices and wages do not adjust that quickly – nor can we expect that markets will automatically ensure full employment. Hence, government should play a more active role in economic policy.

At the Ministry of Finance, Nissen kept to the traditional view. But the political leadership, and eventually the younger economists who started at the Ministry, had other plans.[5] The economy was to be managed. Keynes' idea that the budget should be used actively to manage demand and output was to them an obvious truth. In a Kuhnian sense, the older civil servants had to go for the new thinking to gain ground. The legal experts at the Ministry had to give way to the young economists.

The new regulatory regime was enthusiastically implemented after the war, and crowned with success. The contrast between the blight of the interwar years and the postwar boom was stunning.

The ambition was not only to keep unemployment low. Which industry sectors should be allowed to invest? What type of dwellings should we build? Who should be able to buy a car and have a telephone installed? In the 1950s and 1960s, these were questions in respect of which the central government had firm views.

Keynes, regulation and planning were predominant truths in the former government building for several decades. Yet neither did these truths remain eternal. In the 1970s, deficits ballooned when the government used countercyclical policies to "build a bridge" over the global downturn. But it

[5] Einar Lie provides a detailed account of the break between classical and the new, more Keynesian thinking at the Ministry of Finance in the book *Norsk økonomisk politikk etter 1905* [Norwegian economic policy after 1905], Pax forlag, 2012

was a bridge to nowhere. Inflation took off and government finances were strained to breaking point. The policy of micro-managing the economy had gone too far. Wage and price controls at the end of the 1970s, the last gasp of the postwar paradigm, did little to help. Norway was close to being placed under IMF administration.

In fact, it was not possible to steer the economy towards permanent prosperity. The old doctrines collapsed.[6] New ideas for managing the economy took shape because the old system no longer functioned. Underlying the new truths was the notion that economic policy needed to operate through the proper market incentives and that economic policy must be sustainable and predictable. At the Ministry of Finance, the new ideas took hold primarily because a younger generation was taking over, just as when Nissen was pushed aside. Political micro-management lost considerable traction.

Through the 1990s and up to the mid-2000s, economic growth was high and both inflation and unemployment low in much of the world. Cyclical fluctuations were moderate. The new truths appeared to be working well. This period is known as the Great Moderation. But underneath the positive developments, imbalances were building up both within and across countries.

As we have all experienced, it is easy to ignore the bill as long as the food keeps coming and the conversation keeps flowing. Countries and governments can live with deficits for a while, but sooner or later the bill has to be paid.

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[6] Hermod Skånland (2004): Doktriner og økonomisk styring: et tilbakeblikk [Doctrines and economic management in retrospect], Norges Bank's Occasional Papers No. 36, Oslo

Budget deficits and high sovereign debt levels meant that the authorities had little slack when the financial crisis hit in autumn 2008.[7] Countries rapidly embarked on an unavoidable path of fiscal austerity at the very time that demand was falling and unemployment rising.

Unsound fiscal policies have particularly severe consequences when they coincide with a financial crisis. Capital markets were unable to manage the large pool of savings from emerging market economies in Asia. Safe yields had fallen and the search for returns provided fertile ground for creativity in financial markets. Governments worldwide allowed the banking system to grow in the belief that regulations were sufficiently stringent, that a large banking sector is a benefit and that banks' self-interest would prevent them from taking excessive risk.

The regulations, which in the 1980s were regarded as overly rigid, had been introduced during the crisis of the early 1930s as a still-vivid memory. The well-known Glass-Steagall Act had been passed in 1933 precisely to prevent financial sector excesses. Banks that took deposits from the public were subject to strict rules on risk-taking. Deposits were guaranteed by deposit insurance, and banks could draw on central bank liquidity if necessary. Investment banks whose customers were professional investors had a freer hand, but no safety net.[8]

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[7] Debt levels among European countries were, on the whole, excessive in 2008, though this varied substantially from country to country. For example, Ireland and Spain had moderate sovereign debt, but both countries have later incurred additional obligations owing to the problems in their banking sectors. By 2008, the government debt of Italy and Greece had already exceeded 100 percent of GDP.

[8] In the US, under the Glass-Steagall Act, which was passed in 1933, banks were no longer allowed to engage in retail banking (deposits, lending and payment services) while also engaging in more risky investment banking activities. When the act was formally repealed in

Banking gradually became a growth industry in many countries. Strict regulations in one country prompted banks to flee to another. The result was the dilution or elimination of many regulations that attempted to rein in the imagination of the financial sector. The rationale behind the Glass-Steagall Act was discarded. This trend was universal. Unfettered financial markets were apparently a success. Mortgage-backed securities enabled more Americans to become homeowners, and a bullish stock market was good for pension funds – as long as it lasted.[9]

Big banks can easily give rise to big ideas about the importance of a country. But the financial crisis showed that big banks above all give rise to a political

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1999, it had long been the subject of intense discussion in the academic literature. See, for example, George Benston (1989), The Separation of Commercial from Investment banking: The Glass-Steagall Act Revisited and Reconsidered, Kluwer Academic Press, Randall S. Kroszner and Raghuram G. Rajan (1994), "Is the Glass-Steagall Act Justified? A Study of the U.S. Experience with Universal Banking before 1933", American Economic Review, Vol. 84, pp. 810-32, Eugene N. White (1986), "Before the Glass-Steagall Act: An Analysis of the Investment Banking Activities of National Banks", Explorations in Economic History, Vol. 23, pp. 33-55, and Charles W. Calomiris (2003), U.S. Bank Deregulation in Historical Perspective, Cambridge University Press. Marc Flandreau (2011), "New Deal Financial Acts and the Business of Foreign Debt Underwriting: Autopsy of a Regime Change" shows how the Glass-Steagall Act and other New Deal legislation conferred greater power on policymakers at the expense of international bankers and discusses some consequences for financial markets. Flandreau's article can be downloaded from Norges Bank's website: http://www.norges-bank.no/Upload/82434/EN/FLANDREU%20Paper.pdf.

In this area, there are few, if any, ultimate truths, and the pendulum appears to be swinging back again. In the US, the UK and the euro area, reintroducing some sort of separation between retail and investment banking is now being discussed (cf. the Volker Rule (US), the Vickers Commission (UK) and the Liikanen Plan (EU). Andrew Haldane at the Bank of England has recently discussed this issue in his speech, "On being the right size", where he also outlines proposals for future banking sector regulation (see http://www.bankofengland.co.uk/publications/Pages/speeches/2012/615.aspx). CEO Sandy Weill of Citigroup, the largest US bank before the crisis, said in July 2012 that repealing this act had contributed more than any other factor to the financial crisis. See also the article, "Roosevelt's lessons for President Obama" by Marc Flandreau (2012), in The Global Journal (http://theglobaljournal.net/article/view/770/), where the author discusses historical perspectives on New Deal policies in the 1930s.

[9] For decades, a number of policies have been implemented in a large number of countries, including Norway, to support home ownership. In Fault Lines (2010), Raghuram Rajan describes US housing market policies.

headache and a massive bill for taxpayers. Banks that are so large that they can undermine the entire financial system cannot easily be allowed to fail.[10]

The Basel Committee on Banking Supervision seeks to ensure that different countries operate on a level playing field. While this is a good thing, the result was often compromise whereby the country with the weakest regulations set the standard. One must also recognise that the new rules introduced in the 1980s did not take into account banks' ability and creativity in terms of circumventing these rules. Rules intended to mitigate the risk of financial instability actually encouraged banks to take on ever more risk.

What do economists do when regulations do not work? Paradoxically, what we do is argue that we need to regulate more and better. There is now a version III of the Basel rules, which have grown from 37 to 616 pages.[11] Andy Haldane, Executive Director of Financial Stability at the Bank of England estimates that, all together, the rules – once they are fully incorporated in

[10] Experience shows that governments routinely bail out banks on the verge of failing. Of course, this sort of implicit government guarantee makes lending to these banks safer, and reduces their borrowing costs. The difference between the rate they actually pay and what they would have had to pay without the implicit government guarantee amounts to a subsidy. Andrew Haldane at the Bank of England notes in his speech, "On being the right size" that if we look at some of the world's largest banks, this subsidy amounted in the period between 2002 and 2007 to around half of post-tax profits. When the financial crisis erupted, this implicit subsidy became explicit and was equal to more than post-tax profits. By comparison, the value of the subsidy exceeds the amount spent globally each year on development assistance (see http://www.bankofengland.co.uk/publications/Pages/speeches/2012/615.aspx. However, this subsidy does not go to the needy. Figures for the US show that CEOs of the largest investment banks earned 500 times the median US household income in 2007, a ratio that has increased fivefold since 1989. Andrew Haldane discussed this recently in a speech "A leaf being turned" (see http://www.bankofengland.co.uk/publications/Pages/speeches/2012/616.aspx).

[11] Nevertheless, Basel II gives banks ample leeway to determine their own capital requirements. In 2007, the Swiss bank UBS held USD 50 billion in US CDOs, but the bank believed that these were risk-free, since the paper had the highest rating from the rating agencies and the bank had also purchased credit default insurance. Thus, the bank did not have sufficient capital reserves to cover any losses on this portfolio (Gillian Tett (2009): Fool's Gold).

national legislation in Europe – will number 30,000 pages.[12] Is this really the way to go? Has the pendulum swung too far?[13] Are we facing a new paradigm shift?

In spite of lessons learned: back to square one

The philosopher Henrik Syse has reminded me of this very phenomenon. Truths we took to be eternal often prove to bear the stamp of their time. We then find new truths and throw out the old ones. Following the policy failures in the 1970s, many economists believed that Keynes and his disciples were wrong, and "Keynesian" almost became a term of abuse, referring to irresponsible government spending. But to draw such a conclusion is to go to extremes. Keynesian policy is often appropriate in a contractionary period, but it also involves saving in times of growth – a component that had been widely forgotten.[14]

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[12] Andrew Haldane (2012): "The dog and the frisbee", speech at the Federal Reserve Bank of Kansas City's 36th symposium 'The Changing Policy Landscape', Jackson Hole, Wyoming (see Bank of England website).

