



ARGUMENTS

Radical Pragmatism: Policymaking After COVID

We don't need to agree on a new economic model. We do need to agree on a new method.

BY GEOFFREY GERTZ HOMI KHARAS FROM OCTOBER 16, 2020, 2:02 PM - 22 MIN READ

TAGGED CLIMATE CHANGE COVID-19 NEOLIBERALISM POLICY



Vehicles line at the drive-thru COVID-19 Mobile Testing Center on Staten Island, March 19, 2020. --
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The world today looks very different from the one imagined at the outset of 2020. The COVID shock has not only upended health systems around the world, but also long-standing economic, political, and social practices, opening the potential for a radically different future. Many politicians, activists, business officials, and civil society leaders are calling for a reopening and a return to normalcy. Others, however, are calling for a reset of existing models of policymaking.

Such calls for a policy reset are not necessarily new. Indeed, across the United States, United Kingdom, and much of Europe, economic and political upheaval over the past decade unleashed waves of criticism challenging status-quo models of capitalism. At the core of many of these criticisms was growing dissatisfaction with neoliberalism, and its prevailing belief that private markets are the most effective and legitimate means for organizing economic activity. This decade of discontent prompted a productive debate around the relative roles of states and markets in structuring society. But it has proven difficult to move from broad critiques of neoliberalism to more specific policy proposals. There is recognition that societies face myriad problems beyond aggregate economic growth, but uncertainty about how to go about setting this “beyond GDP” agenda remains. And while most agree that the “states or markets” pendulum had swung too far in favor of unfettered free markets over the previous 30 years, there is less clarity on how to marshal the power of technology, science, business, philanthropy, and all the other forces of society—in addition to markets and governments—in a purposeful way.

The sheer destructive and transformative power of COVID, however, is now forcing such questions beyond theoretical debates and into the here and now of decision-making. The practical question of how to build back after COVID, which will play out in the coming months and years, has opened a window of opportunity for concrete movement away from neoliberal orthodoxy. Policymakers need clear and useful frameworks for guiding their thinking in this moment.

In this essay we outline such a framework for how to reset policymaking after

COVID. Our analysis is inspired in part by governments' response to the pandemic itself: facing the twin health and economic crises spurred by COVID, governments around the world mobilized a historic response of unorthodox, extreme policies: quarantines, travel bans, income guarantees, debt standstills, eviction pauses, and other radical measures. Their approach reflected the old adage that there are no ideologues in a crisis—in the face of urgent and overwhelming needs, policymakers need to adopt a “whatever it takes” mentality. **Early analyses** suggest these extreme policies saved millions of lives around the world—although both the scope and effectiveness of government responses have varied significantly by country, and in many instances left much to be desired.

We argue the radical pragmatism of effective crisis response—a willingness to try whatever works, guided by an experimental mindset and commitment to empiricism and measuring results —represents a policymaking model that can and should be applied more widely, not only in times of crisis. Radical pragmatism offers a promising approach for moving beyond the state/market dichotomy debates of the last decade, since for many contemporary problems this is a false choice. Indeed, even before COVID, neither market-dominant nor state-led economies were providing compelling solutions to their most daunting challenges, such as the climate emergency, inequality, and stagnant productivity. And whether states or markets should be preferred is not some universal truth to be debated in abstract, but a contingent question to be put to practical test—in a particular context, which contributes most effectively to social progress?

Our radical pragmatism approach brings these practical tests to the forefront of policymaking. It starts from defining societal problems and then creatively and ambitiously asks what needs to be done, by whom and by when, to make progress on that agenda, without a priori privileging either state or market action. Below we first outline some of the shortcomings in existing neoliberal economic models, and then explain why radical pragmatism offers an appealing alternative for policymakers looking to reset after COVID.

The Roots of Discontent With Neoliberalism

The increasing reliance on market mechanisms in Western economies began to take

off in the second half of the twentieth century, peaking with the Reagan and Thatcher administrations in the United States and UK, and soon garnering relatively broad consensus among advanced economies. In almost all of these countries, mainstream political parties espoused light touch regulation and minimal government intervention on industrial policy, general openness to trade and foreign investment, and low taxes on corporate profits and top personal incomes. There were, of course, still differences between left and right approaches to neoliberalism. In particular, the left typically endorsed government policy to smooth the rough edges of market outcomes through redistribution or regulatory action, while the right embraced the benefits of self-regulated markets. But the consensus that market competition was the preferred, default option maintained broad support; any deviations away from market competition needed to be explicitly justified with clear evidence of a market failure.

