AEA Papers and Proceedings 2020, 110: 366–371
https://doi.org/10.1257/pandp.20201000

ECONOMICS FOR INCLUSIVE PROSPERITY (EFIP)

Economics after Neoliberalism: Introducing the EfIP Project†

By Suresh Naidu, Dani Rodrik, and Gabriel Zucman*

We live in an age of astonishing inequality, together with volatile and oligarchic politics. We also confront seemingly intractable inefficiencies in key sectors like education, finance, health, and media, and a spectacular ongoing climate crisis.

We believe that these are all solvable problems—or at least that we can make serious headway on them. Economists have an indispensable role to play. Indeed they have already started to play it.

I. The Role(s) of Economists

While the sociology of the profession—career incentives, norms, socialization patterns—often militates against engagement with the policy world, especially by younger academic economists, a sense of public responsibility is bringing people into the fray.

The tools of economics are critical to developing a policy framework for what we call "inclusive prosperity." While prosperity is the traditional concern of economists, the "inclusive" modifier demands both that we consider the whole distribution of outcomes, not simply the average, and that we consider human prosperity broadly, including nonpecuniary sources of well-being, from health to climate change to political rights. To improve the quality of public discussion around inclusive prosperity, we have organized a group of economists—the Economics for Inclusive Prosperity (EfIP) network—to make policy recommendations across a wide range of topics, including labor markets, public finance, international trade, and finance.[1] The purpose of this nascent collective effort is not simply to offer a list of prescriptions for different domains of policy but to provide an overall vision for economic policy that stands as a genuine alternative to the market fundamentalism that is often—and wrongly—identified with economics.

We personally saw the power of this identification in early 2018, when the three of us attended a workshop on "new thinking beyond neoliberalism." The participants—historians, political scientists, sociologists, legal scholars, and economists—agreed that the prevailing neoliberal policy framework had failed society, resulting in monumental and growing inequality. All of us were worried by the illiberal, nativist turn in our politics, fueled in part by these chasms. There was consensus around the need for a genuine alternative—a set of policies that were both effective and inclusive, responding to legitimate grievances without sowing deeper societal divisions.

Although we fully embraced these aims, we found ourselves on the defensive. For in the eyes of many, the turn toward neoliberalism is closely associated with economic ideas. Leading economists such as Friedrich Hayek and Milton Friedman were among the founders of the Mont Pelerin Society, the influential group of intellectuals whose advocacy of markets and hostility to government intervention proved highly effective in reshaping the policy landscape after 1980.

* Naidu: Columbia University (email: sn2430@columbia.edu); Rodrik: Harvard Kennedy School (email: dani_rodrik@harvard.edu). Zucman: UC-Berkeley (email: gzucman@berkeley.edu). This is a revised and updated version of our introduction to EfIP policy briefs, published originally in the Boston Review. We thank Joshua Cohen, the other founding EfIP members, and participants in the Boston Review forum for comments.

† Go to https://doi.org/10.1257/pandp.20201000 to visit the article page for additional materials and author disclosure statement(s).

[1] A list of these policy briefs and the current members of EfIP are available at https://econfip.org. We encourage *all* economists to submit policy briefs drawing on economic research.

Deregulation, financialization, dismantling of the welfare state, deinstitutionalization of labor markets, reduction in corporate and progressive taxation, and the pursuit of hyperglobalization—the culprits behind rising inequalities—all seem to be rooted in conventional economic doctrines. The discipline's focus on markets and incentives, methodological individualism, and mathematical formalism all seem to stand in the way of meaningful, larger-scale economic and social reform. In short, neoliberalism appears to be just another name for economics.

Consequently many people view the discipline of economics with outright hostility. They believe the teaching and practice of economics has to be fundamentally reformed for the discipline to become a constructive force. There are, indeed, legitimate reasons for discontent with the way economics is too often practiced and taught. Conservative foundations and think tanks have often monopolized the banner of economics in policy circles, pushing the view that there is a steep efficiency–equality trade-off and assigning priority to economic growth. Students often leave their introductory economics courses thinking that "markets always work." Conservatives tend to deploy "economics" as a justification for preferred policies, while liberals are seen as insensitive to the requirements for prosperity.

Our response is fundamentally different. Many of the dominant policy ideas of the last few decades are supported neither by sound economics nor by good evidence. Neoliberalism—or market fundamentalism, market fetishism, etc.—is not the consistent application of modern economics but its primitive, simplistic perversion. And contemporary economics is rife with new ideas for creating a more inclusive society. But it is up to us economists to convince our audience about the merits of these claims, which is why we have embarked on this project. We hope the policy briefs written by EfIP members, some of which we outline here, stimulate and accelerate academic economists' sustained engagement with creative ideas for inclusive prosperity.[2] We have since had additional contributions from other economists (all are available at https://econfip.org/).