[13] Swings of the pendulum are a frequently used metaphor in studies of financial crises. See, for example, Michael D. Bordo (2003), "Market Discipline and Financial Crisis Policy: a Historical Perspective", in Market Discipline in Banking: Theory and Evidence. Research in Financial Services: Private and Public Policy**,** Volume 15, 157-182, Edited by George G. Kaufman, Elsevier Publishers. According to Bordo, the pendulum swings between measures to prevent crises, manage crises and resolve crises**.** Erik F. Gerding (2006), "The Next Epidemic: Bubbles and the Growth and Decay of Securities Regulation", Connecticut Law Review, shows how economic upswings are often periods of deregulation and overoptimism in securities markets, while the downturns that follow are marked by austerity and calls for stricter regulation. Moreover, regulations become less effective as time passes, and market participants forget the previous crisis. Gerding provides examples of such cyclical pendulum movements going as far back as the 1600s.

[14] Georg F. Nissen was not alone in focusing on the fiscal balance. Nicolai Rygg wrote the following in 1948: "There is a tenet that is not difficult to endorse: in times of slow economic growth, when the private sector relaxes, central and local government should support the economy, initiate projects to sustain activity and to prevent a rise in unemployment. But the other side of this coin is also important: in years when economic conditions are favourable, when the private sector is at full speed, the government should hold back and put aside

The economists Carmen Reinhart and Kenneth Rogoff have summarised the experience of financial crises all over the world over the past 800 years. They show that history repeats itself. The "truth" most often proclaimed in boom periods just before the bubble bursts is the belief that "this time is different", which is also the ironic title of the book.

Although history never repeats itself exactly, some key features recur: one recurring feature is that boom periods are confused with an increase in the economy's growth capacity. Good times are mistakenly interpreted as perfectly normal.[15]

When times are good, it is difficult to gain acceptance for setting aside funds. There are always unsolved tasks in a society, and these tasks attract attention. In the 1930s, Ragnar Frisch understood that it is difficult for politicians to recognise good times at the time. He believed that it was the task of economists to ascertain the cyclical situation.[16]

When the crisis arrived in 2007, government finances were in disorder. Deficits and debt rose to such high levels that it was difficult for many countries to borrow money. When credibility is lost and lenders draw the line, Keynesian policy has reached its limit. These countries now have no other

reserves to boost its financial strength so that it can provide support when the economy needs it." Nicolai Rygg (1948), "I økonomisk stormvær" [In stormy economic weather], festschrift for Joh. H. Andresen, also published as an annex to the periodical Statsøkonomisk tidsskrift nr. 3/4 1948, p. 23. In this article, Rygg highlights his assertion that government budgets must balance over the business cycle.

[15] Governments consistently overestimate growth in their forecasts (Frankel 2011). But this is difficult; in summer 2008, the average OECD country overestimated the budget situation in 2007 – the year prior to the forecast – in an amount equivalent to 2 percent of GDP (National Budget 2013).

[16] In his 1933 pamphlet "Saving and Circulation Regulation", Frisch proposed the establishment of an advisory committee on the business cycle, composed of economics experts.

choice than to cut welfare schemes and public spending. The political fury we are now witnessing in Athens, Madrid and Rome is being directed at today's political leaders. Perhaps their rage should be directed at those who were in positions of responsibility in the good times, instead of at those who are now left with the washing-up.

We have furthered our understanding of economics over the many decades since Keynes, Frisch and others laid the basis of modern economics after the 1930s crisis. Theories have become more advanced, and methods and calculations far more complex. We have reams of regulations.

Perhaps one lesson to be learnt from history is that the simplest method can sometimes be the best, as Andy Haldane has argued. Friedrich Georg Nissen's rule that budgets should always balance was not particularly sophisticated, but if his ideas had been followed before the crisis, many countries would now be better off.

However, the principles behind Nissen's ideas were not completely unfamiliar when European politicians drew up the Maastricht Treaty at the beginning of the 1990s. The Treaty contained simple rules for economic policy: budget deficits should be below 3 percent and government debt below 60 percent of GDP.

The rules sparked debate, and academics the world over – including in Norway – ridiculed them as far-fetched and hopelessly rigid. And as so often before, the rules soon sank into oblivion, particularly after the major EU countries Germany and France had pushed them aside.

In retrospect, we can acknowledge that simple rules of thumb can often be useful. For my own part, many years' experience of economic policy has led me to notice the prevalence of the number 4.[17] A current account deficit exceeding 4 percent of GDP is often a harbinger of future problems. Spain is a case in point: government finances were fairly healthy, but deficits were building up in the private sector. Inflation of more than 4 percent is usually a sign of economic instability. If unemployment in a country is persistently above 4 percent, there is probably something wrong both with the functioning of the labour market and with the level of political ambition. And the financial crisis has shown that total banking sector lending in the most heavily indebted countries has often been more than 4 times GDP.[18] In this situation, any rescue packages would be too expensive for taxpayers – Ireland and Iceland are two examples.

This is a familiar element in our everyday lives. Speed limits are an example of such a rule. Calculating the optimal speed for a specific car on a specific road is extremely complicated. It would require considerable knowledge of both mechanics and physics. Speed limits help us. Of course, it might be optimal to drive faster or slower than the speed limit, but the rule is simple to understand and easy to enforce. This simple rule helps to shape our behavioural patterns to ensure efficiency and safety in the traffic system.

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[17] See Sigbjørn A. Berg, Jan F. Qvigstad and Nikka H. Vonen (2011) Two essays on the magic number 4 , Staff Memo 2/2011, Norges Bank, and John Llewellyn and Jan F. Qvigstad (2012) The "Rule of Four", The Business Economist, Vol 43, No. 1.

[18] The financial sector faces risk involving probabilities of various outcomes that we can forecast fairly accurately. But it also faces genuine uncertainty, where probabilities are also unknown. We do not know all the possible outcomes of bank behavior or the real probabilities. Such uncertainty is more effectively managed using simple and robust rules, rather than rules that are as complex as the systems they are meant to regulate.

Simple rules can also make it easier to resist the temptation to postpone problems. Economists call this the time inconsistency problem. Odysseus solved his time inconsistency problem by having himself tied to the mast and instructing his crew to plug their ears with wax and ignore him when he would later ask them to steer the ship towards the song of the Sirens. That was an easy rule for the crew to follow.

But rules can be too simple.[19] They must be used only as points of reference, not as excuses for doing nothing. Economic policy rules should be common knowledge. An independent body should be established to tell us when we are "speeding", and procedures must be in place to implement measures to solve the problem.[20] The new "Fiscal Compact" in the euro area is a tightening of the Maastricht Treaty, precisely to prevent the simple rules from being broken.

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[19] The psychologist and Economics Nobel laureate Daniel Kahneman touches on this theme in his book, *Thinking, Fast and Slow* **(**Allen Lane, 2011) (see e.g. page 98). Kahneman points out that the application of heuristics – simple decision-making rules often used to find answers to difficult questions – may produce answers that are imprecise or wrong. The use of heuristics may be regarded as a way of substituting complex questions with simple ones. While simple rules produce answers quickly, these answers may not be a proper response to the question we want to know the answer to. An analogy to this is substituting the fundamental question, "Am I driving safely?" with "Am I obeying the speed limit?"

[20] Most countries have balanced budgets as a long-term strategy. However, the long-term intention of a balanced budget is often abandoned in practice. This is another example of the time inconsistency problem. Today, many European countries are forced to pursue fiscal austerity, even if their current economic situation makes such a policy undesirable. The most rational option would be if governments were able to approve credible tightening measures that cut spending and raised taxes in the medium term, but that had negligible short-term austerity effects. Pension reform would be such a measure. The problem is that investors, who will be lending money to governments in the meantime, have little confidence that governments will actually follow through on their plans. History shows that they have good reason for this lack of confidence. Thus, the OECD and the IMF are recommending measures intended to deal with the time inconsistency problem and bolster confidence that long-term plans will actually be implemented. Independent fiscal policy boards that monitor government budgetary policy and that speak up if plans are not followed is one such measure. These boards will also make recommendations for realistic economic forecasting, so that projections of future tax revenues are credible. The idea is that greater credibility reduces borrowing costs and thus the need for cuts. The UK has basically followed up these recommendations by

We should be less concerned about what is completely right and correct according to the prevailing truths, and more concerned about avoiding major mistakes, irrespective of what the truth might be.[21] And this is the line of thinking behind our inflation target for monetary policy and the fiscal rule for oil revenue spending.

We must be humble and constantly search for new knowledge. But as I have shown, there is a tendency for this humility to vary with the business cycle. Marc Flandreau and Mike Bordo tell me that during upturns, the colossal blunders of yesterday are forgotten by politicians, journalists and central bank governors, but not by economic historians. And right now, their profession is enjoying its golden age.[22]

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establishing the Office for Budget Responsibility (see http://www.hm-treasury.gov.uk/data_obr_index.htm). In the Eurosystem, there is now a tendency to give the Commission the role of monitoring member states' implementation of their own plans. Other countries, such as Denmark and Sweden, have fiscal policy boards, but in many cases they have taken on duties beyond those strictly related to remedying the time inconsistency problem. They also comment on how fiscal policy ought to be formulated. This quickly encroaches on what is properly the domain of politics, rather than helping the political system to be consistent in implementing its own plans. A more detailed discussion of fiscal policy boards, with a focus on the board in Sweden, is found in Matsen, Natvik and Torvik (Samfunnsøkonomen no. 2, 2010).

[21] The financial crisis has also reminded us of weaknesses in models and methods used in analyses behind the economic policies pursued. We must with humility acknowledge that we understand less about the functioning of the economy than we would have liked. Mervyn King, the Governor of the Bank of England, recently voiced this view in a speech, "Twenty years of inflation targeting", which he gave on 9 October 2012 at the London School of Economics (see http://www.bankofengland.co.uk/publications/Pages/speeches/2012/606.aspx).
Similar reflections have also recently been expressed in an interview with Andrew Haldane, the Executive Director for Financial Stability at the Bank of England, under the title "Our models are no longer working properly" (see http://economicsintelligence.com/2012/10/24/bank-of-englands-haldane-on-the-crisis-of-economics-our-models-are-no-longer-working-properly/)

[22] In his article, "Time on the Cross: How and Why Not to Choose Between Economics and History" in Pat Hudson (2001), *Living Economic and Social History*, Glasgow: Economic History Society, pp. 81-85, Marc Flandreau gives a personal and colourful account of how he

Simple economic rules can perhaps prevent countries from getting into difficulties, but once the rules have been broken and the crisis is a fact, the solution is anything but simple.

