

## The Perils of Paradigm Economics

*di Andrés Velasco*

“The era of big government is over,” then-US President Bill Clinton [proclaimed](#) in 1996. But President Joe Biden’s multi-trillion-dollar [spending plans](#) are suggesting precisely the opposite. Behind the politicians stand the policy gurus, eager to put their names on – as the fashionable phrase goes – a new “policy paradigm.”

Paradigm-peddlers have not yet settled on a single label for the post-pandemic era, but frothy ideas abound. Countries should “build back better,” but only after a “great reset.” Economic growth used to be a pretty good thing on its own; these days, it is unmentionable in polite company unless it is “inclusive, equitable, and sustainable.” (I can see why, but must all three adjectives always be strung together?)

True, the pandemic revealed plenty of social and economic weaknesses that governments should have been busy fixing a long time ago. Weak state capacities, grossly insufficient health infrastructure, threadbare social safety nets, and malfunctioning labor markets – the list is long, and it applies to most developing economies and a surprising number of rich countries, too. There is nothing like a crisis to rouse slumbering policymakers and shove aside veto players who impede change.

So, change is in the air, and in many cases it will require a more muscular (though not always larger) state. But does this – and, more importantly, should it – add up to a new paradigm?

Harvard University’s Dani Rodrik was right to [argue](#) recently that we should beware of economists bearing policy paradigms. Such frameworks are supposed to organize thinking, but more often than not they substitute for it.

Consider a paradigm that the pandemic is supposed to have killed: neoliberalism. Neoliberal once meant a particular approach to free-market economics. Applying the description to leaders like Margaret Thatcher and Ronald Reagan made some sense. But in current parlance, the term also applies to former UK Prime Minister [Tony Blair](#), former German Chancellor Gerhard Schröder, and the social democrats who have governed Chile for 24 of the last 30 years – in fact, to anyone who thinks markets have some role to play in human affairs.

Through repeated, careless use, neoliberal has now become one of those words that, as George Orwell [said](#), “are strictly meaningless, in the sense that they not only do not point to any discoverable object, but are hardly even expected to do so by the reader.”

But meaningless is not the same as useless. If a speaker at an academic seminar, policy conference, or cocktail party tars someone as a neoliberal, two messages are immediately clear: the speaker is good, and the target is bad, unconcerned with the plight of the downtrodden. Tarring

someone with this particular epithet is virtue-signaling *par excellence*. It marks the speaker as a member of a progressive tribe concerned about the world's poor.

The right has its own ideological identity markers. In the debate about Obamacare and health insurance in the United States, or about vouchers for school funding anywhere, anyone claiming to support “freedom of choice” is not just making a point, but also sending a signal.

Both freedom and choice have multiple meanings that philosophers have been debating at least since classical Greek times: freedom *to* or freedom *from*? Choice to do what? Is someone with little money or education really “[free to choose](#),” as the Nobel laureate economist [Milton Friedman](#) used to say? In fact, today's freedom-of-choice advocates probably do not want to pursue those ancient and endless debates; they are simply signaling their membership in the ideological free-market tribe.

How do such identities come about? In William Golding's 1954 novel [Lord of the Flies](#), middle-class English schoolchildren stranded on a deserted island quickly turn into bloodthirsty monsters who maim and kill. The novel, written in the shadow of World War II, the Korean War, and the threat of impending nuclear holocaust, painted a bleak picture of human nature. Readers could be forgiven for thinking that it was too bleak.

But in the same year that *Lord of the Flies* was published, the social psychologist Muzafer Sherif took a group of 11-year-old boys to a summer camp in Oklahoma. Sherif separated them into two groups – the “Rattlers” and the “Eagles” – and each began to develop songs, rituals, and the markers of a shared identity. Soon enough, they were burning each other's flags and conducting raids with stone-filled socks as weapons. It was *Lord of the Flies* in an Oklahoma state park.

“[The] experiences shared by people result in a sense of identity differentiating themselves as a unit,” [said](#) Sherif, when explaining what he had witnessed. “The mere awareness of other groups within the range of our designs generates a process of comparison between ‘us’ and the others.” Moreover, he said, “This tendency seems to be one of the fundamental facts in the psychology of judgment.”

As the world seeks to ensure recovery from the COVID-19 crisis, simplistic political and economic ideologies will not lead to effective policymaking. Rodrik rightly pines for economic thinking that is un beholden to cliché or to narrow identity politics. As he says, “The right answer to any policy question in economics is, ‘It depends.’” Circumstances matter, and the devil is in the details.

I want the same thing as Rodrik, but you can't always get what you want. Because nowadays (at least outside Trumpian circles) identities based on race or religion are unacceptable, ideologies have become the last refuge of the identity-seeking and politically savvy scoundrel, and new economic paradigms the weapon of choice.

Slogans such as “No to austerity!” or “Yes to a living wage” fit on a banner and lend themselves to chants. Statements like, “The appropriate policy depends on the price elasticity of factor supplies,” not so much.

In the old joke, a man walks into a psychiatrist’s office and says, “Doctor, my brother’s crazy! He thinks he’s a chicken.” The doctor says, “Why don’t you bring him to me?” And the man replies, “I would, but I need the eggs.”

Political ideologies can be crazy, and those who peddle them often behave like chickens. But how we crave those eggs.