Commentary

Brother, Can You Paradigm?

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Brother, can you paradigm? This familiar quip with its hint of the importunate captures the sentiments expressed by many who hope that the global financial crisis of 2008–2009 spells the end of a neoliberal era devoted to expanding market competition and the beginning of a new one in which alternative routes to growth will be found, marked by more assertive government intervention and more egalitarian policies. In effect, they are looking for a new policy paradigm specifying major shifts in economic and social policy.

History suggests that such an aspiration is appropriate. If we look back at the last two major turning points in the policymaking of the developed democracies—the years immediately following the Second World War, which ushered in an era dominated by the Keynesian welfare state, and the years after 1980, which initiated an era of neoliberalism—we can see that each transition was made possible by the emergence of a new economic paradigm with widespread political appeal. By themselves, of course, those paradigms were not enough to shift politics so dramatically, but they were indispensable concomitants of a new politics with important distributive implications. It simplifies only slightly to note that each of these transitions required a motivation, means, and motor.

The principal motivation for the development of the Keynesian welfare state was the disastrous experiences of the 1930s, which gave rise to depression, class conflict, fascism, and world war. Politicians emerged from that war determined that such things should never happen again and seeking ways to resolve the bitter interwar conflict between the representatives of labor who believed that nationalization of the means of production was the only way to secure full employment and the representatives of capital who opposed nationalization at all costs even if that meant high unemployment.

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In this context, the ideas of John Maynard Keynes, broadly construed, provided the basis for a new class compromise. Keynes argued that governments could secure full employment without nationalizing industry by using the government's budget to manage the relationship between aggregate demand and supply. In one form or another, this doctrine was taken up across the developed world and supplemented by increasing social benefits for those most disadvantaged in a market economy. The motor behind the rise of this Keynesian welfare state was an electoral politics still dominated enough by social class to persuade parties on both sides of the political spectrum to address working-class grievances. If interwar experience provided the motivation and class-based electoral competition the motor, a Keynesian paradigm provided the means for this transition.

The motivation for the subsequent move to neoliberal policies during the 1980s came from the disasters of the 1970s, marked by simultaneous increases in unemployment and inflation—a development largely unanticipated by Keynesian doctrine and for which it had no remedy. Rates of economic growth plummeted, and the incomes policies adopted by some governments called into question the legitimacy of the state. The result was a reaction against state intervention in favor of the market. Electorates were seeking new routes to economic growth, and politicians who had been glad to take responsibility for full employment sought doctrines that would make markets rather than states responsible for high levels of unemployment. In this context, the monetarist doctrines of Milton Friedman, soon supplemented by a rational expectations economics, provided an attractive new paradigm, which offered a remedy for inflation and a justification for enhancing the role of markets vis-à-vis the state in the allocation of resources. This new economic paradigm provided the means for the transition to a neoliberal era.

The motor for that transition was initially the desperation of the authorities to control rates of inflation and the desire of conservative politicians, such as Ronald Reagan and Margaret Thatcher, to stem the rising tide of social spending and trade union power that had flowed during the Keynesian era. However, subsequent steps toward deregulation, privatization, and contracting out state services were made possible by the erosion of trade union power in the wake of high unemployment and an electoral context that inhibited any politics of working-class defense. Three decades of prosperity had blurred class boundaries, taken the edge off social grievances, and promoted postmaterialist values—inspiring an electoral dealignment that spelled the end of class-oriented politics in much of the West. The result was not a new consensus but enough electoral confusion to give governments the leverage to abandon the postwar class compromise and implement policies that shifted income from labor to capital and saw the fortunes of the affluent rise much more rapidly than the wages of average workers.

Today, some of the preconditions for another major shift of policy are in place and perhaps presage a new era. There is a widespread sense of grievance in much of Europe and North America about rising levels of income inequality, intensified in some countries by high levels of unemployment and stagnant incomes following from the global financial crisis. In most of the Western democracies, majorities say it is the responsibility of government to make incomes more equal. In this context, some argue that there is no need for a new economic doctrine: A return to Keynesian ideas will suffice.

However, views such as this understate the extent to which a paradigm overarching enough to usher in a new era (as distinct from the narrower paradigms that often dominate specific fields of policy) must speak to broader political issues if it is to have compelling appeal. Both the Keynesian and monetarist paradigms addressed issues about the appropriate relationship between the state and society in terms that captured the historically specific dilemmas of particular times and places. In the contemporary era of floating voters, class compromise no longer seems such a salient concept, and we are too distant from victorious wars to think that a "war on poverty" is something states could successfully wage. Although any new paradigm on this scale will be credible only if it is grounded in economic science, it will also have to speak to the quintessential political dilemmas of an age in which many have lost faith in the capacities of the state, worry that redistribution to others will mean less for them, and wonder to whom they owe solidarity in a rapidly globalizing world.

Thus, the fashioning of a new paradigm capable of replacing its predecessors will have to be the work, not only of political economists, but of politicians experimenting with new approaches to the economic and political problems of our time. In such a process, there are many false starts but also a creativity, as parties jockey for position in contests in which collective well-being is at stake. Thus, it should not surprise us that a new paradigm has not yet emerged. Such processes take time. Those seeking such a paradigm would do well to begin in the academy but then lift their eyes to the political arena, as Keynes and his successors certainly did. We do not yet know what will be found there, but thanks to the work of the scholars represented in this Issue and many others, we know where to look and what to look for.

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