Real problems must be solved by real measures. That takes time and is painful, as we are witnessing in Europe today. Much of the adjustment in real terms is still to come, and there is still some way to go before we will be able to say that the global economy is on safe ground.

The full consequences of inadequate regulation of financial institutions became visible only after the crisis was a fact. However, macroeconomic imbalances were widely recognised beforehand. In the mid-2000s, Federal Reserve Chairman Alan Greenspan raised the key rate to reduce the US savings deficit. But long-term interest rates were kept low by the Asian savings surplus that found its haven in the US. International organisations such as the IMF and the OECD pointed out what needed to be done, but the solution required measures to be implemented by a number of countries with differing interests and finding a good solution for the global community proved to be too difficult.[23]

The global community is nonetheless sometimes able to make decisions that benefit all countries. I witnessed this myself in Washington at the IMF's meeting in October 2008 following the Lehman Brothers collapse. The

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inadvertently and unwittingly and in the spirit of "having it both ways" became an economic historian, because he refused to choose between economics and history.

[23] Various observers have pointed out a number of factors that help to explain the financial crisis: Low key rates in all major countries over several years in the early 2000s, conflicts of interest in important financial institutions such as credit rating agencies and considerable economic differences are just a few of them.

alternative then was a black hole. In that kind of situation, it is easier to reach agreement.

In many ways, central banks are the response the authorities could apply when crises arose. Central banks were established to exercise control over the monetary system, enabling states to issue banknotes people could trust and providing banks with a bank for their own deposits and from which they could, in the last resort, borrow from in times of crisis.

Confidence in the monetary unit is the mainstay of our financial system. The following may serve as an illustration: It costs 50 øre to produce a banknote. For every 100-krone banknote Norges Bank issues, we apparently create wealth of NOK 99.50 – out of thin air. But people still sleep soundly in their beds – including those with money under their mattresses – because we are confident that the money can be exchanged for real goods.

It is, of course, tempting to take advantage of this confidence. History is full of kings and governments who have attempted to do just that. In 1716, the Scottish economist John Law established a bank that soon assumed the role as the first central bank of France. John Law saw the possibility of printing banknotes to finance promising development projects in the New World. Excessive confidence in the potential for profits fuelled both the printing presses and equity prices in Paris. The bubble burst and John Law fled to Italy.[24] Today, the European Central Bank and the central banks in the UK and

[24] Government debt in France had reached enormous proportions after the Spanish War of Succession (1702-1713). After the death of Louis XIV in 1715, John Law persuaded the French authorities to convert government debt into equity capital in the Compagnie d'Occident, also known as the Mississippi Company. The company was awarded exclusive rights to develop the French territories in North America and a number of trade privileges. Banque Générale was taken over by the state, given the name Banque Royale, and later

merged with Mississippi Company. John Law was appointed Contrôleur Général des Finances and now controlled in practice France's finances and all trade between France and countries outside Europe. Banque Royale was given unlimited rights to issue banknotes (livres tournois). This was the first time paper money had been issued in France. The banknotes were made legal tender and the bank was given the right to collect taxes. An increasing number of stocks in the Mississippi Company were issued against government debt or paper notes issued by the Banque Royale. This led to a speculative bubble and new rounds of share issues. The value of the shares rose twentyfold in the course of 1719 and the number of millionaires rose sharply. When some investors sought to sell their shares in exchange for gold early in 1720s to secure their gains, the party came to an end. The bank attempted to persuade investors to accept banknotes instead, but this led to a sharp increase in the money supply. Inflation surged and in January 1720 it had exceeded 20 percent per month. In late spring 1720, the bubble burst. People lost all confidence in banknotes. Coins resumed their status as means of payment, and to the extent that bank-like institutions were established in France in the next 150 years banks were designated using other names such as "caisse", "credit", "sociétè" or "comptoir". John Law was sacked and allegedly fled the country disguised as a woman. At about the same time a similar project in England led to the South Sea Bubble. Under an agreement between England and Spain in 1713, the South Sea Company was awarded a contract for delivering slaves to the Spanish territories in America. The South Sea Bubble also burst in 1720. In contrast to the Mississippi bubble, however, the South Sea Bubble involved extensive insider trading and fraud, and as a reaction new and stricter financial regulation was introduced in England through the Bubble Act and Sir John Barnard's Act. There is a large body of literature dealing with these speculative bubbles in France and England in the early years of paper money, see for example Larry Neal (1990, 2011), *The Rise of Financial Capitalism. International Capital Markets in the Age of Reason*, Cambridge University Press and *I Am Not The Master of Events. The Speculations of John Law and Lord Londonderry in the Mississippi and South Sea Bubbles*, Yale University Press, Charles P. Kindleberger (1984), “Financial History of Western Europe”, Erik F. Gerding (2006), "The Next Epidemic: Bubbles and the Growth and Decay of Securities Regulation", Connecticut Law Review, and John E. Sandrock (2007), "John Law's Banque Royale and the Mississippi bubble". For further details regarding South Sea Bubble, see Norges Bank's website, article by Helen Paul (2011), "Limiting the Witch Hunt: Recovering from the South Sea Bubble", http://www.norges-bank.no/Upload/82434/EN/PAUL%20Paper.pdf
Many decades were to pass before France reintroduced paper money. This was in connection with the French Revolution, which, paradoxically, also ended in disaster. The Revolution in 1789 led to substantial expenditures that needed to be financed. The Assemblée Nationale had reduced taxes, and instead issued large quantities of banknotes backed by confiscated church lands. These notes were called assignats, since each note was assigned to a specific property holding, which the bearer could subsequently take possession of. John Law originally had the same plan when in 1705 he proposed introducing land-backed paper money, but when Law was given the opportunity in 1715 to introduce paper money in France, the banknotes were collateralised by government debt and stock in the Mississippi Company. Meanwhile, French assignats were issued in such great quantities that the result in a few short years was hyperinflation that culminated in 1795. It would take years to restore confidence in paper money and banks in France. Sweden had a similar experience with paper money following an economic collapse in the 1750s. For that reason, Sveriges Riksbank's was not permitted to print banknotes when it was founded. In Norway, Jørgen Thormøhlen (also known as Jørgen

the US are using money they have produced themselves to purchase government bonds and other securities. They are taking advantage of the confidence the central bank enjoys to buy time to enable European countries to tackle the underlying problems.

Some lessons

Tonight's theme is "Learning from history". And in this title lies a question, in both the positive and normative senses. The answer to the question of whether we actually learn from history would probably have to be "yes and no". Sometimes we learn, sometimes we do not. Economic crises seem to be a necessary precondition for learning. And this may still be the case. We have some capacity to learn from our own mistakes – particularly if they are traumatic enough – but limited capacity to learn from other people's mistakes. This is something we recognise from raising children. To the frustration of their parents, children seem to be more interested in having their own experiences than listening to parents' advice, however good it might be.

The answer to the normative question "should we learn from history?" is obviously "yes".

And which lessons should we learn?

Allow me to venture to select three lessons on the basis of what I have said so far.

Thor Møhlen) issued banknotes in September 1695. His venture lasted a year! See Anders Bjarne Fossen (1978), Jørgen Thormøhlen. Forretningsmann, storreder, finansgeni [Jørgen Thormøhlen. Businessman, shipping magnate, financial genius], Einar Blaauw AS, Bergen.

First: the simplest solution is often the best. Simple rules, whether for fiscal policy or banking regulation, will often prevent the worst errors. And when the yellow warning light starts flashing, action must be taken.

Second: confidence is essential, also for economic policy. Confidence is easily eroded and difficult – and costly – to restore. Confidence must be earned. The resolution of today's crisis will also follow a smoother path if there is confidence in institutions – banks, central banks and governments. Borrowing costs will then decrease more quickly, the need for government spending cuts will diminish accordingly, and the good times will return sooner.

Third: we have no magic wand. If a country has real economic problems, real adjustments must be made to solve them.[25] Central banks cannot solve the problems, but what they can do is lend money when there is none available elsewhere, giving countries more time to implement necessary reforms. Deficits must be reduced.

Unrestrained printing of money has led to problems on many occasions through history. If printing money is not followed up by action – in euro area countries, in the UK and in the US – Mario Draghi, Mervyn King and Ben Bernanke run the risk of being recorded in history in the same chapter as the Scotsman John Law.

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[25] In Act I of Part II of Goethe's *Faust*, published in 1832, the Emperor is in financial difficulties. Mephistopheles convinces him to print paper money backed by gold that has yet to be mined to boost economic activity. This works for a while, until soaring inflation destroys the economy. Jens Weidmann, the President of the Bundesbank, spoke of the dangers posed by overly unrestricted monetary policy, based on *Faust*, during the festival "Goethe und das Geld" in Frankfurt in September 2012: http://www.bundesbank.de/Redaktion/EN/Reden/2012/2012_09_20_weidmann_money_creaktion_and_responsibility.html

The full title of my speech today is "Learning from history: truths and eternal truths". I have ventured to outline three lessons that are hopefully universally valid. But we can never be sure. I mentioned Ibsen's "Enemy of the People". Allow me to conclude with Doctor Stockmann's comments:

“Yes, believe me or not, as you like; but truths are by no means as long-lived as Methuselah—as some folk imagine. A normally constituted truth lives, let us say, as a rule seventeen or eighteen, or at most twenty years—seldom longer.”[26]

Ibsen's play has been stood the test of time. It is still performed all over the world, 130 years after it was written. Not because the Norway of the 1880s never loses its appeal, nor because Doctor Stockmann found eternal truths. It is because the play raises questions of a more enduring nature. Perhaps we have to recognise that the closest we can get to eternal truths is, precisely, eternal questions?

[26] The quotation continues: “But truths as aged as that are always worn frightfully thin, and nevertheless it is only then that the majority recognises them and recommends them to the community as wholesome moral nourishment. There is no great nutritive value in that sort of fare, I can assure you; and, as a doctor, I ought to know.” These "majority truths" are like last year's cured meat – like rancid, tainted ham; and they are the origin of the moral scurvy that is rampant in our communities.

