



To: Board of Directors<sup>1</sup>  
From: Larry Kramer  
Re: Beyond Neoliberalism: Rethinking Political Economy

We launched the Madison Initiative to tackle the problem of democratic dysfunction, which we have addressed with a strategy focused on the ***practice of politics*** — looking for levers to reduce or mitigate the tribalism that prevents our elected officials from working together effectively. The unexpected election of Donald Trump — a rebuke by voters of the establishment on the right and the left, following a campaign of unusual vitriol with the new specter of digital disinformation — led us to reassess our analysis. That process, which took place throughout 2017, for the most part corroborated our original diagnosis of the fraying of key democratic institutions amid political polarization. But it also exposed some blind spots. We address these now with two related proposals for new funding.

The first proposal, which seeks to make a small but important addition to the Madison Initiative, is presented in a separate memorandum. It focuses on ***information*** — or, more specifically, on how citizens are being misinformed about politics via the internet and social media platforms. There are compelling reasons to incorporate concern for digital disinformation into the Madison Initiative: Propaganda and misinformation are being used to stoke voters' emotions in ways that threaten the very idea of political community and make it harder for government to act. Equally important, any progress we make in repairing politics will come to naught if citizens are misled about what has been done and deceived about whether it works.

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<sup>1</sup> These materials were prepared as part of the Hewlett Foundation's internal planning process and have been lightly edited for clarity. They do not represent actions to be taken by foundation staff or by grantee staff at the foundation's direction. In particular, although some of the progress indicators, targets, or metrics may reflect the passage of legislation (based on input from grantees and experts in the field), the Hewlett Foundation does not lobby or earmark its funds for prohibited lobbying activities, as defined in the federal tax laws. The foundation's funding for policy work is limited to permissible forms of support only, such as general operating support grants that grantees can allocate at their discretion and project support grants for nonlobbying activities (e.g., public education and nonpartisan research).



Yet finding ways to address societal problems is not solely a matter of fixing how politics is practiced or assuring that citizens receive trustworthy information. It is also a matter of *ideas*: of finding plausible solutions around which agreement and public acceptance are possible. Unfortunately, today’s prevailing intellectual paradigm — which has come to be labeled “neoliberalism” — is no longer up to the task. However well this free market orthodoxy suited the late 20th century, when it achieved broad acceptance, it has proved unable to provide satisfactory answers to problems like wealth inequality, wage stagnation, economic dislocation due to globalization, and loss of jobs and economic security due to technology and automation. Worse, it has become one of the principal sites of hyperpartisan conflict.

Yet circumstances are ripe for the emergence of a new intellectual paradigm — a different way to think about political economy and the terms for a new 21<sup>st</sup>-century social contract. Helping develop and communicate such ideas is a task well suited to philanthropy, and one in which the Hewlett Foundation is well positioned to participate. Our second request is for modest funding to explore this possibility — specifically, \$10 million from the foundation’s 2018 unallocated funds to be spent over two years.

The discussion below elaborates the thinking behind this request. Parts I-III recount how the current neoliberal paradigm became dominant, including the pivotal role philanthropy played in its rise. Part IV draws lessons from this history to explain why conditions at present seem favorable for replacing neoliberalism with something better suited to today’s circumstances and problems. This is followed in Part V by a discussion of how philanthropy can help engineer such a change.

The discussion that follows is somewhat longer and more detailed than is typical, particularly the history in parts I-III. But I believe it provides essential background to understand both how an effort along these lines can succeed, and how profoundly important it could be. Replacing neoliberalism, while difficult, is arguably the most impactful way to unlock progress across a broad range of issues.



## **I. Introduction.**

Imagine it is 1945, and you are speaking with the young Milton Friedman. He already has complex and sophisticated ideas about political economy, but they can be summarized in three relatively straightforward propositions:

- First, society consists of rational individuals seeking to maximize their own utility. Critical to this conception are the corollary precepts that there is no such thing as “society,” only the atomized individuals who comprise it; that these individuals act rationally to advance their self-interest; and that competition is therefore a primary driver in human affairs. Friedman’s conception is more than just descriptive. It is also normative: For him, the right of individuals to compete freely to maximize their own welfare is the very definition of “liberty.”
- Second, the measure of success for a nation consists of wealth, broadly understood to include whatever forms of utility its individual members value. The more wealth a nation produces, as reflected in measures like GDP, the more successful it can be deemed.
- Third, it follows from the first two propositions that the proper role of government is to establish and protect free markets. Such markets are the best means possible for rational, self-interested individuals to maximize aggregate wealth.

Friedman was not a strict libertarian or anarchist. He believed government had an affirmative role to play beyond just maintaining order, in particular, by establishing and protecting the conditions needed for free markets to flourish. What this meant to him changed over time. At some points in his long career it included robust antitrust laws and affirmative obligations to provide certain kinds of public goods (like education); at other points, he seemed to favor confining government to doing only those things necessary to make markets work, like courts and contract law. He also had other reasons for favoring markets, like a belief that the market-pricing mechanism was the most efficacious way to compile and aggregate information about people’s preferences, and so the truest measure of value. But the essence of his economic



philosophy was that the best way to assure liberty and prosperity is to confine government to enabling free markets.

Of course, in 1945, Milton Friedman and the small group of economists who shared his ideas were thought of as batty — fringe figures detached from reality and the lessons of actual experience. There was, at that time, an overwhelming consensus that John Maynard Keynes had found the better approach: government intervention in markets, through monetary policy by central banks and fiscal policy by the government, to mitigate market instability caused by fluctuations in demand. The need for a managed market economy was the lesson of the Great Depression, a lesson shared broadly both inside and outside the field of economics by liberals and conservatives alike. Disagreement between those on the left and those on the right persisted about exactly when and how government should intervene. But from 1945 until the early 1970s, there was broad consensus around the idea of a “mixed” economy in which government had an essential regulatory role, and ideological clashes took place within that overarching, shared framework. Hence, Republican president Richard Nixon famously proclaimed in 1971 that everyone was “now a Keynesian in economics.”

