

7. Conclusion

Toward a new economic and political model?

Geoffrey Gertz
Fellow
Brookings Institution

Homi Kharas
Interim Vice President and Director,
Global Economy and Development
Brookings Institution

It is difficult, if not foolhardy, to attempt to succinctly summarize such a broad-ranging and complex subject as the future of neoliberalism in emerging markets. So, in these brief concluding remarks we do not seek to offer anything close to a final word on the topic, but rather to sketch out some guideposts for ongoing discussion.

One initial takeaway is that current debates on neoliberalism and the future of capitalism in the U.S. and Europe do not always easily map onto emerging markets' experiences. In many countries in the West, this debate is often framed as a need to move from the near total acceptance of neoliberalism of the past several decades to a fundamental rethinking of economic systems. In many emerging markets, conversely, there was never as strong a consensus on the merits of neoliberalism to begin with, and the pivot to the post-neoliberal era has been more gradual and fragmented.¹ Indeed, in moving beyond neoliberalism, emerging markets are rightfully cautious of swinging too far in the opposite direction, of throwing the baby (successful market-oriented reforms) out with the bathwater (neoliberalism as an all-encompassing policy framework).² Many emerging markets have recent memories of deeply statist command economies that abjectly failed to deliver widespread economic gains. The implementation of market reforms helped unleash private sector growth in many (though not all) countries; this growth, in turn, helped drive the most rapid decline in global poverty in history. Emerging markets continue to prioritize GDP growth as a central policy goal, and there is a general agreement that some level of market orientation is needed to deliver this growth.

Yet this is, of course a far stretch from fully embracing neoliberalism. The neoliberal policy agenda for emerging markets was flawed and incomplete in many ways. Its shortcomings stand out in five particular areas. First, neoliberalism did not pay sufficient attention to the risk of financial crises and to the devastating impact of such downturns on economies' long run trajectories. Second, neoliberals tended to dogmatically reject industrial policy, even though support for industries has at times proven very effective (particularly in Asia).³ Third, neoliberalism was largely indifferent to inequalities, considering distributional issues as (at best) a second-order concern. Fourth, the environment was under-prioritized, leading some countries to pursue economic policies that aggressively degraded environmental resources, which led to costly health hazards from polluted air and contaminated food, among other harms. Fifth and not least, neoliberal policy failed to grapple with how dysfunctional political processes could allow for the elite capture of the state, and how politics constrains economic policy options. These issues are important policy challenges in their own right, but are also instrumentally important to neoliberalism's primary objective of economic growth.

As one means of gauging support for various neoliberal and alternative policy positions across these five issue areas, we conducted an online survey of experts regarding economic and political policies in emerging markets. The results, presented in Appendix A, suggest there is indeed support for moving beyond neoliberalism, yet a significant diversity of views on what this should entail. At the outset of this project, one of the core questions we were interested in was whether emerging markets were converging on an alternative model(s), and what the key features of such an approach might be. By “model,” we mean a coherent and consistent set of policy guidelines that could be generally applicable across countries, similar in scope and scale to neoliberalism. The survey results, the chapters in this report, and the discussion at the workshop all suggest the answer to this question is a qualified “no”—while there are some very broad points of agreement on the direction economic policy should be heading in emerging markets, there is nothing comparable to the coherent vision of neoliberalism.

In its purest form, neoliberalism offered an appealingly simple and straight forward policy program, as discussed in the introduction to this report. Neoliberalism focused on one particular mechanism—market competition—that could be applied to almost any economic policy problem. Moreover, its policy recipe applied across space and time; while there was flexibility to adapt neoliberal principles, there were no boundary conditions delineating where neoliberalism did or did not apply. This combination of flexibility and universalism is one of the reasons neoliberal ideology was so influential and had such a wide-ranging impact on policy practice.

This perhaps suggests that it will take a similarly simple and all-encompassing paradigm to displace neoliberal ideology—a new universal model. Yet another takeaway from this project is that no such model is likely to arise soon, nor should we necessarily want it to. Indeed, to the extent that agreement is emerging around the need to move beyond neoliberalism, expert views appear to be moving in the opposite direction of a relatively simple, new model. Instead, a shift is occurring away from simplicity toward complexity, away from best practices toward second-best and context-dependent analysis, away from consensus (Washington or otherwise) toward diversity of thought, and away from certainty toward humility and agnosticism.⁴

In this context, it would be a mistake to seek out an alternative model to neoliberalism as a universal project. The fundamental issue is that different problems require different solutions in different contexts; moreover, we have limited knowledge *a priori* about what solution will work best in what context. Countries need to tailor their own configurations of state- and market-led institutions to their specific contexts, and we should expect considerable variation in their approaches. To replace neoliberalism’s focus on markets with a similarly simple policy framework would be to imitate one of its greatest shortcomings—the assumption that one mechanism (or a short set of policy principles) can apply to all problems.

If neoliberalism is unlikely to be replaced by a new model, then what should come next? We believe the most promising path is for policymakers to embrace pragmatic experimentation, eschewing ideological divides for a more problem-driven approach to economic policymaking. Such an approach would start not from abstract debates about the merits of states versus markets, but from a commitment to address the concrete problems facing citizens by whatever mechanism proves most effective. Through iterative experimentation and evolution, emerging market policymakers can develop a broader, more eclectic toolkit to address their most pressing challenges.

The ongoing shift toward more problem-driven, experimental, and evolutionary policymaking will result in a more varied, fragmented, and incoherent policy landscape. Rather than the universal umbrella of neoliberalism, or even the Cold War era of competing capitalist and

socialist models, this shift will see the development of a broad range of idiosyncratic and *ad hoc* policy responses both across and within countries.

Such incoherence may be messy, but it can also be productive, as Ilene Grabel has recently argued.⁵ Countries experimenting and innovating in small, disparate ways can foster new learning, nationally and with others, and can learn from their policy successes as well as their failures. It is difficult to accurately predict how different policy initiatives will ultimately fare in the abstract; the only path forward is to muddle through with multiple, heterogeneous improvisations, and to see what works. Such improvisation may never coalesce into a stable equilibrium of a new model, or even several different competing models. But it may allow countries to productively and pragmatically develop stronger economic and political institutions attuned to their specific needs.

As a narrow question of political strategy, those impatient to see neoliberalism replaced across the world might be frustrated by this approach. After all, neoliberalism's influence is likely at least partially tied to its clarity and simplicity. A new 10-point policy template that could be transplanted across countries might be easier to organize around, in order to coordinate political action.

This, then, is the challenge for the ongoing movement seeking to shift government policy beyond neoliberalism: how to organize for transnational policy change while recognizing the need for complexity and nuance and lack of any clear policy template. There is certainly momentum in this movement today, as evidenced by the many debates on the future of capitalism. The question is how to maintain this momentum for what will necessarily be a long-term process.

¹ This is not true of all emerging markets, however; some, such as Argentina, have dramatically swung between ideological poles.

² For a related argument, see Arvind Subramanian's response in the Boston Review Forum *Economics After Neoliberalism*, March 19, 2019.

³ It is worth noting here that even the IMF has recently admitted that industrial policy is at times beneficial; see Reda Cherif and Fuad Hasanov, "The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy", IMF Working Paper WP/19/74, 2019.

⁴ This shift has in fact been underway for some time; see, in particular, Dani Rodrik, *One Economics, Many Recipes*, Princeton University Press, 2007.

⁵ See Ilene Grabel, *When Things Don't Fall Apart: Global Financial Governance and Developmental Finance in an Age of Productive Incoherence*, MIT Press, 2018.