On learning from history – Truths and eternal truths
A commentary

Helga Haugland Byfuglien, Presiding Bishop of the Church of Norway

Introduction

“Two things fill the mind with ever new increasing wonder and awe – the starry heavens above me and the moral law within me.”

This is engraved on Immanuel Kant’s tombstone. « Truth is in the eye of the beholder » is an old saying. Is that true? It may seem true. The truth for a group or individual at a given time can prove to be false and refuted as a lie at another time. As Deputy Governor Qvigstad said in his speech today, the character Doctor Stockmann in Ibsen’s play observes that a truth generally abides at most 20 years.

That is not the case of religion. In similarity with other revelation religions, Christianity has truths that are held forth as permanent - eternal. Truth has its foundations, but believers maintain that truth is transmitted from the eternal to the temporal. It is passed on to the world by means of a revelation, and for the Church it is Christ, whom we believe uncovers the face of God. This is the essential truth for the Church. The Holy Scriptures, the Bible and the Creed derive from this, and have been since the year 400, and still are, the litmus test of a Christian church.

From these, truths have been derived, developed interpreted.

The truth does not imply submissive consent, but gains impact and are grounded in people and within the community through insight, experience and choices. One must also in Christian belief, confront eternal values with personal experiences, and apply them to life and to the world.

Throughout history, the Church has maintained truths because they have proven to be sustainable and have been beacons in people's lives and for the community. Among these are charity and the belief in a creator. Undoubtedly, this can be challenged with many other examples where the Church, to which I myself belong, has advocated other truths that have not proven to be permanent at all. Many truths have been left behind us. Among the most known are the postulates that the world is flat, the belief that slavery was part of God's order and the silence of women in the assembly. Teaching the truth has not simply been based on views, but on a deep conviction of God's will and structure of the creation. That which was considered to be the truth has not only created divisions between neighbours, people and countries, it has torn apart communities and led to schisms and wars. « Truths » have kept people under oppression and led to violations and abuse of power. This is part of the Church's history from its very beginnings. From this, churches, church communities and belief systems have sprung forth, which are also visible in our landscape of beliefs and life views.

Much of what, at times, has been held as true is linked to perspective and interpretation. It is related to history, development and context, and to a certain degree, that which one wishes to establish as true. What one chooses to adhere to, whether it is a matter of religion, politics, economic models or a particular set of values, then becomes the relative truth.

Doxa is a Greek term that can be translated using a variety of meanings or conceptions. The French philosopher, Pierre Bourdieu, used the term ‘doxa’ to denote what is taken for granted in any particular society or context, that which goes without saying. For example, long chapters of world history have been read through man’s eyes, without questioning. But also in our seemingly transparent and prosperous information society, doxas arise. The media are far more preoccupied by personal stories than they are by principles. One prefers relationships (ideally in the form of conflict) to argumentation. Hence, individual destinies and poignant stories can easily be prominent in the media picture, shaping a certain conception of the truth concerning a variety of subjects. However, while one element is unveiled, another is often veiled. Irrespectively, truth is quite intricate.

And therefore, temporal truth is often in flux. As I mentioned earlier, several of the Church’s truths have been shattered. And rejected all the others.

With strong words and actions, the Church has used power to promote truth concerning both teaching and ethical questions. However, I believe that examined more closely, these truths mainly concern changes in religious and ethical questions. The Church’s view on social conditions, geography, politics, morality, poetry, entertainment culture, science and humanitarian ideals had indeed changed throughout the Church’s history. Society has changed, and this has influenced the Church. Particularly in our part of the world, the Church has experienced change also within its boundaries, just as the world has changed. This raises questions pertaining to the Church’s credibility as truth-bearer.

The Church operates with a set of truths that are not earthly. The concept eternal is timeless, elevated above the earthly, beyond worldly time and space. The Church's truths ARE not of this world. They are not immanent, but are rooted in the transcendental. In the Church the eternal truths are entrenched in what is called *the revelation.*

This explains why we often call Christianity, Judaism and Islam revelation religions. They share the belief in a God creator, which means they are monotheistic, and they share the belief that this God has made himself known and appears as relational in various ways.

A few weeks ago, I read an interesting interview with Daniel Kahnemann, winner of the Nobel prize in economics in 2002, for having demonstrated how irrational man is, also with regard to economic decision-making. Through his research, he attempts to document that man is less rational than relational. It is through the encounter with people in whom we place our trust that we form our opinions and make our choices. This might also explain why certain people choose to adhere to professed truths proclaimed by religions. It may explain why rational people, in an enlightened part of the world in 2012, not only adhere to a belief system, but, moreover, consider these truths eternal, and orient their lives and life interpretations on the basis of these truths.

The poetic genius

William Blake, the British jack of all trades, wrote « The marriage of heaven and hell » in 1790. Most of the work is made up of « Memorable Fancies ». In one of them, Blake fantasises over a dinner he has with the Old Testament Prophets Isaiah and Ezekiel. Their mission to provide the *truth* to a people occasionally astray involved a good deal of threats and tribulations. In this fantasy, Blake wonders how in the world they could be so certain GOD was the one telling them what to transmit. Isaiah replies:

« I saw no God, nor heard any, in a finite organic; but my senses discover'd the infinite in every thing, and as I was the perswaded, and remain confirm'd, that the voice of honest indignation is the voice of God, I cared not for the consequences but wrote».

Then Blake asks the following question:
« Does a firm perswasion that a thing is so, make it so? »
Isaiah replies: «All poets believe that it does, and in ages of imagination of this firm perswasion removed mountains.»

What Blake is pointing out is that chosen truths, that one adheres to based on convictions, have enormous power. They are life changing and can change the course of history.

One can also influence the truth. The American pastor stood up on a Sunday morning to preach to his congregation and said: « I have good news and bad news. The good news is that we have enough money to build our new building for the congregation. The bad news is that the money is still in the pockets of the congregation… »

The chosen truths lie as a potential in human beings. There is something inherent which is realised through circumstances.

For belief it is considered as God-given, something we are created with. When dodecaphonic or twelve-tone music sprang forth around the turn of last millennium, a number of composers shared the desire to create something new. «Sounds yet unheard» was a term used. By creating music through repetitive systems and cyclical variations, dissonances and sounds unexplored by music in the past emerged. The possibilities had, of course, existed – these «sounds yet unheard» lay there as a potential of notes and sounds, only lacking earlier realisation. The philosopher Ernst Bloch wrote about this and thought that this showed how what we hope for – the utopias we bear – are anchored in the work of the creator's inherent possibilities. If we can hope for them, dream of them, our utopias are possible. They are merely a conjugation of conditions yet to be realised, waiting to be discovered and associated.

The eternal truths

Blake pondered over how the holy conviction's power to move mountains. To achieve recognition it is necessary to mobilise all one's dreams and imagination, because they are, in their own way, anchored in the truth.

The Deputy Governor concluded his excellent speech by expressing his acknowledgment that the closest we get to eternal truths are the eternal questions.
I consider the eternal questions, which seem to be very general, as a story expressing man's quest for meaning, and hence his longing for God.

«Jesus is the answer» we sang in my childhood. Sharp-witted tongues thought this was acceptable enough, but wondered what the question was?

In its essence, the Church does not constitute its truths based on empirical research, comparisons and juxtapositions of the whole, or from a sort of general conception of what is true. In its essence, Christianity's eternal truths are eternal precisely because they stem from someplace outside of time. They are eternal because they are revealed truths. Inspiring awe in Kant, truths are also in the deepest sense: The beauty of the Creator's work and man's capacity to love which makes us relational.

Though it was not for this reason that the relationship to a person of confidence became decisive for the number of people belonging to the worldwide Church to this day…
The fact that the truth is eternal and revealed does not mean it is irrational. The Church is also accountable for presenting what it believes in, what it considers to be true, with well-founded and convincing affirmations. This implies that the Church may also reject some of its old affirmations, if they appear insufficiently founded. In other words, truth is subject to experimentation.
In its conception – and practice – the truths of Christianity are just as exposed to the rifts of time as all other truths. The Church has been compelled to

detach itself from some of the views it has firmly it held, and has changed in many areas, but the belief in a creating, life-giving and upholding power in existence is unabiding.

We do not always know, with certainty, what we are looking for when seeking truth, and it is thus easy to miss a step or lose one's direction entirely. The Church does not offer answers or truths that provide meaningful answers to all of life's more or less complicated questions. The Church's eternal truths are not intended to answer all questions. The reformers expressed it in these terms: « The revealed truth through the Bible provides knowledge of what is necessary to obtain redemption and salvation. »

The eternal truths have the eternal as their arena. As for small and big decisions in life, Christianity's « eternal truths » do not advance a clear guideline to how we should choose and what is true. We must assess these truths in the life we lead and examine the consequences they have on our values and choices. They must be confronted with the insight that life and experiences provide when contributing to choices in this life.

So, what have we learned from history?

Faith considers certain truths as eternal, but others, also for believers, are relative. This is not threatening. History teaches us to grasp firmly onto our beliefs, but also to be wise when we employ the term truth in our quest to seek and obtain answers to complex existential questions. And hence, remain open to the idea that the truth may dwell elsewhere.

On learning from history – Truths and eternal truths
A commentary

Anne Kveim Lie, Associate Professor, University of Oslo

Can we learn from history? This question has been asked innumerable times, and is often answered in the negative – at least in theory. In reality, we learn from history all the time, in different ways. In my lecture, I will therefore avoid using history to point out different historical events that teach us something. Instead, I want to focus on the fact that we learn from history all the time, and ask *how* we learn from history and *how* history is made relevant in various contexts.[27]

Historia magistra vitae and history as a process

In 1817, the doctor Frederik Holst was the very first person to defend a thesis at the newly established Kongelige Frederiks Universitet, now the University of Oslo. He later became a professor at the university, and was active in various spheres of society. In his doctoral thesis, which focused on the now-forgotten rade disease, he referred quite naturally to antiquity's Hippocrates, Avicenna of the Middle Ages and the Renaissance's Sydenham, in addition to his own contemporaries (Holst, 1817). Holst lived at the end of an era in which history was viewed almost as a library containing everything written and thought about a subject, without any clear distinction between old and new. History was a collection of examples that could be used to interpret

[27] My thanks to Norges Bank Deputy Governor Jan Fredrik Qvigstad, who invited me to give this speech. I would also like to thank Helge Jordheim, Kristin Asdal and Anne-Lise Middelthon for their support, help and useful comments. I have shamelessly stolen the idea of the paradox between the *historia magistra vitae* concept and modern philosophy of history from Helge Jordheim's article on the debate about the Falstad Centre (Jordheim, 2009).

current events, or even to predict what would happen in future – a collection of examples to be followed. This view of history – the idea of *historia magistra vitae*, that “history is life’s teacher” – had been developed by the Roman statesman and philosopher Cicero.