Fast forward to 1985. Milton Friedman is still around and his ideas haven’t changed much, except they now comprise the mainstream around which there is broad consensus. Liberals and conservatives have come to agree on the primacy of markets and the need to rely on them first whenever possible. As during the heyday of Keynes, disagreement between left and right persists — mainly in the greater willingness of liberals to spot market failures that justify government intervention. But liberals, too, have come to accept the presumptive superiority of market ordering. This is reflected, for example, in their embrace after 1989 of the so-called Washington consensus, not to mention in the policies promoted by Democratic presidents like Bill Clinton and Barack Obama. Clinton’s welfare reform, NAFTA agreement, and financial deregulation all had a strong pro-market tilt, and Obama policies like the Affordable Care Act, Dodd-Frank, TPP, and the Earned Income Tax Credit were designed either to harness markets or to interfere with them as little as possible. The interference was still more than conservatives and Republicans could tolerate, but these were differences within a shared paradigm — a paradigm that had been considered both foolish and finished four decades earlier.



## **II. Ideas Matter.**

The significance of the movement of Friedman's ideas from the fringe to the center can hardly be overstated, but not because the world ever fully conformed to his beliefs. After all, government regulation has hardly disappeared in the years since Ronald Reagan was elected. But no intellectual paradigm is perfectly realized in practice. Life and politics are much too complicated for that ever to be the case. There was plenty of regulation at the apex of laissez-faire, just as free markets remained immensely important during the Keynesian years. It would be naïve to expect any political or economic philosophy to be followed or applied with perfect consistency, particularly as neither the politicians and administrators who create and enforce policy, nor the people and organized interests to whom they must respond, are academics moved by the need to respect theoretical purity. In our messy, complex world, the policies and actions of different actors will always embody a host of contradictions and inconsistencies, no matter the reigning intellectual paradigm.

The importance of these intellectual paradigms is in how they structure arguments and tilt the playing field for or against competing claims. Politicians, administrators, citizens, business leaders, political activists, and the media may not make intellectual consistency their primary concern, but they do understand and frame their arguments and plans in light of broad understandings about how the world works and should work. Opinions and beliefs may be guided by material needs or desires, but material needs and desires are likewise influenced by intellectual understandings. Ideas play a critical role by putting a thumb on the scale in favor of some arguments and against others; they reshape the world, if not perfectly in their own image, then still in ways that are powerfully different from how the world would look without them.

The participants in the 20th-century debates about political economy understood this perfectly well. As Friedman's senior colleague and intellectual mentor, Friedrich Hayek, observed, "experience indicates that once a great body of intellectuals have accepted a philosophy, it is only a question of time until these views become the



governing force of politics.”<sup>2</sup> Friedman himself noted much the same, explaining that “the role of thinkers . . . is primarily to have available alternatives, so when the brute force of events make a change inevitable, there is an alternative available to change it.”<sup>3</sup> But the clearest statement of the importance of ideas in shaping interests may have come from Keynes himself:

I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy . . . the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.<sup>4</sup>

Keynes, Hayek, and Friedman knew whereof they spoke, and the latter two lived long enough to see their ideas yield colossal change, for the repudiation of Keynesianism in favor of free market orthodoxy in the 1970s and '80s reshaped the entire world. Government regulation may persist in many arenas, but in the years since Hayek's and Friedman's economic philosophy — now called “neoliberalism” — became ascendant, it has reshaped everything. Fiscal policy, monetary policy, labor policy, trade policy, welfare policy, and industrial policy, to name only a few, have been fundamentally altered in line with the ideas of Hayek and Friedman and their followers. Nor have the effects been confined to economics, and market-based thinking has similarly colonized law, political science, sociology, psychology, anthropology, public policy, and myriad other disciplines. The private sector has likewise been dramatically reshaped by these ideas — from models of corporate governance to the role of business in society, how workers and executives are paid, and how the financial sector operates. Friedman himself might look askance at the world today, disappointed by the many ways we fall

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<sup>2</sup> Hayek Papers, “Leaflet, Institute for Humane Studies,” in Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton: Princeton University Press, 2012): 160.

<sup>3</sup> Friedman Papers, “Money Programme Transcripts,” in *id* (April 21, 1978): 331.

<sup>4</sup> John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (CITY: PUBLISHER, 1936): 383-84.



short of his vision, but it's impossible to deny that we live in a world profoundly reshaped by the ideas he and his followers advanced.

### **III. Shifting Paradigms.**

How did an analytic paradigm thought risible in the 1940s come to dominate global policymaking by the 1980s? Two developments explain the change — the first a product of circumstances, the second of intentional efforts, including the efforts of philanthropic funders.

#### *Changing Circumstances.*

Historically speaking, intellectual paradigm shifts are an infrequent but recurrent phenomenon. Just as neoliberalism superseded Keynes, the Keynesian paradigm supplanted laissez-faire, which had itself replaced the system of mercantilism that dominated Western economic thought in the 18th and early-19th centuries. There is, at any given time, a dominant way of thinking that helps structure political and social activities, and that persists (subject to the sorts of contradictions and inconsistencies discussed above) until displaced by something new.