The use of market mechanisms to drive economic growth delivered important material gains, most clearly in developing countries, where global poverty plummeted from around 65 percent of the world population in 1965 to single digits by 2015. Yet neoliberalism's laser focus on economic efficiency, and narrow toolkit centered around market-based competition, also revealed its limits. The 2008 financial crisis brought the downsides of light-touch regulation into stark relief. Productivity growth in advanced economies has fallen to below 1 percent per year. Average hourly wages, adjusted for inflation, are at the same level as 50 years ago, while the incomes of the top 1 percent have raced ahead.

Meanwhile, divides between urban and rural communities and across generations are deepening, pushing societies toward divisive and dysfunctional zero-sum politics. Partisan political instability, where each new government seeks to undo the policies of its predecessor, leaves countries unable to credibly tackle long-term challenges. The twin shocks of Donald Trump's election and the Brexit vote suggest pent-up demand for dramatically changing the contemporary political order. (Of course, whether Brexit or the Trump Administration is meaningfully responding to this malaise is quite a separate question.) Citizens are losing trust in institutions—the Pew Research Center estimates that 76 percent of Americans believe the government is run by a few big interests looking out for themselves, rather than for the benefit of all

people. Teenagers are leading mass campaigns to force stronger action on climate change.

As these cracks in contemporary economic, political, and social models become impossible to ignore, the neoliberal consensus is splintering. Indeed, a cottage industry has sprung up to diagnose the failures of contemporary Western capitalism. Recent books extol the need for *Rethinking Capitalism*, reveal *The Myth of Capitalism*, peer into *The Future of Capitalism* and ask, *Can American Capitalism Survive?* The connective tissue throughout this body of work is that the challenge is not to restore the previous order, but to reimagine it.

Toward a Radical Pragmatism

There are many suggestions for tweaking the neoclassical economic model: more enforcement of competition to reduce the extent of “rentier” capitalism; a clamp-down on tax havens; worker training and a focus on skills for the twenty-first century; carbon taxes or cap-and-trade systems. Corporate CEOs are mainstreaming environmental, social, and governance issues into their business processes. Even that bastion of capitalism, the Business Roundtable, has embraced stakeholder capitalism, at least rhetorically.

These adjustments, however, are unlikely to be enough to tackle systemic problems like climate change and social cohesion. Addressing these will require marshalling the power of technology, science, business, philanthropy, and all the other forces of society in purposeful ways. We think the time has come to try a new approach, one that we call “radical pragmatism,” a nod to the American philosophical tradition of rejecting representational models of reality (such as the neoliberal modelling of perfectly competitive markets with single-agent rational consumers) in favor of understanding the world through lived experiences.

Pragmatism does not imply squishy centrism or a compromise middle path. Rather, it starts with defining concrete problems, then asks what needs to be done, by whom and by when, to make progress. A pragmatic approach should combine the allocative efficiency of markets, the regulatory powers of governments, the innovation of science and technology, and the legitimacy and accountability of civil society.

It is “radical” because an honest pragmatism that starts from an assessment of concrete problems will often demand quite radical shifts from the status quo. Just as stopping COVID demanded radical changes in policymaking, so too may effective responses to other social and economic ills. Market solutions tend to favor small adaptations at the margin. They overshoot and undershoot before they find the right equilibrium, which makes them ill-suited to tackling problems like climate change or social discontent, where history and path-dependency can make problems more acute over time and generate crises. In these instances, a more radical, “whatever it takes” mentality to policymaking is needed to mitigate risk of a disaster. The scope of the problem should drive the scope of the policy response; radical problems call for radical action.

Radical pragmatism privileges empiricism over ideology, and agnosticism on ideological fights between states and markets. Indeed, it requires a systems approach that goes well beyond states and markets. It is an approach well suited to large-scale problems.

The contours of a radical pragmatic agenda, and how it differs from prevailing neoliberalism, can best be understood by applying its logic to two specific challenges: mitigating fallout from the climate crisis and reviving the economic fortunes of the middle class.

Mitigating Climate Change

A neoliberal approach to the climate crisis focuses on taxes to ensure the market price of carbon emissions (and in principle other greenhouse gases) reflects their negative externality. While this would promote market efficiency, by itself it will be insufficient. For instance, most deep decarbonization pathways emphasize the need to move to all-electric transportation. A simple carbon tax could not ensure all the

investments needed to bring about such a system-wide change—a classic case of coordination failure. As importantly, markets often tend to overshoot and then correct. Yet climate change—and many other environmental challenges—is characterized by thresholds and tipping points, with abrupt and irreversible consequences. Concerted, directed policies are needed to ensure these tipping points aren't crossed.