Doctors no longer learn from history in the way Holst did. In the medical field, almost all knowledge older than 10 years is a historical curiosity. The German historian Reinhart Koselleck has described how the idea of *historia magistra vitae* was dissolving precisely at the time that Holst wrote his thesis. More specifically, the connection between what Koselleck calls the “space of experience” and the “horizon of expectation” was severed (Koselleck, 1979). Koselleck’s point is that we are all pulled in opposite directions by experience and expectation. Experience is the *past* that exists in the present – our actual experiences that we carry with us, consciously or unconsciously. Expectation, on the other hand, is the *future* that exists in the present – the dreams and hopes we have for what is yet to happen. In earlier times, Koselleck argued, most people did not expect the future to hold anything more than they had already experienced. This is what allowed Frederik Holst to refer to colleagues from antiquity and the Middle Ages. However, the connection between the space of experience and the horizon of expectation was broken in Frederik Holst’s time. The future, that which lay ahead, was now considered qualitatively different from the past, that which had already occurred.

This expresses the modern concept of progress, the idea that the world is moving forward, in one direction, towards something better. The idea is based on a new view of history, namely as a process. This view implies that the past can no longer teach us about the future. If the future will be radically different, the past cannot help us.

History today

In the historical field, this insight from the philosophy of history continues to dominate. At the same time, we are living in an age in which history is being used in many places for many different purposes. Cicero's idea that history is life's teacher remains very much alive. We see examples – both examples worth following and examples to avoid – all the time, in museums, in Official Norwegian Reports, in school history textbooks and in the public debate. History is frequently invoked in connection with crises. Economists have probably never referred to history as often as during the current financial crisis.

Two concepts thus exist side by side: the idea that history is a sequence of unique events that are never repeated under any circumstances *and* the idea that history provides examples to be followed. This is a paradox, but nevertheless a reality (Jordheim, 2009).

The aim of all historians should be to present the people and events of the past in a manner that enables us to learn from them. We can learn in many different ways. Historical accounts can expand our basis for making complicated decisions. Historical events can help us to see connections or contrasts with our present circumstances. They can increase our range of perspectives, and provide arguments for and against difficult decisions. They can help to denaturalise current circumstances by showing that the situation was not always like this, and that it can therefore be different in future. They can also help us to understand *why* we make the decisions we make.

However, it may be even more important to focus on *how* history is constantly being used for political, economic and other purposes. History is often invoked as a source of learning, but the selected aspects of history and the potential lessons to be learned vary; not randomly, but based on the purpose history serves in the specific situation. I would now like to discuss two examples of how history was used in two of Norway's most dramatic post-war medical crises: the AIDS epidemic of the 1980s and the 2009 swine flu outbreak.

AIDS

AIDS came to Norway in 1983, having already featured in tabloid headlines for some time. This mysterious new illness was infectious and killed slowly and mercilessly, leaving modern medicine, with all of its technology, a powerless spectator. Confidence in the power of medicine was almost unlimited just before AIDS came. When the disease struck, optimism for the future gave way to apocalyptic visions of the potential extermination of mankind.

History was incorporated into the response to the epidemic early on, both in Norway and abroad. As early as 1985, the annual international AIDS conference introduced a dedicated history session, not exactly a common feature of large medical conferences. History was used in many ways, and in many places, during this period. One way of using history was to draw analogies to earlier epidemics to improve understanding of this new, frightening and unknown disease. An example of this is the series of articles on AIDS published by the Norwegian daily newspaper *Dagbladet* in 1985, which was entitled "the new plague", clearly referring to the Black Death. Others, most often politicians and bureaucrats, turned to history in their search for other examples: how had the interests of personal freedom been balanced with the need to protect the population in the past? The history of sexually transmitted diseases was covered with particular interest. Examples of how prostitutes were stigmatised in the fight against syphilis were often quoted to warn against the risk inherent in focusing one-sidedly on at-risk groups.

The Norwegian Directorate of Health consulted persons who had worked on anti-tuberculosis efforts earlier in the 1900s. They looked to history for arguments in support of the "voluntary approach" (Godager, 1986; Manum, 2011), as a key question at the time was whether preventive efforts should be based on force or voluntariness. History showed that public education and improved living conditions had secured victory over tuberculosis, not the forcible measures and threats of isolation permitted by the Tuberculosis Act of 1900 (Mellbye, 1986; Stafne, 1986; Stein A. Evensen, 2010). In other words, historical examples were used to argue that it was *both* most *humane* and most *effective* to focus on voluntariness, information and education in anti-AIDS efforts. For example, HIV testing was only to be conducted with the informed consent of the test subjects.[28]

However, history was also invoked in support of entirely different, opposing arguments by those who believed that it would be too risky to trust people to engage in voluntary testing and treatment. One group of doctors and researchers argued that the Directorate of Health was giving too much protection to at-risk groups, thus exposing the rest of the population to unnecessary risk. For example, the chief physician at Ullevål hospital's blood bank stated that it was vital to learn from earlier "effective epidemic management" in addressing the major threat posed by AIDS (Fagerhol, 1987). No specifics were given of the epidemic management measures he had in mind, but he was presumably referring to earlier quarantine practices under

[28] Anne Lise Middelthon, former adviser to Director General of Health Torbjørn Mork, personal communication, August 2009. See also an interview with Svein-Erik Eikeid, then-head of the Aids unit at the Directorate of Health.

which ships or people were kept quarantined to deal with infectious diseases like cholera, smallpox and typhoid fever. Isolation of infectious persons had been used for illnesses like typhoid fever and smallpox, but less for tuberculosis. One professor of biology pointed out that mandatory testing and forced isolation had been employed successfully during earlier epidemics (Stenseth, 1987). Both men criticised the Director General of Health for having given too much consideration to at-risk groups and too little consideration to the "ordinary population". Both men also argued that it was time to apply more restrictive measures based on earlier efforts to combat epidemics. As a modern, more "rational", form of isolation, the biology professor proposed tattooing a blue heart in the groin of HIV-positive persons. The rationale was that internment was impractical for modern people.

These examples from the HIV epidemic show that history is not an innocent, neutral variable from which we can learn. Both sides turned to history to learn from it. Both sides used history to argue for the decisions they believed should be made in the present. However, based on their current political aims, the two sides chose to focus on different aspects of history, and ended up with diametrically opposed points of view. Both sides used the past similarly, presuming that the epidemic management measures of the past were comparable to the challenge they faced in connection with HIV. They also implied that history is an irrefutable fact, rather than a series of different interpretations specific to historical events. Both sides argued as though history were a higher form of truth that could in some way judge how we should act now. In reality, however, history is no more than a series of events and actions whose consequences we know, or at least believe ourselves to know. Redefining these events and actions as principles, as examples to follow or avoid, always involves a complicated process of selection and interpretation. This process is vulnerable at all stages to manipulation, ideologisation and simple falsification.

Swine flu

Let us consider a slightly more recent example of how history has been used as an argument in addressing medical crises. The global swine flu epidemic that struck in 2009 set all alarm bells ringing. Dramatic headlines again featured on the front pages of newspapers. During the swine flu epidemic, history again became an important reference framework, albeit in a very different way than when AIDS came to Norway. Now, the historical arguments were supplied by the experience gained during the Spanish influenza epidemic of 1918 and 1919, which claimed more than 20 million lives worldwide – more people than died during World War I. Some 12,000 people died in little Norway alone. These were the historical connections that were made when the first case was reported in Mexico.

While the Director General of Health during the initial phase of the AIDS epidemic, Torbjørn Mork, turned to history to assess whether it was sensible to implement mass testing, isolation and forced infection tracing, in 2009 Bjørn Inge Larsen turned to history to generate forecasts for the future. Having recalculated data to reflect "current population figures and other altered demographic circumstances", the leaders of the Directorate of Health concluded that if the epidemic proceeded like the Spanish influenza epidemic, 1.2 million people could become ill with influenza within six months, while 13,000 people would die (Helsedirektoratet, 2006, 2010). Although these figures were taken from the 2006 pandemic plan (Helsedirektoratet, 2006), at

the press conference in 2009, the forecasts in the plan were used directly as worst-case scenarios for the situation in 2009. Analogies were also drawn to the Asian flu outbreak of 1956–1957 and the Hong Kong flu outbreak of 1968–1970, which were far milder epidemics (Helsedirektoratet, 2006, 2010).
The Spanish influenza epidemic was not only used to create forecasts, however. Parallels were drawn to Spanish influenza as part of the practical management of the epidemic. When the epidemic proved to be milder than expected, the health authorities used the Spanish influenza epidemic to give health personnel and the population a "reality check" in the spring and summer of 2009. The argument was that people should not be fooled by the apparently mild development of the outbreak at this early stage. Experience from the Spanish influenza epidemic indicated that a mild start of this kind would be followed by a much more dramatic wave later on.

There are several interesting factors in how the Directorate dealt with the historical Spanish influenza epidemic. First, history was made directly relevant. The idea was that history might repeat itself in the precisely the same manner. The reason was that the virus was similar. The context was almost entirely lost – it was the ability of the virus to cause illness that counted, not which bodies, which society, the virus hit. Even though the pandemic plan had established that mortality at the level seen during the Spanish influenza epidemic was extremely unlikely because the context was so different, this was not included in the discussions in 2009. The relevance of the comparison with the past was not discussed. Second, and related to this point, only a small part of the story was kept alive and made relevant: the number of the sick and dead. Like his predecessor Mork, Larsen could have turned to history to learn how the risk of panic among the population had been managed previously (something the pandemic plan also fails to cover). Moreover, he and his staff could have investigated factors that make the population vulnerable to this type of virus. However, the "communication plan" of 2009 was about convincing the population that they should be vaccinated, not to prevent panic among the population.[29] In the pandemic plan, the story is reduced to an account of a virus and its proliferation.