These displacements occur in varied ways, depending on when and how changing circumstances put stress on the reigning intellectual paradigm. Historian Edmund Morgan, who calls these paradigms “make-believe” because they are a product of human invention, says:

The political world of make-believe mingles with the real world in strange ways, for the make-believe world may often mold the real one. In order to be viable, in order to serve its purpose, [however,] a fiction must bear some resemblance to fact. If it strays too far from fact, the willing suspension of disbelief collapses. And conversely it may collapse if facts stray too far from the fiction.<sup>5</sup>

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<sup>5</sup> Edmund Morgan, *Inventing the People* (New York: W.W. Norton, 1988): 13-14.



Morgan is referring here to political ideas like “the king is divine” or “governors are the servants of the people” or even “all men are created equal.” But his point applies as well to economic ideas like “public ownership of the means of production is just” or “a system of free enterprise will maximize wealth.” People embrace ideas like these because doing so helps them understand and make sense of the world around them. And once embraced, people hold onto their ideas until the force of events deprives those ideas of their power to explain the world — until, in Morgan’s words, the “facts stray too far from the fiction.” There may then be a period of confusion, but eventually a new paradigm emerges, one that does a better job addressing people’s concerns and explaining events as they experience them.

We have witnessed this process a number of times in U.S. history. Laissez-faire fit the conditions of mid-19th century America, helping fuel western expansion and economic development in a constantly growing, freewheeling marketplace. Strains began to emerge after the Civil War, as economic integration from the communication and transportation revolutions — together with the transformation in work wrought by the second industrial revolution — gave rise to new circumstances and new problems for both labor and capital. Even so, it took the shock of the Great Depression, followed by the economic demands of World War II, to finally induce widespread abandonment of extreme libertarian ideas, which seemed to no longer answer the needs and problems of society. Keynes’ managed economy made more sense. And it worked — at least, it seemed to work; at least, better than what we had been doing till then. No wonder Hayek, Friedman, and their neoliberal companions were relegated to the fringes. In the eyes of most observers, they were advocating ideas that had already failed.

Things were very different by the 1970s. The managed economy was no longer managing so well. As Europe and Japan finally recovered from WWII, large U.S. trade surpluses reversed, causing a gold crisis and the collapse of the Bretton Woods system. This was then compounded by shocks from the oil crisis and problems with financing Vietnam — giving rise to economic conditions that seemed beyond the capacity of our institutions to manage. Inflation was high, unemployment was high, interest rates were skyrocketing. A new term was invented to describe it all: “stagflation.” Making matters worse, in the years after World War II, principles of top-down government management





migrated beyond fiscal and monetary policy. By the early 1970s, the federal government was involved in everything from consumer behavior to the family, the environment, race relations, insurance, food, transportation, education, and more. Nearly every sector of the economy seemed subject to some kind of federal regulation and oversight. Yet society felt like it was coming apart at the seams, particularly as these economic disruptions were intensified by social and cultural anxieties associated with race and gender and radical politics. Social tensions may seem high today, but they are mild compared to what people thought, and feared, in the early 1970s.

And there, cool and confident, stood Milton Friedman and his compatriots with answers in hand. The problem, they said, is too much government, too much top-down management of things that would sort themselves out better if left to free markets. What we need, they said, is less regulation, less government, less management — fewer efforts by small numbers of flawed and imperfect humans to do better than the invisible hand of a rational market.

They struck a chord. By 1980, with the elections of Margaret Thatcher in the U.K. and Ronald Reagan here, the neoliberal takeover was all but complete. Of no little importance in the ascension of neoliberalism was that their solutions appeared to work — or, like Keynes' in earlier decades, appeared to work better than what we had been doing. Interest rates came down, employment went up, and economic growth resumed. The Democratic Party held out for a while, but after George H.W. Bush's election in 1988, its leaders got the message, just a few years ahead of the Labor Party in England. Bill Clinton's and Tony Blair's "Third Way" amounted to a capitulation to neoliberalism and the presumptive superiority of markets, albeit with a progressive twist. And so it was for the next three decades, until the 2016 election.

### *Movement Building.*

I will discuss in a moment why the 2016 election suggests the time is ripe for another shift in thinking about political economy, this time away from neoliberalism. But it's important first to recognize that the triumph of market ideology did not occur organically. It was, in fact, an intentional, cultivated, and — most important for present purposes — well-funded effort.



There was a time, more recent than most people assume, when deference to elites was strong enough and deep enough that a change in thinking within the ranks of elites could alone change society. By the mid-20th century, however, ordinary citizens were more independent and assertive when it came to their destinies. Hayek was not wrong to believe that the ideas and philosophies that come to prevail almost always originate among elites, but intellectual and political leaders now have to persuade fellow citizens of the rightness of their ideas.

No one was more aware of this than Hayek himself. He had struggled without success in the 1930s to push back against the popular tide in favor of a managed economy. His efforts were interrupted by the war — which, to his dismay, significantly boosted support for activist government. By the late 1940s, the neoliberal cause looked hopeless.

Rather than despair, Hayek took action. In the spring of 1947, he convened a group of 39 likeminded economists, historians, philosophers, and journalists from both sides of the Atlantic at a hotel near the base of Mont Pèlerin, Switzerland. The group spent 10 days talking about their shared sense of things gone wrong and what they might do about it. They agreed to form a society and issued a “statement of aims” that began with the ominous assertion that “The central values of civilization are in danger.” The one-page declaration attributed this threat to “a decline of belief in private property and the competitive market; for without the diffused power and initiative associated with these institutions it is difficult to imagine a society in which freedom may be effectively preserved.” Contending that the most effective counter to such degeneration is “intellectual argument and the reassertion of valid ideals,” the Mont Pelerin Society Statement laid out an agenda for further study, and vouchsafed the group’s objective as “facilitating the exchange of views among minds inspired by certain ideals and broad conceptions held in common, to contribute to the preservation and improvement of the free society.”<sup>6</sup>

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<sup>6</sup> Mont Pelerin Society, “Statement of Aims,” April 8, 1947, <https://www.montpelerin.org/statement-of-aims>.