Moreover, to date climate policies have only tinkered at the margins of existing economic systems. For example, only about 15 percent of global carbon emissions are covered by a carbon market, and some markets, like China's, routinely price carbon at levels below \$10/ton, compared to a level of \$75/ton recommended by the IMF as consistent with limiting global warming to no more than 2 degrees Celsius above preindustrial levels. Despite a number of high-profile reports and commissions sounding the alarm from the scientific community, policy changes have remained timid—there is no feedback loop into actions.

A radical pragmatic approach, by contrast, would begin by facing the scale of the climate crisis head on. It would set a fixed timetable to reach a measurable target. The European Union's consideration of zero net emissions by 2050 would meet this standard; Joe Biden's campaign has embraced the same target. It would then identify the pathways to deep decarbonization. An eclectic policy toolkit is needed, one that complements carbon taxes with some combination of: public investment in clean technology research; challenges or prizes for private investment in battery storage or carbon capture; elimination of fossil fuel subsidies including incentives for exploration; mechanisms to encourage greater integration between academic and private sector organizations working to accelerate clean energy transitions; retrofitting publicly-owned assets to limit emissions; planning urban spaces to encourage limited use of personal vehicles and expanding green areas; subsidizing rail transport; regulating farms to limit emissions from animal husbandry; and improving forest and soil management. This list is by no means exhaustive, but it is indicative of a range of options including market mechanisms, direct public actions, indirect incentives, coordination mechanisms, and new social norms. Crucially, it is impossible for policymakers to know *ex ante* which of these options, in what combinations, will prove most effective—the only way forward is to experiment and

adjust based on experience.

A radical pragmatic approach to the climate crisis would also integrate political considerations into any strategy, because in practice politics can overwhelm policies that are optimized in theory. Environmental policies that move forward without broad public support will ultimately fall victim to public discontent, as failed attempts to reform fuel subsidies have shown. The transition costs associated with arresting climate change will be substantial, and policymakers need to think through who should bear these costs, and how they can be fairly distributed throughout society. This is one reason why advocates of a Green New Deal have linked claims of environmental justice and economic justice, in order to increase broad-based public support for the radical action that is needed.

In sum, a radical pragmatic approach would set clear time-bound goals for reduced carbon emissions, study which of the interventions is most cost-effective, and iterate and adjust if the pace of change did not live up to expectations. In the context of the climate crisis, where there are many uncertainties about new technologies, uptake, and impact, a constant focus on outcomes and adjustments to policies in the wake of new information is critical for success.

Delivering Economic Prosperity for the Middle Class

Since the mid-1970s, wages in the United States and many other countries have stagnated and decoupled from economic growth. In the United States, the share of labor in national income has fallen by about 15 percent. While rich households and capital owners have done well over the last 40 years, many middle-class families are struggling. Neoclassical economists point to a range of possible explanations for this divergence: skill-biased technical change; increased business concentration and higher economic rents; globalization and pressures from low-wage trading partners such as China; falling corporate tax rates and opportunities for shifting profits to low-tax havens. This in turn prompts a familiar set of policy prescriptions such as worker training and skills development, early child education, and multilateral agreements to preclude base erosion and profit shifting.

By and large, however, these prescriptions made tweaks at the margin and have failed

to meaningfully improve the economic outlook for the middle class. While a radical pragmatic approach wouldn't necessarily abandon these policies, it would also consider more direct interventions to increase wages. For instance, minimum wages were long decried by neoliberal policymakers as an inefficient price floor that would necessarily increase unemployment for low-wage workers. Yet over the past three decades, empirically oriented economists have shown that the implications of the minimum wage are much more complicated, and that there is no widespread pattern whereby higher minimum wages increase unemployment. In a 1993 paper, economists David Card and Alan Krueger found that higher minimum wages in New Jersey actually led to higher employment; yet despite this positive empirical finding, New Jersey's minimum wage at the beginning of 2019 was below its 1992 level. It is now programmed to rise to \$15 an hour by 2024, following legislation signed into law last year.

A radical pragmatic approach would also consider how power imbalances between capital and labor may have contributed to wage decoupling. Specifically, as union membership has dropped precipitously in many countries, workers have been able to capture less and less of the value from production. Neoliberalism viewed unions as inefficiently skewing labor markets. Yet interventions to improve workers' ability to bargain collectively could modify the power balance between production workers and managers and owners, allowing low-wage workers to demand higher pay. (Or they might not—we need better empirical evidence to tell.) Other reforms could also boost workers' influence in firms, such as ensuring that workers have representation on corporate boards, so that their interests are reflected in company decisions.