History as a process and collection of examples

The use of history thus concerns not only how we can learn from history, but also how history is *made* useful in many different ways and in many places. As the examples have shown, the relevant historical perspectives are themselves the subject of debate. We are responsible for the story we tell – what prejudices we include in it, what we forget and what we omit, and what meaning we attach to the meaningless. The existence of many interpretations is the best defence against the use of history for propaganda purposes.

Nevertheless, the examples I have referred to demonstrate perhaps the most important lesson of all. When we use history, we must try to keep the paradox I mentioned initially in mind – that history is both a process comprising unique events that cannot be repeated AND a treasury of examples to be followed or avoided. Even though history provides innumerable examples that can help us to make better decisions, we must remember that our time is unique, and that previous experiences cannot be directly transferred to the present. That is why historical examples must be used with care. History is no less important and

[29] The three objectives of the communication plan were to limit pre-vaccination infection as much as possible, to help ensure that a high proportion of at-risk groups were in fact vaccinated, and to help ensure that as much of the population as possible was aware of the authorities' recommendation to be vaccinated and how to obtain the vaccine.

real to us than to Frederik Holst, but its importance and reality take different forms, and perhaps have greater consequences for life and health.

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On learning from history – Truths and eternal truths Dinner speech

Hanne Skartveit, Political Editor, VG

It is a rare experience for those of us in the press to be invited in all seriousness by decent people to hold forth on “truth”. But it does happen that even journalists stumble upon the truth. Just like most of you, we just pick ourselves up again and hurry on our way. Some of us don’t always see the truth. *That* requires an intense and constant struggle to see what is right in front of our noses. One explanation is that, all too often, we confuse “truth” with “facts”. The difference between truth and facts may be vast. Very often, facts distract us from seeing the deeper truth. It is my experience as a journalist and then as an editor that when someone is lying to me, it is often by bombarding me with facts. The facts are not necessarily *wrong*, but in retrospect, they turn out to be irrelevant. Many of the facts we are presented with create noise, without bringing us any closer to the truth.

Economics is presumably the only field in which two practitioners with diametrically opposed theories can both receive the Nobel Prize, both for having discovered, not only the truth, but the very laws of economics. Different economic schools can be illustrated by the way their respective theoreticians might change a light bulb: How many free-market economists does it take to change a light bulb? Answer: None. For as long as the state does not interfere, the light bulb will screw itself in. Or: the invisible hand of the market will change it. And what about Keynes – how many Keynesian economists does it take to change a light bulb? Answer: All of them. This will boost employment, you see, thus increasing consumption, which in turn will… So, Deputy Governor Qvigstad, the question is: How many central bank economists does it take to change a light bulb? Answer: Just one. He holds up the light bulb, and the entire world rotates around *him*.

Some years ago, I was sitting in the office of my professor of Russian Studies at Johns Hopkins University, and I asked him what the fall of the Soviet Union had done to his life. He pointed to all the books around him and said that most of them were no longer relevant. All his knowledge, amassed over decades of hard work in order to understand the Soviet mind set, was worthless. Not long after the fall of the Soviet Union, a bit of graffiti appeared on one of Moscow's walls. Someone had written: Everything they told us about communism was a lie. Unfortunately, everything they told us about capitalism was true.

In Norway, we have largely been spared historical upheavals on this scale. Contrary to what many believe, Norway is poor in history. Hegel wrote, "periods of happiness are [history's] blank pages". The statesman Konrad Adenauer defined history as "the sum total of things that could have been avoided". And he knew what he was talking about. Norway has more geography than history, for which we should be grateful. Unlike Sweden or Denmark, we were never a great power. Most European countries have more history than we do: Poland, the Czech Republic, Germany, France, the Balkans, Russia… During the period of Danish rule, Norway was poor in centres of power. The court and the upper class were situated in Denmark. When Norway gained independence, there was no counterforce that could stop the people, farmers and workers from assuming power. That is why democratisation went so smoothly in Norway, on the path towards popular government and parliamentarianism. Those who sought to retard this process, were weak. In this way, Norway became the most egalitarian society in Europe, perhaps in the world. For much of the previous century, Norway was governed by men with primary-school education: Nygaardsvold, Gerhardsen. Torp, Bratteli. They had far less schooling than those of us who are here. Perhaps that was also the reason things went so well.

The history of Norway is: Everything is right; nobody understands exactly why. The history of Europe is: Nothing is right; everybody understands why. Now the economic crisis has brought us all the not exactly pleasant combination: Nothing is right; nobody understands why. History is trying to tell us why. The soothsayers, those who think they know the future on the basis on what they see right now, have a poor track record. Only sunny skies ahead, said Gunnar Knudsen, the Norwegian prime minister, in summer 1914. The First World War broke out soon thereafter, the worst catastrophe in European culture up to that point. President Herbert Hoover said the same thing in 1929, right before the Wall Street crash.

Predicting the future on the basis of past experience is not a simple task at all. In his book *The Black Swan*, Nassim Nicholas Taleb relates the parable of the turkey. Each day the turkey is fed by kindly humans. The turkey has no reason to believe that life will be otherwise. But then one day, right before Thanksgiving, something totally unexpected occurs. The day before the end, before the slaughter, was presumably the day of its life that the turkey, on the basis of its life experience up to that point, had the least reason not to trust in the future. More or less the same way that everyone is confident about the future right before the financial crisis hits. Every time.

I have faith in those who say that they are searching for the truth. I have my doubts about people who say that they have found it. Even when they substantiate their claims with boxes and columns of numbers. I believe that in our quest for truth, we do too much counting and trust too much in numbers. We view numbers as facts, while we recoil from the words that can help us to see what is true. Old stalwarts, like Adam Smith and Karl Marx, John Maynard Keynes and Joseph Schumpeter, used words far more than models. They made allowance for thought and the ability to see.

Let me conclude with a story. A shepherd in Hallingdal is out tending a huge flock. A man comes walking over the hill with self-assurance in his stride. He calls out to the shepherd, saying: “I’ll wager that I can tell you the exact number of sheep in your flock. If I’m wrong, I’ll give you ten thousand kroner, but if I’m right, I get a sheep. The shepherd thought this was a nifty idea; it was, after all, a large flock. The man says, “By my calculations, there are 354 sheep”. The shepherd stood aghast, because that indeed was the correct number! The man picked up an animal, placed it under his arm and started to leave. The shepherd then came to his senses and called out to the man, “I’ll double your bet. I’ll wager that I can tell you exactly what your line of work is!” “Oh? All right,” said the man, accepting the bet. “I am certain that you work in New Public Management!” said the shepherd. Now it was the man’s turn to be dumbfounded, for that was absolutely right. He asked, “How did you know that I work in the New Public Management?” And the shepherd replied, “Put down my dog and I’ll tell you…” So it’s not enough to count. You need to know what it is you’re counting. And more important: why?

Some people say that the only eternal truth they are aware of is that the shower curtain should always hang inside the bathtub. That is probably a slightly narrow definition. This evening I am willing to add another truth to the list, that this has been a fruitful gathering. Beyond that, I would like to propose a toast: To doubt!

Views and perspectives–Lightly edited minutes from the debate

Steinar Tjomsland, Supreme Court Justice

The advertising slogan of the discount grocery chain Rema, owned by the Reitan family, is – “The simple things are often the best." Perhaps Jan Qvigstad drew inspiration while doing his shopping there.

When the Marxist-Leninist leadership of the Norwegian Student Society was challenged at its Saturday meetings at the beginning of the 1970s, the summary always was: "What can we learn from this?” And the answer usually was: “There are two sides to Stalin – a good side and a bad side”. I won’t comment on whether this particular statement may be characterised as an eternal truth. Yet it is a truth that there are two sides to nearly all issues – and that it varies over time which side is the good one.

I recall an elderly lawyer who was arguing a case concerning salmon fishing. In his broad south-eastern Norwegian dialect, he dispensed the following words of wisdom – “The salmon swim upriver, and they swim downriver – this they have always done, and this they will continue to do”. The lawyer's wise words – that things go up and down – cover a fairly broad range of topics. They apply to the Norwegian economy, to political parties’ poll numbers, to Norway's FIFA ranking and to what it would be politically correct for an editorial writer to write on the topic of police surveillance. Those of us who remember 1977 and the Liste and Loran-C affairs probably did not expect that fifteen years later, Norwegian surveillance would be under investigation by Ketil Lund, Berge Furre and Ingse Stabel.

Today's topic might have been better reformulated somewhat differently – What can we learn from *experience*? There is as least as much to learn from mistakes made in the very recent past – last month, last week or three months ago – as from mistakes that might have been made in the 1930s. I hope that it is this realisation that is behind our largest growth industry – investigations and hearings. I hope that the considerable resources devoted to this will yield benefits – and not that quarrelling and ironic badgering of witnesses will be all that people will remember.

Jan Qvigstad referred to the Lehman Brothers bankruptcy without telling us specifically what can be learned from it. In my innocence, I thought that the lesson is that if the market expects, when the chips are down, that the authorities will bail out a bank that large but then do not – well, in one fell swoop, confidence collapses in large segments of the banking system. But this is probably a fairly obvious conclusion – and it is probably unnecessary, in fact, to test it further. Perhaps Odd Reitan's slogan ought to have been followed here too. But maybe it is not that simple.