In the face of the broad loss of legitimacy neoliberalism has cost economics, we must first address the issue of how to persuade noneconomists that economics is part of the solution. To be sure, many economists' habits, especially when it comes to how they engage in public debates, are to blame for the misunderstanding of what economics is and what economists do.

Among many things, economists study markets. When markets look like they do in textbook economics, they do a good job of aggregating information and allocating scarce resources. The principle of comparative advantage, which lies behind the case for free trade, is one of the profession's crown jewels—both because it explains important aspects of the international economy and because it is, on its face, so counterintuitive. Similarly, economists believe in the power of incentives: we have evidence that people respond to incentives, and we have seen too many well-meaning programs fail because they did not pay adequate attention to the creative ways in which people behave to realize their own goals.

Yet too many economists believe their quantitative tools and theoretical lenses are the only ones that count as "scientific," leading them to dismiss disciplines that rely more on qualitative analysis and verbal theorizing. Many economists feel they need to take the side of markets because no one else will and because doing otherwise might "provide ammunition to barbarians" (i.e., self-interested pressure groups and rent seekers). And even when some economists recognize market failures, they worry government action will make things worse and sweep many of the discipline's caveats under the rug. Economists thus get labeled as cheerleaders for free markets and hyperglobalization.

Economists also often get overly enamored with models that focus on a narrow set of issues and identify first-best solutions in the circumscribed domain at the expense of potential complications and adverse implications elsewhere. A growth economist, for example, will analyze policies that enhance technology and innovation without worrying about labor market consequences. A trade economist will recommend free trade and assume that devising compensatory mechanisms for people who lose

[2] There are many think tanks that rely on economists' ideas and engage them in thinking about policy issues. However, we are not aware of any *academic* network of economists focused on turning research and scholarship to policy use in the broad domain that we have called "inclusive prosperity."

their jobs is somebody else's responsibility. And a finance economist will design regulations to make banks safe without considering how these may interact with macroeconomic cycles. Many policy failures—the excesses of deregulation, hyperglobalization, tax cuts, fiscal austerity—reflect such first-best reasoning. To be useful in discussions of real policies, economists have to evaluate those policies in the totality of the context in which they will be implemented and consider the robustness of policies to many possible institutional configurations and political contingencies.

But these bad habits aside, contemporary economics is hardly a paean to markets and selfishness. The typical course in microeconomics spends more time on market failures and how to fix them than on the magic of competitive markets. The typical macroeconomics course focuses on how governments can solve problems of unemployment, inflation, and instability rather than on the "classical" model where the economy is self-adjusting. The typical finance course revolves around financial crises, excessive risk taking, and other malfunctions of financial systems. In fact, the "competitive equilibrium model" in which free markets are maximally efficient—even if they are not good for fair distribution—is the dominant framework only in introductory economics courses. Thoughtful economists quickly move away from it.

Economics is still somewhat insular within the social sciences because of its methodological predilections: methodological individualism, model-based abstraction, mathematical and statistical formalism. But in recent decades economists have reached out to other disciplines and incorporated many of their insights. Economic history is experiencing a revival, behavioral economics has put homo economicus on the defensive, and the study of culture has become mainstream. At the center of the discipline, distributional considerations are making a comeback. And economists have been playing an important role in studying the growing concentration of wealth, the costs of climate change, the concentration of important markets, the stagnation of income for the working class, and the changing patterns in social mobility.

Economists still have a strong bias toward market-based policy solutions, and the policy prescriptions endorsed by economists tend to be narrowly focused on addressing precise market failures. For example, to address global warming, economists are likely to support putting a steep price on carbon. But the science of economics has never produced predetermined policy conclusions. In fact, all predictions and conclusions in economics are contingent. The answer to almost any question in economics is "it depends," followed by an exegesis on what it depends on and why.[3] Back in 1975, in a collected volume entitled *International Trade and Finance: Frontiers for Research*, an economist named Carlos F. Diaz-Alejandro wrote, "by now any bright graduate student, by choosing his assumptions … carefully, can produce a consistent model yielding just about any policy recommendation he favored at the start" (p. 97). Economics has become even richer in the intervening four decades. We might say, only slightly facetiously, that today the graduate student need not even be that bright!