From these modest beginnings emerged a movement that over the next quarter century grew into the dominant intellectual and political force of our time. It's unnecessary here to describe in detail how this was accomplished.<sup>7</sup> For present purposes, it will suffice to highlight a few key points:

- First, the *raison d'être* of the project was the development and dissemination of ideas. Its supporters very deliberately and intentionally built intellectual hubs at key universities, most notably the University of Chicago.
- Second, leaders of the movement realized early on that they needed ways to transmit ideas from the academy to policymakers. They became pioneers in the development of policy think tanks, and launched a number of these specifically to propagate free market ideas, including the American Enterprise Institute, the Foundation for Economic Education, the Hudson Institute, and, later, the Heritage Foundation, the Cato Institute, and others.
- Third, pains were taken to create outlets to circulate and publicize ideas among both other intellectuals and the broader public. *National Review*, the *American Spectator*, *Reader's Digest*, and the *Saturday Evening Post* were favorites in the early years, joined later by new entrants like the *Weekly Standard*, the *New Criterion*, the *Public Interest*, and *Commentary*.
- Fourth, parallel work was begun as early as the 1950s to build alliances in the business community, churches, and broadcast media (the last concentrating chiefly on radio). While many of these efforts focused on winning over individual leaders, a number of formal organizations were established or converted. The Business Roundtable was launched specifically to press the case for markets, as

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<sup>7</sup> The history of capitalism has become a recent focus in history departments, and a number of historians have published interesting books about the Mont Pelerin Society and the rise of neoliberalism. See Angus Burgin, *The Great Persuasion: Reinventing Free Markets Since the Depression* (2012); *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective* (Philip Mirowski and Dieter Plehwe, eds. 2009); Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (2012); and Kim Phillips-Fein, *Invisible Hands: The Businessmen's Crusade Against the New Deal* (2009). Also worthwhile, with a greater focus on organization and funding, is a book by political scientist Steven M. Teles, *The Rise of the Conservative Legal Movement* (2008).



was Spiritual Mobilization, a precursor of later, more successful efforts like the Moral Majority and Focus on the Family.

Most important, the free market movement was paid for — backed every step of the way by sympathetic foundations and philanthropists who provided the resources to succeed. Important early support came from the William Volker Fund, succeeded by the Earhart and Relm foundations, which were in turn replaced by the William E. Simon and John M. Olin foundations, among others. Today, the wide array of neoliberal institutions is supported by an equally wide mix of funders, including the Koch brothers; the Bradley, Smith-Richardson, and Scaife foundations; the Searle Freedom Trust; and many more.

*How* these funders worked was every bit as important as what they supported. According to historian Angus Burgin, despite occasional ideological differences, the participating organizations “cultivated a remarkably similar and highly distinctive mode of philanthropy”:

Through direct contributions to carefully chosen intellectuals and institutions, they sought to facilitate the expression of unorthodox ideas in the national conversation, and thereby to provoke long-term ideological change. In contrast to other contemporary sources of funding, they did not expect any immediate tangible return for their investments. . . . In adopting this strategy, they demonstrated an extraordinary faith in the capacity of abstract ideas to generate substantive political change.<sup>8</sup>

Many of the tactics these funders employed follow what everyone agrees is good grant practice: They sought feedback, cared about learning, and tried to be honest with themselves when their expectations weren’t met; they provided general support, gave grantees time and room to experiment, and avoided micromanagement. In other respects, their philanthropy was quite different from the way most funders — including most conservative funders — work today. They were opportunistic, foregoing carefully

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<sup>8</sup> Angus Burgin, *The Great Persuasion: Reinventing Free Markets Since the Depression* (Cambridge, MA: Harvard University Press, 2012): 127.



constructed strategies in favor of flexibility and adaptability. They thought in terms of supporting people, rather than developing projects, and they spread bets among a range of grantees with different capacities and approaches. They pursued diffuse, hard-to-measure goals that had long-term payoffs, and they tolerated the ensuing absence of dependable objective measures, relying instead on subjective judgments of effectiveness. Above all, they were patient; they showed faith in their ideas, even when the likelihood of success seemed remote.

And it worked. Indeed, given what happened, the funding of free market ideas in the 1950s to '70s may constitute the single most successful example of effective philanthropy in history. Perhaps that title should be shared with a handful of philanthropy-supported scientific advances, like the polio vaccine and the Green Revolution. But in the realm of advocacy and policy-oriented philanthropy, nothing comes close.

Two final observations:

First, the concrete policy agenda associated with neoliberalism evolved quite a bit over the years. Proposals that seemed radical and revolutionary at the beginning appeared much less so as time passed and awareness of possibilities grew and changed. Hayek's *The Road to Serfdom*, which galvanized the original movement, drew charges of extremism when it was published in 1944. Yet the policies Hayek put forth to implement his philosophy were just barely to the right of the New Deal, and they appear downright tame compared to what his successors were offering by the 1960s.

Such will always be the case when intellectual paradigms shift. The innovative thinkers who develop a new framework still do so from within an existing scaffolding that structures and limits their imaginations. Over time, the old framework recedes, and the new one is elaborated. And as this takes place, the ground from which particular applications and policy prescriptions are derived shifts. Ideas that once seemed implausible are seen in a new light; previously undreamed of new ideas emerge; these are then developed and elaborated, in turn shifting the ground still further. New intellectual frameworks do more than justify policy ideas we already have: Over time, they change what we can imagine. Which is why it can be important — in certain,



promising circumstances — for funders to raise their sights and think beyond just the solutions that seem attractive today.