The point is simple—the ideology of neoliberalism has, for the most part, triumphed over empiricism in seeking to improve wages for average workers. A radical pragmatic approach would start with the problem, namely that middle-class households are no longer sharing in the gains from economic growth. It would then encourage experimentation with a range of policy responses to reverse this trend, in order to better understand what works best in what context. Greater experimentation will provide policymakers a wider range of experiences to draw on, iteratively working to identify what combination of policies can better deliver prosperity for middle-class workers.

Principles of Radical Pragmatism

Drawing on these practical examples, we identify three core principles of radical pragmatism that offer a more promising approach to policymaking than neoliberalism.

Problem-Driven Policymaking

A pragmatic approach to economic policymaking starts from defining and prioritizing problems, which will necessarily vary across places and time. This problem-driven strategy focuses on substantive improvements in citizens' lives.

Neoliberalism's starting point, in contrast, was not how to solve a problem, but how to propagate a particular solution: market competition. While market competition has undoubtedly greatly advanced human welfare, over time the core neoliberal solution—market competition to create aggregate economic prosperity—has become both the means and the ends of societal vision. Faith in markets too readily leads to a blind embrace of market competition as an end in itself, collapsing efforts to define and solve problems into a single objective—how can we “free” markets to promote efficiency? This in turn suggests a particular hierarchy of social challenges, not necessarily based on what is most urgent or transformative, but what is most amenable to marketization. Privatization and market competition are held up as a panacea for everything from education and health care to prisons, banking, and the postal service, often based more on a belief in markets than in careful, critical empirical evaluations.

Radical pragmatism would instead start from problems, then draw upon a range of possible solutions. A key question, of course, is how problems will be identified and defined, and who will have the power to set this agenda. One reason a radical pragmatic approach appeared more feasible during COVID was the consensus in many societies that addressing the pandemic was a top societal priority. As this consensus began to break down in the United States as a partisan conflict, momentum for action predictably waned. More generally, moments of crisis are valuable in clarifying and defining shared understandings on the biggest problems facing societies, which makes cooperative action easier. Political systems often struggle to respond to “unseen crises,” such as the climate emergency and stagnant middle-class wages.

Prioritizing among potential problems is an inherently political process, one that will continue to be difficult in politically polarized or otherwise fractured societies. We offer no silver bullets for these problems, nor do we pretend such political conflicts will magically disappear overnight. Yet a problem-driven, pragmatic approach can help elucidate where these core differences lie and clarify and sharpen the stakes of political debate. In other words, we should expect ideological and interest-group cleavages over which problems facing society are most important, but not necessarily over how best to solve them.

One example of problem-driven policymaking comes from New Zealand, which recently adopted a “well-being” budget. It sets out five core societal goals: on carbon emissions; managing digitalization of the economy; inclusion of indigenous groups; reducing child poverty; and supporting mental health. The national government then calls for all new public spending to address at least one of these priorities. This overarching framework does not prescribe specific market- or state-based solutions to these problems, but rather concentrates attention and effort on what has been identified as the most important challenges facing society.

An Iterative and Adaptive Approach to Implementation

The second core principle centers around implementation and a commitment to do what works. Rather than presume that we know what will work to address a particular problem in a particular context, policymakers need to continually iterate and adapt in response to evidence. A radical pragmatic approach must be empirically rooted and humble enough to adjust course when necessary. It should be impossible under radical pragmatism for problems to go unresolved for decades, as has occurred with wage stagnation and carbon emissions, with little demand for a new approach.

In contrast, neoliberalism underemphasized questions of implementation, focusing instead on best practice policy advice and elegant models rather than messy empiricism. Yet empiricism is the necessary corollary to privileging concrete, real-world problems as the starting point for policy. We cannot simply assume policies will have intended effects based on models or theoretical implications; a healthy skepticism and agnosticism, and a willingness to update beliefs in light of new

information, is required. Only by carefully studying, measuring, and describing the world as it is can policymakers understand if interventions work.

Such evidence will come in many forms, and we are by no means suggesting that every policy must be subjected to a randomized controlled trial. And while we recognize that empirical measurement may be simpler for some problems than for others, this cannot be an excuse to avoid problems less amenable to easy measurement. Radical pragmatism is a problem-driven approach; policymakers should seek out the best available evidence for the problem at hand.