Moreover, economics research has become significantly more applied and empirical since the 1990s. This is important because systematic empirical evidence is a disciplining device against ideological policy prescriptions. The recent empirical bent makes it more difficult to idolize markets because it makes it more difficult to ignore inconvenient facts. Recent empirical findings, for example, have found that international trade produces large adverse effects on some local communities, that minimum wages do not reduce employment, and that financial liberalization produces crises rather than faster economic growth.

Economics does have its universals, of course, such as market-based incentives, clear property rights, contract enforcement, macroeconomic stability, and prudential regulation. These higher-order principles are associated with efficiency and are generally presumed to be conducive to superior economic performance. But these principles are compatible with an almost infinite variety of institutional arrangements, with each arrangement producing a different distributional outcome and a different contribution to overall prosperity. The recipe thus calls for comparative institutional analysis of economic performance—not glib "markets work" slogans. The abstraction

[3] Rodrik (2015) argues that the scientific nature of economics resides precisely in this ability to generate conditional hypotheses that can be confronted with evidence (even if not decisively tested).

with which economists perceive complex bundles of institutions also gives practitioners tools to help design large-scale alternatives, from precision tweaks to the tax code to full-blown visions of post-capitalist societies.

Consider even the simplest economic setting of a perfectly competitive market economy. When an economist draws a supply-and-demand diagram on the blackboard, she may not list all the institutional prerequisites that lie behind the two curves. Firms have property rights over their assets and can enforce their contracts with suppliers. They have access to credit, can rely on public infrastructure such as transportation and power, and are protected from thieves and bandits. Their employees accept the terms of employment and show up at work each day. Consumers have all the information they need to make reasonable choices. They are reasonably confident that firms do not cheat them. There is a stable unit of value and means of exchange for buying and selling goods.

Clearly markets rely on a wide range of institutions; they are "embedded" in institutions, as Karl Polanyi would say. But how should those institutions be designed? Take property rights as an example. The Coase theorem suggests it does not matter for efficiency how property rights are allocated as long as transaction costs are zero. But the caveat does a lot of work here: transactions costs matter greatly. So we must make choices. Should a job belong to a company, a worker, or a combination? Perhaps the company itself should be owned by a third party—a local government entity, say—and simply ensure incentive compatibility for managers and workers. That might sound crazy to most Americans, but China has eked unprecedented rates of economic growth out of such a property-rights regime. Perhaps employers should have property rights (for a fixed period) only over new assets they create, with existing assets distributed among other claimants. That too sounds crazy, unless we realize that is exactly what the patent system does, giving innovators temporary ownership over new "intellectual property." Perhaps the government, on behalf of the general public, should retain part ownership of new technologies since so much of innovation relies on public infrastructure (public R&D and subsidies, higher education, the legal regime, etc.). The choices that need to be made must consider distributional concerns and depend both on our ultimate objectives and the potential fit with local context.

As we grapple with new realities created by new technologies (such as artificial intelligence), demographics—and their impacts on labor markets, such questions about the allocation of property rights among different claimants—become crucial. Economics does not necessarily have definite answers here. Nor does it provide the appropriate distributional weights (how to weigh the returns to workers, employers, and the government, and what procedural and deontological constraints should be respected). But it does supply the tools needed to lay out the trade-offs, thus contributing to a more informed democratic debate.

The same kind of institutional indeterminacy pervades all other policy domains. Which labor market institutions minimize job insecurity without jeopardizing employment creation? How do we best provide social protection without blunting economic incentives? What kind of financial regulations ensure financial stability without blocking financial innovation? What kind of monetary and fiscal rules are best for an open economy? Economics does not provide a fixed answer to these questions. Instead, it highlights the potential consequences of different arrangements.

There is already a considerable variety of institutional arrangements in existence today. Welfare and labor market arrangements, for example, differ greatly across the developed world, and the United States can learn a lot from experiments elsewhere. But plausible institutional diversity is not limited to existing practices. We can—and will need to—develop new institutions. Nothing in *laissez-faire* guarantees that growth will be equitable or globalization sustainable. The markets that we have inherited from the past are likely not those that we would intentionally craft. We need to design policies and institutions that make inclusive prosperity possible and globalization sustainable—politically and economically. With a powerful theoretical machinery that allows them to think in abstract terms about such matters, economists' imagination is crucial to the task.

II. Limitations and Criticisms

There is a clear tension: we believe economists can be significant players in progressive politics but are reluctant to make an explicit normative commitment ourselves. Economists are a valuable expert community but should be more explicit and self-critical about their normative assumptions and, alternatively, not shy about articulating the values that animate their work. There is nothing in mainstream economics that stands in the way of this, but we want to keep our own values separate from what we think economics can accommodate.