Øyvind Østerud, University of Oslo

Greece is an interesting example. I recently returned from a stay in Athens. Athens is currently the scene of conflicts and confrontations that mostly call to mind conditions in the interwar years. The current crisis has several obvious similarities with the crisis of the 1930s: severe economic stagnation, high unemployment and public sector policy that is amplifying the crisis, just like the interwar parity policy did. Yet there are also differences, including the fact that the public sector is so much larger and is therefore able to function as a buffer. The supranational authorities are having problems. There are strong reactions to what many Greeks perceive is forced submission to supranational authority, that German economic policy is being imposed on other countries. This is clearly serving to deepen the conflicts. The question is what the leeway is for learning, when supranationality is perceived as that much more stringent. The German attitude, premised on the notion that things have to get worse before they can get better, appears to many Greeks to be an illusion. Here I have a couple of questions: How solid is the wall that protects us from German solutions for crisis resolution, behind which probably lurk sharply conflicting interests? And who is the "we" who can learn from history, also in the light of the conflicting interests that a crisis lays bare?

Geir Hestmark, University of Oslo

"Parricide" is a classic motif in the history of science. One can even boldly rephrase it as the duty and obligation that good students have to laugh at their professors if they are ever to amount to anything themselves. As Nietzsche writes in one of his more lucid moments: "One repays a teacher badly if one only remains a pupil." Qvigstad's lecture is a solid contribution to this tradition, in which a long line of economists have been gone over, indeed, to such a degree, that he nearly concluded by abandoning science itself. The most formula-laden theory has turned out to be of dubious value when tested against reality (i.e. economic policy). Let us therefore instead opt for simple solutions, for rules of thumb, the number four, for example. We are here in the house of science, where such a retreat from science is particularly fraught. But these may be the words of a wise, if slightly disheartened, man. They entail a genuine acknowledgement of the complexity of economic systems, be they national or international. In this, economics resembles the sort of therapeutic medicine that seeks to intervene in a system as complex and little understood as the human body, including the brain, and also one of my own disciplines, ecology, the study of ecosystems. In all these disciplines, the temptation was a headlong search for the general, the simple formula that would embrace all possible facts. Complexity was more or less consciously neglected, as was the fact that our knowledge was imperfect. Also forgotten was, “the human factor”, free will, which surely makes prediction virtually impossible. Reality will take revenge. It is easy – and fun – to criticise, and historians are particularly fond of pointing out and studying such errors and professional conflicts. *Too* fond, I would say. Because it is easily forgotten that most scientific knowledge is solid, uncontroversial, cumulative and of lasting value. It struck me that Kuhn’s *The Structure of Scientific Revolutions* appeared the same year that The Beatles had their breakthrough. The result was an unconstrained orgy of sex, drugs, rock-and-roll and paradigm shifts. Those of us who had just been born when the 60s began came to the party too late; we were given the job of cleaning up. And one of the concepts it is time to put back in its box and relegate to the museum of ideas is “paradigm shift”, a blank cheque for irresponsibility and postmodernism. Alternatively, we might establish a Paradigm Office, akin to the Patent Office, where people can apply to have their new paradigms approved. At the front desk we will station the political theorist Jon Elster, who will be holding a large red stamp bearing the single word “Bullshit!” Very few will get past him. The application fee should be set rather high, to exclude master’s degree candidates… In any case, it is too easy to quote Ibsen on the permanence of scientific truths. Ibsen never submitted an article to a peer-reviewed scholarly or scientific journal (!), and the word “truth” is also an extremely rare find in scholarly or scientific articles. So economists should not give up completely, but continue to build their science brick by brick, with a certain humility, just as doctors and ecologists should. Research will be going on for centuries to come. Perhaps the range of skills should also be extended. During the preparations for this year’s seminar, I was kindly shown around Norges Bank and was allowed to see the oil fund’s trading floor, where there werescores of smart people who are highly skilled in economics, mathematics and physics. But perhaps there ought to be psychologists as well, not just in the interest of employee health and safety, but to explain, for example, why just in the course of the past eighteen months, Statoil’s share price has been fluctuating between NOK 108 and NOK 162. They have been pumping oil all that time, have they not?

Halvor Mehlum, University of Oslo

Qvigstad began by referring to the relationship between faith and mathematics in economic policy – with particular emphasis on the monetary policy decisions made by Norges Bank. In my view, this is a fairly rigorous distinction. After all, it is not called monetary *faith* or monetary *mathematics*. It is called monetary *policy*. So to discuss the role of the central bank without discussing its policy would be too narrow a focus.

The same thing was missing in the discussion of Doctor Stockmann. I do not see Ibsen's play *An Enemy of the People* as being about the evolution of science, where old truths need new insights to keep themselves sharp and sometimes need to make way for new paradigms. On the contrary, the play is about the conflict between moneyed interests and the interests of society. The political struggle is between private economic interests connected with operation of the baths and public health considerations. This is an apt parallel with the financial crisis. For the financial crisis may be understood as a story in which moneyed interests had been allowed for too long to predominate over the interests of society. The financial crisis is the story of the economic interests that made good money before everything came to a halt in 2008. In the same way that the economic activity at the baths stopped when it was finally recognised that the waters were tainted.

As one of the primary lessons, Qvigstad emphasises the need for important aspects of the economy to be managed with the aid of simple rules. He also cited Stockmann's statement that truths normally do not abidefor more than twenty years. Faith in rule-governed policy is, for that reason, not unproblematic. The Maastricht Treaty entered into force in 1993. Now twenty years later it is clear that the simple stabilisation rules it contained have failed. Thus, it may appear that Stockmann is right and that 2013 will be the year that marks the collapse and demise of simple rules.

Else-Britt Nilsen, Katarinahjemmet and MF Norwegian School of Theology

"The discipline of economics can readily be formulated in the language of mathematics", Jan Qvigstad states in the introduction to today's lecture – but he acknowledges the unpredictable with the clarification: "[W]e economists are in a borderland between faith and the strict proofs of mathematics". Here he is referring neither to religious faith nor religious truths – and perhaps it may come as a surprise to some among the assembled to find the Presiding Bishop of of the Norwegian Bishops' Conference among the speakers.

My own church's leading figure – Pope Benedict XVI – points out in his most recent encyclical, *Charity in Truth* (2009), that "[t]he Church does not have technical solutions to offer and does not claim 'to interfere in any way in the politics of States '". Nevertheless, he emphasises, "She does have a mission of truth" towards society as whole as well as towards individuals, a mission that is valid in all places and at all times: No aspect of human existence is alien or extraneous to the Church (No. 9).

Economic life, which has found its place within the discipline “Catholic social teaching” is not excluded. Let me illustrate this with some examples of this thinking.

Humanity has been given the task of subduing and cultivating the earth. The responsibility of stewardship shall be carried out with due care within given natural limits. Proper use of the earth’s gifts requires us to perform acts of justice towards ourselves and others. All people and all nations have the right to be included in economic life, and all ought to employ their talents to the full, and in so doing, contribute to the bounty that will benefit the many. In that way, human creativity will flourish.

Economics must be tied to morality. The outward manifestation of the moral dimension of the economy is that economic efficiency and fostering human development are not two separate or alternative goals, but are a single, indivisible objective. When economics and morality are inspired by justice and solidarity, they constitute “social efficiency”.

Catholic social teaching views the market economy as a key instrument of economic growth and human development**.** At the same time, the state has an important duty to put in place appropriate legal and administrative frameworks to regulate economic life so that it functions according to its purpose. The balance that must be struck between the free market and public sector intervention is guided by the principles of truth concerning the inviolable dignity of the human person, the common good, solidarity and subsidiarity. The free market and the state complement each other.

As a well-known quotation from the Bible puts it, “…there is no new thing under the sun” (Ecclesiastes 1:9), and this applies to a large degree to the doctrine of my church. Nevertheless – and fortunately – even an old church with an ample stock of eternal truths sees the necessity of bringing matters relating to societal evolution up to date. And that the Church cannot offer detailed solutions – be they in politics, or for that matter in dentistry! The temptation actually exists. It is said that Pius XII might occasionally yield to this temptation, for example in a speech to dentists in which he gave them advice on how to drill.

Jarle Simensen, University of Oslo

History is supposed to show interconnections. It is important to view the financial crisis in its political context. What was democracy's role in the run-up to the financial crisis? If we consider the irresponsibility evinced by fiscal policy in a number of countries, it may appear that democracy has failed. Popularity with the voters has come before fiscal discipline. The private economy, too, has been strongly characterised by borrowing rather than saving. This has resulted in a frightening short-termism. Learning from history requires reflection. If we compare this financial crisis with earlier financial crises, what is the same and what is different? Much was learned from the crisis of the 1930s, and the actions taken on the basis of what was learned were largely correct, and governments avoided collapse. Norway's experience is positive. A big difference from that time is that the financial sector so dominates the economy, and there is talk of a new form of capitalism. I would question the dominance of the financial industry, especially Wall Street and international finance. Finance capitalism kept increasing in scale after many years' growth at international investment banks and financial market funds, well supported by the ratings. Compared with the 1930s, the media plays a greater role in amplifying trends and moods. What sort of international regime can control this form of capitalism? Can the term “capitalism” re-enter the vocabulary of economists?

Ola Storeng, Aftenposten

The world has many aspects. Fashions and power – those are words I would have liked to have heard. In the 1970s, there were many who envisioned that the Soviet Union would become wealthier than the US. The banks had big ideas. As long as the Glass-Steagall Act was still in force in the US, things were simple. The power of the financial industry had been weakened. There were legal limits on campaign financing in the US. But simple solutions are not always permanent. The fashions arising in the 1980s viewed repeal of the Glass-Steagall Act as something positive. In the 1990s, even the simple Maastricht rules were set aside by the powers that be in Europe. The problem is debt. After the Second World War, we got the IMF, stable economic growth, low interest rates, but eventually, surprisingly enough, increasing inflation. However, I wish to strike a blow against simple rules. Take the Fiscal Compact as an example. If publicdebt exceeds 60 percent of GDP, it should, according to this simple rule, be reduced by 5 percentage points per year. However, this will stifle growth. I refer to Mehlum’s comment. The question is whether the era of simple rules ought not to be over.

Espen Moen, University of Oslo

Thank you for very interesting presentations. I would like to add some further reflections on the evolution of “truths” in the field of economics. But first I wish to comment on the use of the concept of truth. Qvigstad referred to Ibsen and Doctor Stockmann, who claims that truths live only for a limited period, between 17 and 20 years. He does not take into consideration the fact that different types of assertions or truths can have different life expectancies.

