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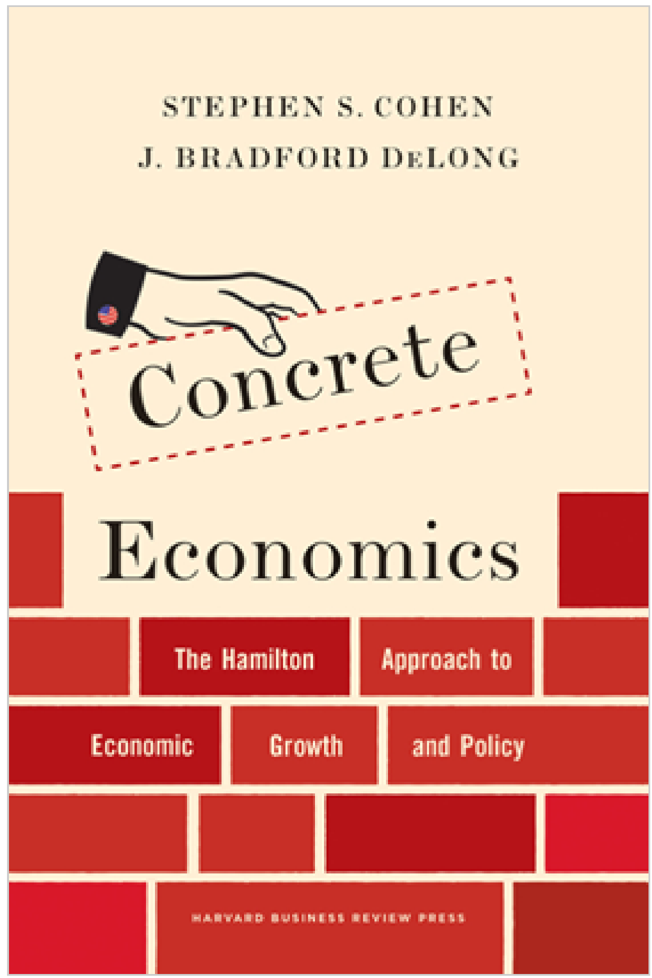
The dangers of ideology and the virtues of pragmatism

“It’s a little disquieting you would let your ideals blind you to reality.” This line from the hit Broadway musical *Hamilton* pithily captures the ethos of Berkeley economics professors Stephen S. Cohen and J. Bradford DeLong’s *Concrete Economics: The Hamilton Approach to Economic Growth and Policy.* If you feel trapped in the contemporary polarized social and economic discourses, Cohen and DeLong’s book offers a sobering and timely escape from excessive idealism by providing a reasoned synthesis of what policies work in bolstering economic growth. The authors articulate the virtues of pragmatic policymaking, explaining how policy decisions based on precedence have historically buttressed the U.S. economy and cautioning about the dangers of policy filtered through ideology. As they put it, “In successful economies, economic policy has been pragmatic, not ideological. It has been concrete, not abstract.”



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The book is inviting to readers of all levels of economic expertise. It is brief, avoids technical jargon, and offers no new abstract economic theories—all traits consistent with Cohen and DeLong’s quest for simplicity. It seeks solely to remind readers of what successful economic policy has looked like through history, concisely illustrating how the United States has lost its way by sacrificing down-to-earth economic policy. According to the authors, this shift in policy thinking has contributed to the steep decline in U.S. manufacturing and the hypertrophying of industries such as finance, healthcare administration, and real estate.

Cohen and DeLong devote the book’s first three chapters to explaining the economic thinking and policies of the country’s most prominent economic leaders—starting with Alexander Hamilton, the first Secretary of the Treasury, and

moving on to Presidents Abraham Lincoln, Theodore Roosevelt, Franklin D. Roosevelt, Dwight D. Eisenhower, and Ronald Reagan. In chapter 4, the authors go on to tackle the intricacies of the East Asian economic model, exploring what the economic booms of Japan, South Korea, and China can teach us about successful economic policy. And finally, before their closing statements, Cohen and DeLong include a penultimate chapter explaining the consequences of abstract and ideological decision making, highlighting what they see as a poorly regulated and inefficient U.S. finance sector. A more detailed account of each chapter follows.

In chapter 1, Cohen and DeLong debunk the idea that, since its inception, the United States has been a Jeffersonian, laissez-faire nation, citing the Hamiltonian system of government intervention and policies as evidence. According to the authors, Hamilton's system was based on four key economic drivers: high tariffs, high spending on infrastructure, the assumption of state debt by the federal government, and reliance on a central bank. Cohen and DeLong assert that these drivers were quintessential to America's rise as an industrial and economic powerhouse, and that Hamilton's policies and vision spurred the U.S. global dominance in manufacturing and technology. Long after Hamilton's fatal duel with Aaron Burr—and despite Hamilton's opposition party (led by Thomas Jefferson and James Madison) occupying the White House for nearly four decades after his death—Hamilton's policies were sustained and have been immortalized in the U.S. economic framework. Cohen and DeLong argue that it is this basic, yet benevolent, system established by Hamilton that holds the key to strong economic growth, boldly asserting that the ideas in Hamilton's lesser known *Report on Manufactures* (1791) are more influential than those in Adam Smith's *The Wealth of Nations* (1776).