An iterative and adaptive approach will allow policymakers to learn from real-life experiences and improve on existing approaches. By doing so, they acknowledge that they cannot easily predict how economies will respond to different shocks. Indeed, because economies are so complex, trial and error is needed, as interventions may produce unforeseen outcomes, and adjustments in approach might be required in light of observed effects. And while policymakers should learn from and emulate successes in other countries and contexts, solutions will always be context-dependent; thus, continual experimentation and updating will foster improvement. (It is somewhat ironic that while successful private businesses are quick to adjust to new information and move on and learn from failure, neoliberal policymakers' ideological commitments often blind them from the need to do the same.)

Within the field of development economics, there is a recent trend toward such an approach, epitomized by the Problem-Driven Iterative Adaption (PDIA) framework championed by Harvard's Center for International Development (and presaged in earlier work by economists such as Dani Rodrik and A. Michael Spence). But adaptive policymaking still lags in many public bureaucracies, perhaps especially in advanced economies.

Taking Politics Seriously

The third principle of radical pragmatism is to not shy away from questions of power, politics, and the process of policy change. Neoliberal approaches by and large eschewed politics, focusing instead on optimization and best practices applicable in

any political context. Indeed, neoliberalism's technocratic, top-down approach sought to excise messy politics from policymaking (and, at its worst, could be outright anti-democratic). Yet the current populist backlash shows that, even if doing so were advisable, politics cannot be so easily walled off from economic models. Economic policy choices are inherently political, and politics shapes and constrains potential policy options.

Taking politics seriously means not only appreciating how current political forces and constellations of power influence what policy options are most likely to succeed, but also understanding how to manage political change. This is partially a question of communication—policymakers cannot simply assume that citizens will follow their lead. Even when policies are benefiting citizens, policymakers need to effectively and persuasively communicate and explain these benefits. They need to provide the vision for where societies are going, particularly in instances where short-term sacrifices might be necessary.

At the same time, policymakers need to think seriously about the design of governance structures, and how to incorporate both public and private actors into the process. Governance mechanisms that bring together multiple stakeholders can benefit from the viewpoints of businesses, non-profit agencies, academia, and civil society. The challenge is designing governance structures that incorporate private information while not being captured by private interests. More generally, governance structures drive policy outcomes; where governance structures are consistently leading to inadequate policy outcomes, governance reforms may be the most pressing policy priority.

Conclusion

The financial crisis of 2008 played a key role in sparking a new debate on the future of capitalism. The COVID crisis of 2020 may ultimately be the catalyst that shifts this debate into real-world policymaking. In looking to reset after the pandemic, policymakers have an opportunity to move beyond existing economic, political, and social models, and to put aside ideological commitments that have inhibited the radical pragmatism necessary for addressing today's pressing challenges.

Moving beyond neoliberalism will be an arduous but essential process. We appear to have passed the stage of tinkering with the existing neoliberal paradigm, although efforts to preserve it will undoubtedly persist. Societies that embraced neoliberal economics are ill-equipped to deal with rising carbon emissions, income inequality, biodiversity loss, and many other harms inimical to long-term well-being. Market competition will of course continue to be a useful and valuable instrument for many policy challenges. But on some of the biggest long-term problems facing societies, neoliberal policies have proven unable to deliver results.

Something must change. Economists and public policy analysts are already exploring new and wide-ranging questions and approaches for making sense of today's reality. In this period of creative foment, with many novel ideas gaining traction, it is difficult to predict if a single direction or new paradigm will emerge, or simply a new pathway.

Yet without some guiding discipline, the energy of movements to drive change is at risk of petering out. Neoliberalism rose to prominence in part due to the backing of an organized academic and political infrastructure supporting neoliberal policymaking. Today we believe a similar effort is needed, a movement for radical pragmatism. Rather than trying to find consensus around a single new model or universal theory that could replace neoliberalism, the movement for radical pragmatism will seek consensus on a method: one that defines and quantifies goals and targets for socio-economic development, sets practical and actionable strategies, and iteratively adjusts based on learning loops, benefitting from the increasing use of big data, while openly acknowledging that different solutions will be needed in different places to deal with different problems. At the core of radical pragmatism is the belief that, though political contestation over *what* problems society should be prioritizing will of course continue, debates over *how* to solve them can be answered empirically, and—crucially—improved upon over time. It is a movement not of left or right, state-led or market-led, but of a radical commitment to do what works to address the most salient problems of society. We believe its time has come.

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GEOFFREY GERTZ is a Fellow in the Global Economy and Development program at the Brookings Institution.

HOMI KHARAS is a Senior Fellow in the Global Economy and Development program at the Brookings Institution.

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