After all, taken literally, Stockmann's assertion that truths live only for a limited period of 17 to 20 years will only be true for 17 to 20 years. Thus, the statement would be irrelevant today. Doctor Stockmann suffers from a form of self-referential inconsistency. It is important to take account the fact that different types of "truth" can have different life expectancies. And that logical truths, such as that 1+1=2, stay fresh forever.

In the field of economics, the useful life of an assertion will vary considerably, and theories often outlive economic-political fads. Let me give an example. In the 1920s, Irving Fisher was the leading economist. Prior to the crisis in 1920, he predicted that the stock market would continue to rise, and to show that he practiced what he preached, he invested his wealth in shares. The 1929 crash cost him dearly, both financially and in terms of prestige. However, his purely theoretical work has stood the test of time. Fisher's theorem on the separation between consumption and investment decisions continues to be standard textbook material, at American universities perhaps even more than Keynes's models. Even though the man was discredited, the field continues to pass on his theoretical insights.

At the same time, it is a fact that society changes, and thus, economic laws or "truths" should also be adjusted, so that the map corresponds to the terrain at all times. Let me give an example. Before the war, workers' wages were usually disbursed at the end of the week in the form of cash in a pay envelope. Few workers had a bank account, and before the following week was over, the money had usually been spent. Total private consumption was therefore closely linked to current wage payments. In such a world, policies that stimulate demand would have a considerable impact. If aggregate income rises, aggregate demand will rise nearly as much. Thus, if aggregate demand in the economy is too low, expansive fiscal policy (such as tax cuts) will have a considerable impact. Later, the banking system became more important for the vast majority, and it became easier to even out consumption over time though loans and saving. Thus, the close connection between current consumption and current income was severed, and temporarily higher consumption from tax cuts resulted less in higher household demand. The evolution of new economic institutions can change the functioning of the economy, and a more sophisticated banking system may have reduced the impact of Keynesian stabilisation policy.

Changing fashions in economics may also reflect political power shifts. Macroeconomics does not evolve in a vacuum. In the initial decades after the Second World War, the idea of central planning had a strong position among the socialdemocratic majority in Norway, and also in other countries. The private sector would not necessarily be eliminated, but had to be tamed. This view fits well with a Keynesian view of the economy, where the state plays an important role as a stabiliser. This contrasts with parts of modern macroeconomics (especially the models in real business cycle theory), where rational agents, market clearing and the economy's self-correcting mechanism are given weight. This theoretical approach has been influenced by and has greater appeal among libertarian and conservative politicians, like Thatcher and Reagan and their successors. Macroeconomics is not sufficiently precise for actual economic conditions to be the sole determinant of the evolution of economic theory. The development of the discipline is influenced by (and, in turn, influences) the current political context.

As has been pointed out on numerous occasions, the majority of economists were not capable of predicting the economic crisis. Perhaps, as many currently argue, there ought to be a greater emphasis on a cross-disciplinary approach in order to understand economic developments. But perhaps one ought to be humble and see that there are limits on what it is possible to predict. If a global financial crisis is the outcome of a perfect storm, a series of individual factors that once in a great while appears simultaneously, such a crisis is, by nature, very difficult to predict. In the social sciences it is virtually impossible to obtain a good empirical understanding of phenomena that occur every fifty years – regardless of their magnitude or importance.

Stein Evensen, University of Oslo

This evening's main topic is learning from history. I have an appreciation of history. I head a group that is examining critical junctures in Norwegian medicine where the decisions were to have a profound impact. The handling of HIV and the closure of Reitgjerdet (a hospital for the criminally insane) in the 1980s are two examples. It is not really our aim to uncover truths or determine who was right or not at these junctures. It is always the victor who decides what the truth is, in the short run. In our group, we are interested in what the motives were behind the decisions that led to the different paths chosen. Who were the most important players and decision-makers, who got involved in the debates, and who were the dissidents? Experience from these investigations has taught me that the last group, the dissidents, who wound up losing the debate, often have the most to teach us.

Closing remarks

Anne Kveim Lie, University of Oslo

I would first like to reassure Hestmark. Paradigms persist. But insufficient attention is paid to the cleavage planes. Is medicine any different? In his speech, Qvigstad stated that truths may have a limited useful life. Research involves emphasising that you are doing something other than what has been done before and that you are contributing new insights. Interestingly enough, written scientific or scholarly works will appear different and more nuanced than they would when you are talking about the same works. When speaking, there is, in my experience, a stronger tendency to claim that truths are about to be toppled. This is, in my view, an interesting phenomenon.

Helga Haugland Byfuglien, Presiding Bishop of the Norwegian Church

It has emerged that the perception of trust has shifted. Much of this is a matter of trust, or perhaps rather of a lack of trust. That people relate to different truths illustrates that this is an ethical concept. It provides a perspective beyond greed and thoughts of personal gain. The criticism is often harsh, and many wish to see steps towards change. The rage in a number of countries is a signal of distrust, and the turnaround operation must involve sharing, solidarity, and must be viewed in a wider context, as a contribution to collective change, an ethical obligation in which people feel themselves to be a part of a greater truth.

Jan F. Qvigstad, Norges Bank

There are important differences between what are reasonable budget rules for an individual family and a reasonable policy for society as a whole. An example is what is called the “paradox of thrift”. This means, in essence, that even though all individuals save more, the outcome may nevertheless be that the society's aggregate savings will be less, if demand is so low that overall economic activity declines. It is therefore important not to generalise uncritically from micro to macro. However, in both micro and macro, it is important to have trust, and that is important to learn. Lenders need to trust that they will get back what they have lent. In Spain and Greece, the deficits grew so large that no one would lend them more money unless the interest rate were set so high that, in practice, borrowers could not afford to pay. A number of countries have dealt with their debt problems much better. Finland and the Baltic countries have made considerable sacrifices. The problems in Europe underscore the importance of stopping in time. I believe that simple rules can help. The problems in Europe became serious because the Maastricht rules were not heeded, and not by the large countries either. And Greece fudged its deficit figures. The financial crisis worsened significantly when Lehman Brothers went bankrupt in 2008. An attempt was made to rescue Lehman, but it turned out that a bail-out across multiple jurisdictions was too complicated. In October 2008, there was agreement that there must not be a repeat – no more Lehman Brothers. Moreover, the financial crisis has shown deficiencies in the supranational system. Banking regulation was too weak and the country with the weakest regulation set the standard. Conflicting interests have resulted in paralysis.

I was speaking about eternal truths. I also have an eternal question: Why are banks and the rest of the financial sector so unpopular?

Jesus evicted the money changers from the Temple. Many religions have explicit prohibitions against the charging of interest. The kings of Babylonia cancelled all debts every fifty years or so – during a so-called "jubilee year".

We have Shylock in the *Merchant of Venice*. In his first inaugural address, Franklin Roosevelt said, “Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men”. Today we have “Occupy Wall Street”.

Why is this sector so unpopular? Perhaps because the financial sector, which lubricates the machinery, takes such a large piece of the pie.

In my presentation, I said that big banks can easily give rise to big ideas about the importance of a country. But the financial crisis showed that big banks above all give rise to a political headache and a massive bill for taxpayers. Banks that are so large and expansive that a bankruptcy would undermine the entire financial system cannot easily be allowed to fail. Experience shows that in such cases, the government will come to the rescue. Of course, such an implicit government guarantee makes it safer to lend to these banks, and they can pay lower interest rates to their lenders. The difference between the rate banks actually pay and the one they would have to pay without the government guarantee is a subsidy. If we look at some of the world’s largest banks, in the period between 2002 and 2007, this subsidy constituted approximately half of earnings. When the financial crisis hit, the implicit subsidy became explicit and was equal to more than banks’ profits.

By comparison, the value of this bank subsidy exceeds the amount spent on development assistance in the world each year. But this subsidy does not go to the needy. Figures for the US show that the CEOs of the largest investment banks earn 500 times more than an average household, and that this ratio has quintupled over the past 20 years.

It has become a tradition for me to mention in my concluding remarks what next year's topic will be. I do not intend to break with this tradition. We are approaching the bicentenaries of the Norwegian Constitution and of Norges Bank. Over the past two hundred years, we have witnessed an enormous increase in prosperity. What creates growth and prosperity? Some will say oil. But then the perspective is only the last 40 years, and perhaps we would also be fairly wealthy without oil. I will not claim that economists have found the answer to the question of what creates growth and prosperity. But I believe there is broad agreement on the importance of good institutions in a society. So next year's topic is "*On institutions*".

We are approaching dinner and the informal portion of the meeting, and it may be fitting to conclude with a letter from a previous chief cashier at Norges Bank, S. Cederholm. In a letter to Karl Bomhoff, the Governor, Cederholm gave a summary of the actions taken at Norges Bank when Oslo was affected by the Spanish flu in 1919:

Dear Director Bomhoff,

At your request, I report the following: When the so-called Spanish flu began its devastation in Kristiania, all large institutions – with banks being the largest – were especially hampered by it. Nor was Norges Bank spared; there were numerous cases, of which six were gravely serious, and one of these ended in death.

The Executive Board then decided to try the remedy recommended by many doctors, namely cognac. Those employees who were ill or who were not feeling very well were given a dose of 15 to 20 grams of cognac per day. Its effect was instantaneous – no one got sicker, and everyone got better – the Spanish flu was no longer raging at Norges Bank.

That it was the cognac that finished it off here at the Bank is likely to the point of certainty, for other banks that had not armed themselves with this remedy long continued to be stricken by this insidious illness. Respectfully, S. Cederholm.

I offer no opinion on the scientific evidence for Cederholm's conclusions, but I am certain that it was enjoyable. I wonder if chief cashier Cederholm had not touched on an eternal truth here. For a number of illnesses, at any rate, cognac is the best thing that does not work.

About the authors

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Helga Haugland Byfuglien (born 1950) is since 2011 Presiding Bishop of the Church of Norway. She used to be Bishop of Borg where she was appointed on 23 September 2005 by King Harald V, and was consecrated and installed in office on 11 December 2005 at Fredrikstad Cathedral. She held the position as Secretary General of the Norwegian YMCA-YWCA. She was the parish priest in Nidaros Diocese from 1978 to 1986 and in Ås parish in the Borg Diocese from 1986 to 1993. From 1993 till 1997 she was chaplain in the Borg Diocese.

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