In chapter 2, the authors outline the U.S. economic redesigns implemented from the post-Civil War era to the rollout of FDR's New Deal during the Great Depression. Social and economic planning by the government was at a historic high during this period, embodied by efforts like the preservation of high tariffs, the Homestead Act of 1862, and the Morrill Act of 1862, which allowed Americans to own land and go to school on the federal dime. There were then, of course, the railroads, which were nearly all subsidized by the government and, as the authors assert, indispensable to the economic burgeoning of the United States. But this period also brought in its wake unprecedented levels of inequality and xenophobia against immigrants, among other issues. Cohen and DeLong argue that President Theodore Roosevelt helped course-correct these unsettling trends through "pragmatic, practical, and concrete change." The Federal Reserve, national parks, antitrust laws, unemployment compensation, and federal retirement and disability benefit programs were all birthed under Teddy's presidency to combat economic inequities. Cohen and DeLong conclude the chapter by underscoring the economic redesign of FDR's New Deal, describing that program's strategies to alleviate the Great Depression as "pragmatic experimentalism: try one thing and then another; what didn't work was dropped; what worked was quickly expanded."

Chapter 3 jumps to "the long age of Ike," delineating the technological advancements and evolving framework of American life that emerged as a result of the policies implemented under President Dwight Eisenhower. Challenging the free-market ideas of thinkers like Milton Friedman, Friedrich Hayek, and Ludwig von Mises, Cohen and DeLong contend that Eisenhower's massive federal spending and government interventionist policies were imperative to achieving U.S. global technological dominance. Under Ike, federal spending as a percentage of gross domestic product was double that of FDR's New Deal spending peak, providing funding for measures such as the GI Bill and the National Defense Highway Act. And military spending—even after the Korean War—was approximately 2.5 times as high as it was under Presidents Bill Clinton and George W. Bush. Nuclear power, commercial jetliners, microwave ovens, semiconductors, internet, and computers—nearly all the great

technological innovations of the 20th century—were either subsidized by the federal government or birthed in government labs. As the authors succinctly summarize, "Mortgage financing for single-family homes; road building; defense spending and its spin-offs; tight and steady regulation of finance; and government oversight of big business and big unions. It was all in place by the time Ike came to office and [he] authoritatively assured its continuation and its massive, smooth, and responsible expansion."

In chapter 4, Cohen and DeLong highlight the East Asian economic model, citing Japan's and China's extraordinary growth during the 20th century as evidence of the virtues of pragmatic economic policymaking. For an amalgam of reasons, Japan's sustained rate of economic growth after World War II was the highest in modern history, and the authors largely attribute this growth to the country's protectionist policies and highly competent, meritocratic government bureaucracy. In the case of China, Cohen and DeLong ascribe the nation's impressive economic advancement to Deng Xiaoping, the "Architect of Modern China" who, after decades of failed campaigns aiming to rear the country out of a poor peasant economy, "set China on what has proven to be an unimaginably successful trajectory of structural economic reform." In both countries—and just like the United States of Hamilton's time—the successful reformers sought to shift their nations' economic comparative advantages from agriculture to high-value manufacturing.

Lastly, chapter 5—the denouement of Cohen and DeLong's economic policy synthesis—illustrates the consequences of supplanting pragmatism with ideological extremity in economic decision making, highlighting the U.S. finance sector as a case study. Included in FDR's New Deal policies were safeguards and regulations of the finance industry that were deemed acceptable and necessary to prevent another disaster after the Great Depression and to keep banks and other portfolio managers in check. But starting in the 1970s, a slew of initiatives to deregulate the U.S. finance sector were incrementally rolled out, representing an idealistic effort to free markets from restrictive government intervention. The repeal of the Glass-Steagall Act and Regulation Q, as well as the implementation of the Depository Institutions Deregulation Act and the Garn-St. Germain Act, are just some of the initiatives Cohen and DeLong cite as reasons for the artificial enlargement of the U.S. finance sector and for subsequent catastrophes such as the 2007–08 financial crisis. The finance sector of the 1950s constituted only 3.7 percent of the U.S. economy, compared with over 8.5 percent today, and the authors assert that the more regulated 1950s economy provided more safety from crisis and economic inequality without hobbling economic growth. A growing finance sector is supposed to allocate capital across industries more efficiently, but it is not clear how or where. And despite advancements like faster computers and credit derivatives, some experts, such as former Federal Reserve Chair Paul Volcker, have concluded that the ATM has been the only worthwhile financial innovation in the past three decades.

On the last page of the book, Cohen and DeLong outline their call to action: "We propose one change…shift discussion of economic policy to the concrete, where it had recurrent successes." As I was reading the book's closing pages, I certainly hoped the authors would offer more "concrete" policy solutions to the economic issues presented to us, but I was unsurprised that they chose not to do so. First, if they did suggest policy solutions, it may have violated their impartiality. Second, the book was intended as a conversation starter, not a panacea to all our economic problems. Indeed, the authors suggest that the answers to these problems may just be hiding in plain sight, concealed in historical precedent and overshadowed by theoretical abstraction. In the simplest terms, they ask us to look at what worked in the past and repeat it.

Although I think Cohen and DeLong strive for impartiality, potential counterarguments to their assertions were found wanting. It is clear that the authors are followers of John Maynard Keynes (they inserted three block quotes from Keynes in their six-page concluding statements), so I was often left wondering how Keynes's greatest philosophical rivals would respond to their assertions. What would Hayek say about the authors' claim that FDR's New Deal was not ideological? What would Friedman, who was skeptical of the government's ability to innovate, say in response to all the technological advancements that emerged from government labs in the last century? Would Mises agree that regulation and government intervention in the finance sector are necessary? Although these and similar questions remain unanswered, the authors make stalwart arguments, and I think they are right.

The book coaxes a kind of economic self-awareness; it is easy to be entranced by beguiling ideological speeches filled with promises of prosperity, but Cohen and DeLong attempt to bring the reader back to reality. It is also easy to look at the U.S. economy through rose-tinted glasses, but the book's tough analysis on the contemporary problems facing the United States is cautionary and enlightening. I hope to see another down-to-earth piece from Cohen and DeLong soon.