Second, the neoliberal movement was neither tightly disciplined nor centrally controlled. It consisted of fellow travelers who shared a set of ideas and dispositions, and who saw themselves as part of a common intellectual and political undertaking. No one exercised overarching control, and there was no central command. Adherents shared a critique of collectivism and a conviction about the benefits of capitalism, but within those broad parameters lay room for countless disagreements. They clashed about the relationship between free markets and democracy and between capitalism and morality, and they had endless arguments about the proper role of government. Even so, they were able to find sufficient points of agreement to create an overarching narrative, centered on individual liberty and economic freedom, that resonated with conservative policymakers, business leaders, and, eventually, the general public. The neoliberal framework and narrative look far more coherent and unified in hindsight than they did at the time. This is an important point to bear in mind as we think about crafting a new narrative today: Agreement on every intellectual point is neither possible nor necessary; what's necessary is finding a common story, language, and set of values.

The decentralized nature of the movement was not just intellectual, but also operational. Individuals and institutions collaborated and competed, and some rose to prominence and played leadership roles during certain periods and then faded during other periods. It was a vibrant ecosystem capable of innovating and evolving and creating space for intellectual, policy, and media entrepreneurs. The men and women who organized the business community, lobbied the politicians and journalists, started the journals and think tanks, and recruited church leaders were usually operating on their own — moved by ideas, often acquainted with the architects of those ideas, but acting independently as they saw fit.

The shift to free market thinking probably would have failed had anyone insisted on greater coordination or tried to exercise too much control. Success took the efforts of a great many actors and institutions operating independently. All held in common a broad sense of mutual purpose. They saw themselves as part of a movement and so shared what they learned, built on each other's successes, supported one another, and



cooperated when cooperation made sense. Moving in the same direction, they nevertheless moved independently. Such is inevitably the case for any significant social or intellectual movement. What experience teaches is that such loose-jointed machines can be enough.

#### **IV. Beyond Neoliberalism.**

I asked you to read this brief history of the rise of market advocacy for a reason. As noted above, conditions can develop that call on funders to think beyond the solutions of the day and attempt to reshape the larger intellectual milieu within which those solutions were conceived. We are, I believe, presented with such circumstances today.

##### *Changing Circumstances.*

Much has changed in the decades since Ronald Reagan and Margaret Thatcher were elected. Here is one thing that has not: Now, as then, political tensions are rising as a result of economic and social conditions that have become untenable for a wide swath of the polity. These tensions, which have been growing for some time, were brought to a boil by the economic crisis of 2008, before erupting in political upheavals like Brexit, the upsurge of illiberal movements in the rest of Europe, and the U.S. election of 2016.

It is fair, moreover, as well as ironic, to place a good share of the blame for this widespread anger and disaffection on the prevailing free market paradigm. Just as Keynesian top-down management had ceased to solve, and started to cause, problems by the early 1970s, Friedmanesque free markets are having much the same effect today. Abundant evidence points to the many ways in which this macroeconomic approach has, in practice, produced and exacerbated inequality in the distribution of wealth. That was not yet a major concern in the 1970s and '80s: Wealth and income inequality were still relatively low by historical standards, and the extent to which deregulation affected them was still small and slow to develop. Plus, the policies being pursued and



implemented were widely seen as successful in addressing the problems at which they were aimed.

Forty years later, the situation is radically different. Income and wealth inequality have grown enormously, partly as a result of neoliberal policies, yielding a wealth distribution the likes of which we have not seen since *laissez-faire* was upended by the Great Depression. Wealth inequality — along with income stagnation, the hollowing out of the middle class, and increased economic insecurity — has in turn become one of the major causes, if not *the* major cause, of rising political and social tensions (albeit for reasons understood and explained differently on the left and right). The global free trade regime that neoliberalism justified and encouraged has become another major source of political and economic anxiety — anxiety for which the champions of free trade have little to offer beyond more of the same. The workplace is being upended by new technologies, automation, robotics, and AI; and while it may be too soon to portray the future of work with confidence, no one disputes either that dramatic changes are afoot, or that, if left to the market, these will yield another huge shift of wealth from labor to capital. The point is simply that, as has happened before, society's problems have changed, and the reigning intellectual paradigm, if not in fact causing these problems, certainly no longer seems up to the task of solving them.

The struggle politically to address people's legitimate grievances and anxieties is made more difficult by hyperpartisan polarization. The leadership of both parties may accept the primacy of markets, but by now they have moved in such wildly different directions from this shared starting point that they are no longer speaking the same language. Republicans have swung almost all the way back to strict *laissez-faire* — having talked themselves over the years into believing that government is so incompetent and so likely to botch things that it is better to ignore market failures than try to correct them through legislation. Democrats, meanwhile, have come to focus on a subset of market failures associated with the inability of certain groups to compete fairly, looking for government to provide equity for people unfairly disadvantaged because of traits like race, ethnicity, gender, and sexual identity. Yet their solutions — like their efforts to address issues beyond identity, such as health care or banking — have been encumbered by market-based thinking, which has made them politically unsaleable: too interventionist for conservatives, too restrained for progressives. And





while there are now factions on both the left and the right prepared to revisit the constraints of market thinking, they have yet to offer a persuasive alternative intellectual framework for doing so, much less solutions capable of finding broad political acceptance.