We also think that the liberation of economics from neoliberalism will allow for new flavors of conservatism to be expressed in an economics dialect. Now that a post-Trump Republican Party is less in thrall to its free market factions, it is unsurprising that conservatives want an economics that allows nonpecuniary values of tradition, authority, and security to be articulated as social goals to be traded off against economic performance.

To reiterate, there is nothing in mainstream economics that stands in the way of the emergence of a communitarian conservative view, but to the extent this view depends on claims about how the world works rather than what is good, it will have to be defended on the basis of the peer-reviewed evidence to have standing inside contemporary economics. We are intentionally aimed at debunking antieconomics stereotypes we encounter on the left, and it is a task for others to exposit modern economics to an audience of conservatives more concerned with family, community, and nation than economic growth. Besides the content of economics, there are important sociological and pedagogical changes that we view as complementary. In socializing prospective economists, economics still fetishizes a combative attitude, superfluous mathematical prowess, and cultural signifiers of "smarts" in graduate students, creating inhospitable environments for underrepresented minorities and women. This should all be fixed, both institution by institution and in the field as a whole, and it is a safe bet that the diversification of the economics pipeline will also diversify the policy conclusions.

While neoliberal economics may be obsolete in the advanced countries, some argue that its basic policy messages have proven to be effective in bringing large groups of desperately poor people into the global middle class. India and China have shown the power of liberalized markets and international trade. Might we be killing the golden goose by suggesting that this was a mistake?

In our view, portraying China and India as neoliberal success stories hides more than it reveals. The key reforms in these cases are reconfigurations of state–economy relationships, far from neoliberal prescriptions. Indeed, if these countries had been failures, there would be no shortage of neoliberal takes today as to why that is so: the state is still too powerful, there is too much industrial policy, international trade is not free enough, and so on. Very little of why the policy changes worked in these countries can be understood with textbook economics or the first-best benchmarks of the neoliberal economist. We would not want a post-neoliberal economics to become an ideological tool for defending the rents of rich citizens against incursions by the poor. But we would also like economists to understand that global economic integration is a means and not an end, and that a panoply of institutional arrangements are needed to manage it and keep it politically sustainable. Economists have a lot to contribute to this kind of policy problem, when aware of politics and pluralist values, and we think a less ideological economics will do more to promote prosperity and development than one that always prescribes more markets and less government.

III. Some Ideas in the Policy Briefs

The ideas in the policy briefs are varied, but all have grounding in recent economics research and all are intended to be accessible by policymakers and journalists. Here we highlight a few themes in the recent submissions.

Daron Acemoglu, Max Kasy, and Anton Korinek all write about the endogeneity of technological change. Rather than take technology as an exogenous shifter, these briefs show that policy, incentives, and even normative values have an important role in shaping what technology looks like and who it benefits.

Ilyana Kuziemko, Sandra Black and Jesse Rothstein, and David Deming all emphasize direct government provision of goods like education, health care and social insurance. For example, Kuziemko argues that extending Medicare to the whole population would raise middle-class incomes while substantially shrinking the health insurance sector and shrinking bloated payments to providers.

Another theme is the necessity of financial regulation for macrostability. Atif Mian discusses how inequality fuels a saving glut that exposes the economy to aggregate risk. Anat Admati discusses the importance of banking capital requirements in order to prevent excess leverage in banking, while Şebnem Kalemli-Özcan discusses leverage restrictions in nonfinancial corporations.

Finally, monopoly and monopsony appear with some regularity. Jonathan Baker and Fiona Scott-Morton present ideas on streamlining antitrust. Jose Azar, Ioana Marinescu, and Marshall Steinbaum discuss applying antitrust in labor markets. Beyond antitrust, labor market policies for addressing monopsony include unions, as discussed in Suresh Naidu's brief, or an extensive system of labor market-specific wage floors, as proposed by Arindrajit Dube.

Other proposals focus on important issues like climate change, labor market policy, racial inequality, and political institutions, and we encourage readers to peruse them.

REFERENCES

Diaz-Alejandro, Carlos F. 1975. "Trade Policies and Economic Development." In *International Trade and Finance: Frontiers for Research*, edited by Peter B. Kenen, 93–150. Cambridge, UK: Cambridge University Press.

Rodrik, Dani. 2015. *Economics Rules: The Rights and Wrongs of the Dismal Science*. New York: W.W. Norton & Company.