The upshot is that the 20th-century free market paradigm has reached the end of its useful shelf life. There is little or no room left within it for useful solutions, or even productive disagreement about alternatives, when it comes to the challenges we face today. Neoliberals have long argued that the only alternative to their free market orientation is socialism — in either the soft Keynesian mode that failed in the 1970s, or the harder style that ended with the collapse of the Berlin Wall in 1989. We must reject the notion that our only choice is between neoliberalism and socialism. We must develop new ideas.

Bear in mind that paradigm shifts never involve the entire overthrow of an earlier system of ideas in favor of something wholly new. New paradigms build on old ones, offering new variations of existing ideas and institutions. Keynes could write that he agreed with almost everything in Hayek's *The Road to Serfdom* because he did: because he and Hayek were both looking at a mix of markets and government regulation. So, too, today. No one believes we can or should abandon all the tenets of neoliberal thought, much less that we can live without an important role for free markets, which play an indispensable role in many contexts. We nevertheless need to put these into a different context, built on different premises, in ways that create opportunities for new approaches to policy.

### *Movement Building.*

Fortunately, we are not starting from scratch, and a great deal of work has been done to examine the soundness of the free market paradigm. I was pleasantly surprised while doing the research for this project to discover just how much ferment and new thinking is already going on in economics departments. That's also true in other fields colonized by market-based models — law, business, political science, sociology, and the like — though Keynes' droll observation about how “the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest” is



certainly borne out. But it is possible even in these precincts to spot the early shoots of new thinking.

Here are some of the critiques, organized around the three propositions with which this memo opened:

The first, and in many ways the most important, proposition is that society consists of atomized individuals — the notorious *homo economicus* — moving through the world in a rational, self-interested way, seeking to maximize their own utility. Recall that this is a normative claim, as well as a descriptive one: the best understanding of what it means to be “free.” By now, every element of this core postulate has by now been challenged:

- Even if, as Jon Elster has written, social outcomes should be measured by reference to individuals’ utility,<sup>9</sup> it does not follow that this is the best, or even an accurate, way to conceive of society. People define themselves through their connections with groups: I am a U.S. citizen, a Californian, an employee of the Hewlett Foundation, male, Jewish, a lawyer, and so on. Our identities are composites of group memberships, and most of our work and other activities take place in and through groups with which we identify and to which we bestow allegiance. To pretend that only the individual matters, that the concept of society is merely epiphenomenal, is spurious and misleading.
- It follows that, while competition is undoubtedly a driver in human affairs, so, too, are collaboration and cooperation. If anything, these offer a better explanation of human economic, political, and social history, and they are more prevalent drivers in daily life. If it makes sense for government to secure the conditions for competition, why does it not make equal sense for government to foster collaboration and cooperation?
- We are not rational, at least not as imagined of *homo economicus*. Psychologists and behavioral economists have documented the countless ways in which this

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<sup>9</sup> Jon Elster, “The Case for Methodological Individualism,” *Theory and Society*, no. 11 (1982): 453.



model of rationality fails. No such person exists or has ever existed, which makes “him” a dubious foundation upon which to build social and economic policy. A substantial body of work likewise shows how assuming universal selfishness crowds out moral and ethical considerations essential for success, while compromising social norms essential to the workings of markets themselves.

- Freedom to pursue one’s own interests in a market may be one aspect of liberty, but making this its whole definition is normatively barren. Imagine saying to someone, “factors for which you are morally blameless, like the circumstances of your birth, may have put you in a six-by-six cage, while others no more deserving than you get to roam freely. But so long as you can move anywhere you want within those 36 square feet, you and they are equally free.” Really? Without doubt, liberty includes immunity from certain forms of government intrusion, so-called negative liberty. But it may have an affirmative dimension as well. Franklin Roosevelt’s “four freedoms” included freedom from want and freedom from fear, which neatly captures the idea of positive liberty.

Friedman’s second premise — that success for a society should be measured by the amount of wealth it produces, as measured by indicators like GDP — has likewise been subjected to withering criticism. It’s not controversial to say that more wealth is better than less, but only if we add “other things being equal.” And among the other things must be how the wealth is distributed. To focus on the production of wealth without regard for its distribution is to overlook that real-world markets do not naturally allocate according to morally defensible criteria, not to mention that excessive concentrations of wealth inevitably provoke social unrest. The premise also ignores that some forms of economic production are more beneficial for society than others. Drugs that cure cancer are, in important ways, “better” than the cigarettes that cause it, yet both are treated equally in calculating GDP. Similarly, some forms of wealth generation create worse externalities for society than others, such as burning fossil fuels that contribute to global warming or crafting derivatives that contribute to financial crises. All this being so, it’s not obvious why government action to promote a fairer distribution or to incentivize more worthwhile forms of wealth should, ipso facto, be treated as objectionable.



The critiques of Friedman's first two propositions alone are enough to undercut the third one — that free markets are the best way for rational individuals to maximize prosperity. But this proposition also has been challenged in numberless ways from within, and economists have shown how markets in actuality seldom, if ever, operate as Friedman hypothesized. Many of the most powerful critiques in recent years have been empirical, using new statistical tools, supercomputers, and huge data sets. Raj Chetty's well-known study of social mobility tracked changes in income of more than 40 million children and their families over several decades, correlating these to the degree of segregation, the quality of schools, and various other characteristics of where the children lived. Meanwhile, a large body of research shows how economic outcomes are persistently skewed by rent-seeking and concentrated market and/or political power.

These are but a few examples from a formidable body of criticism that has been developed over the years. Yet despite the richness of the commentary, two obstacles have impeded its evolution into a full-blown replacement for neoliberalism. First, the work is almost entirely critique. We learn a great deal about the shortcomings of market-based thinking, sometimes accompanied by policy tweaks, but no one has offered anything remotely like a comprehensive alternative to neoliberalism. Say what you will about Milton Friedman, he and his colleagues put forth an easy-to-understand, all-encompassing world view from which they derived a sweeping policy agenda. And whatever its weaknesses there is, so far, no substitute program: no similar scheme to address globalization, technology, and the myriad other problems associated with the transformations currently taking place in our social and economic lives.

We can agree, as I think we must, that unbridled market competition is not going to solve these problems and may be making them worse. We can also agree that 20th century models of public management are equally unsatisfactory, not to mention politically infeasible. So, what does an alternative vision of political economy look like? How should government and markets interact in today's economy to produce prosperity with a fair distribution of wealth and opportunities? What are the appropriate terms of a 21st-century social contract? These are questions that still need to be answered.

This is not the place to answer them; nor do I have the requisite expertise to do so. But some potential building blocks are discernible in the critiques of neoliberalism



reviewed above. To begin, we should expect researchers and policymakers to work from more data-based, context-specific, and so realistic understandings of both markets and government. The availability of more and better data can be used to test and refine the overbroad presumption that markets ought to be our default starting position, while good empirical analyses can kick-start a long-overdue process of rehabilitating government from exaggerated, axiomatic assumptions of incompetence — leading to improved understanding of where public solutions work well and where they do not.

We might then begin to see new alternatives to the Hobson's choice we are presently asked to make between top-down management by public agencies and unhindered market competition. We have scarcely begun to explore the possibilities for public-private partnerships, much less experiment with other novel forms of government/market interaction — mainly because polarized, neoliberal-saturated politics has left little room for innovation along these lines. The critiques of neoliberalism likewise suggest reasons to revisit what constitutes market failure, as well as to think more broadly about what should count as public goods and what kinds of government action may be appropriate to stimulate their production. A new paradigm might support innovative forms of government action to supplement, enhance, or modify competitive markets by promoting collaboration and cooperation. Conversely, rethinking the problem of concentrated private power and reestablishing a more sensible role for antitrust and anti-monopoly laws is long overdue.

None of these ideas, standing alone, is unprecedented or shockingly new. But taken together in some still-to-be formulated manner, they may, cumulatively, offer the seeds of a new paradigm — one more capable of addressing the economic and social problems we face in the 21st century. As noted above, new paradigms are invariably fashioned from the clay of older ones. But once articulated — and a big part of the challenge will be to combine these pieces into a narrative that is both comprehensible and compelling — they take on a life of their own. We cannot say where a journey of this sort will end, only that it is necessary to embark upon it.

Building an alternative macroeconomic framework and accompanying agenda will be neither easy nor quick. The participants at Mont Pèlerin did not come with fully worked out plans. They spent years refining their ideas, and still never achieved



complete agreement. They came close enough, however, to change the world. Now, their time has passed, and we have already waited far too long to start working on a replacement. It's time to take the critiques and turn them into an alternative program — one that clears the way for fresh thinking about policy, can inspire citizens and voters, and will open new space for people on the left and right to once again disagree productively.

A second impediment to developing a new vision of political economy has been the lack of communal thinking among the economists, philosophers, historians, political scientists, lawyers, and others behind the critique of free markets. It's a large and diverse group that includes academics scattered throughout Europe and the U.S., joined by a number of deeply engaged institutes, centers, and think tanks. In the U.S., these include the Institute for New Economic Thinking, New America, the Niskanen Center, the Roosevelt Institute, the Tobin Project, and the Washington Center for Equitable Growth, among others. European organizations include the independent Oxford branch of the Institute for New Economic Thinking, the Institute for Public Policy Research in London, Partners for a New Economy in Switzerland, and the CORE Project (a global collaboration of scholars working to change how economics is taught).

The diverse people and institutions doing this work all know or know of each other, but they have so far operated (to borrow a phrase from history) in “splendid isolation.” Conferences and convenings have been few, and the group displays little sense of working together on a common intellectual project, much less launching a new intellectual movement. There is nothing like the feeling of shared mission expressed by members of the Mont Pelerin Society. The result is a whole that is significantly less than the sum of its parts.

## **V. A Role for Philanthropy?**

Here, then, is a potentially meaningful role for philanthropy. Between our funding and convening power, we can both facilitate the development of an affirmative agenda, and build the connective tissue needed to help likeminded actors turn assorted individual ideas into a coherent program. “Changing the reigning intellectual paradigm” sounds grandiloquent. Yet from a funding perspective, it's actually quite straightforward



— calling for the use of classic tools of philanthropy in a way that has frequently succeeded (including, of course, the funding of neoliberalism in the first place).

Over the past year, we explored the feasibility of an undertaking along these lines. In addition to research about the rise of neoliberalism, we tested the hypothesis in meetings with academics from different disciplines, heads of centers and think tanks, other funders, and political professionals. We also convened a group of scholars and activists for a daylong meeting in New York. The idea met with enthusiasm across the board. We had expected to encounter misgivings and skepticism, particularly from economists and activists — the former for intellectual reasons, the latter from impatience to focus on immediate problems. There was instead, and with surprisingly little resistance, agreement that the issue is critical, the task challenging but feasible, and the timing right.

We learned along the way that work to “change the socioeconomic paradigm away from neoliberalism” has already begun in Europe.<sup>10</sup> In 2016, the Institute for Public Policy Research (IPPR) in London launched a two-year Commission on Economic Justice that generated a report on the future of the British economy and initiated seven research “workstreams.” It also spun off an independent advocacy effort (“Moving Beyond Neoliberalism”), supported by the Friends Provident Foundation, that has already issued a strategic assessment, coupled with an index of relevant organizations and groups. IPPR’s Michael Jacobs reports that similar ventures are starting to brew in Germany (at the Kiel Institute) and France (at the Institute for Sustainable Development and International Relations). Much of the work is being supported by Partners for a New Economy — a European funder collaborative among the MAVA, Oak, Marisla and KR foundations that seeks “to change the way the economy operates.” Meanwhile, the new economics curriculum developed by the CORE Project (referred to above) has attracted significant attention and a sizeable number of adoptions in European universities. All the Europeans agree that their endeavor needs to be trans-Atlantic, and that finding counterparts in the U.S. will be essential for

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<sup>10</sup> Laurie Laybourn-Langton and Michael Jacobs, “Moving Beyond Neoliberalism: An Assessment of the Economic Systems Change Movement in the U.K.” Friends of Provident Foundation, 2017, <http://www.friendsprovidentfoundation.org/wp-content/uploads/2017/11/Michael-Jacobs-LLL-Moving-Beyond-Neoliberalism-Report-5-Oct-2017.pdf>.



success. So too, eventually, will be finding partners in places like South Africa, India, China, Japan, and Latin America.

U.S. academics and civil society organizations initially seemed focused on advancing progressive policy ideas within the existing free market paradigm, rather than challenging the paradigm itself. When pushed to raise their aspirations, however, they did not hesitate. While still interested in proximate reforms, they recognize the potential significance of clearing space for new and different policy models, and are eager to participate.

Such positive indications notwithstanding, we mustn't understate the difficulties and risks involved. Changing intellectual paradigms in the academy is difficult enough; moving ideas from there into public policy circles and the broader public arena is still more so. Plus, we do not begin with the powerful interests and political and financial muscle that stood behind neoliberals from the outset. We should not step onto this pathway without acknowledging that the effort could take years or even decades; will not progress in a linear fashion; may involve periods of stagnancy or backsliding; and will, at best, be difficult to measure and assess. Yet what institution other than philanthropy can be expected to even try? These are, when all is said and done, exactly the risks and difficulties our endowed, independent status supposedly enables us uniquely to tolerate. And while the risk of failure may be high, the payoff if we succeed is a lot higher.

Of course, we still need a plan of action. The success of market advocates in the postwar years shows that it's possible to change an intellectual paradigm, but does not provide a blueprint for doing so. A quote often attributed to Mark Twain comes to mind: "History does not repeat itself, though it often rhymes."<sup>11</sup> We cannot use the same strategies and tactics that worked for funders in the 1950s and '60s. As Steven Teles observes in his thoughtful book about the rise of the conservative legal movement, "the most serious mistake those seeking to learn from legal conservatives could make would

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<sup>11</sup> It is now generally accepted that Twain never actually said this, though no one has been able to track down who did.





be to create carbon copies of conservatives' organizational apparatus, mimicking rather than learning."<sup>12</sup>

Consider just a few ways in which the transmission of ideas today differs from Hayek's and Friedman's time: The academy is vastly larger and more specialized and heterogeneous, while public trust in what it produces has declined. The number of journals and outlets for publishing is exponentially greater. Our media are fragmented and politicized, and standards for assessing factual accuracy — much less intellectual quality — have eroded. Ideas and arguments increasingly are distributed through the medium of the internet, which turns choices about what we see over to uncurated social media guided by algorithms designed to maximize ad revenue. The noise one needs to break through to be heard today is practically deafening.<sup>13</sup>

Certainly these are reasons for caution, for acknowledging that the task before us is different, and harder, than in an earlier era. But ideas still matter, and efforts to persuade are surely not hopeless. The challenge may be formidable, but the conditions for tackling it are favorable. The flux and upheaval in our politics brings with it significant opportunities for change — but only if we do better in developing and coordinating responses. It may be too soon, without more work, to decide whether a formal initiative of some sort is merited, but we believe it is worth investing some time and money to find out.

To that end, we are requesting \$10 million for Special Projects from our 2018 unallocated funds to be spent over two years. We will use these funds to assess opportunities; identify potential grantees, co-funders, and other partners; and test the feasibility of moving forward. If something more significant is warranted, we will come back to the board in 2020 with a proposed strategy and request for longer-term funding.

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<sup>12</sup> Steven M. Teles, *The Rise of the Conservative Legal Movement: The Battle for Control of the Law* (Princeton: Princeton University Press, 2012): 277.

<sup>13</sup> See Daniel W. Drezner, *The Ideas Industry: How Pessimists, Partisans, and Plutocrats are Transforming the Marketplace of Ideas* (Oxford: Oxford University Press, 2017).



Academic writers often describe how, when writing, their mood predictably ricochets back and forth between exhilaration about doing the most important work since Aristotle and depression upon realizing that nothing they have to say is remotely interesting or original. Preparing this memo felt a bit like that; we vacillated between excitement at the thought that we can pull this off and change the world, and embarrassment at how overstated and pompous that must sound. The truth may lie somewhere in the middle (as it usually does with most scholarly writing). Even that would be an important contribution, but we should consider the possibilities for making a bigger difference. Not alone, and not quickly, but with patient, thoughtful work, over time. As Steve Teles reflects in the closing passage of his book:

At any one time, the constraints of an existing regime can seem crushing and inescapable, frustrating the ability of individuals to create change of any consequence in the world. The constraints and structures of any particular period are, however, often the creation of a previous generation's political agents. In the short term, politics is, in fact, a world of constraints, but to agents willing to wait for effects that may not emerge for decades, the world is rich with opportunity.<sup>14</sup>

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<sup>14</sup> Steven Teles, *The Rise of the Conservative Legal Movement*, 280-81.