

Centralization Without the Plan

By: Reihan Salam – March 27, 2013

Eons ago, when the U.S. economic model looked enormously attractive relative to its European counterpart (actually, that's probably still true, all our woes notwithstanding), Paul Krugman wrote "Why Germany Kant Kompete," a clever argument that resonates today:

The real divide between currently successful economies, like the U.S., and currently troubled ones, like Germany, is not political but philosophical; it's not Karl Marx vs. Adam Smith, it's Immanuel Kant's categorical imperative vs. William James' pragmatism. What the Germans really want is a clear set of principles: rules that specify the nature of truth, the basis of morality, when shops will be open, and what a Deutsche mark is worth. Americans, by contrast, are philosophically and personally sloppy: They go with whatever seems more or less to work. If people want to go shopping at 11 P.M., that's okay; if a dollar is sometimes worth 80 yen, sometimes 150, that's also okay.

Now, the American way doesn't always work better. Even today, Detroit can't or won't make luxury cars to German standards; Amtrak can't or won't provide the precision scheduling that Germans take for granted. America remains remarkably bad at exporting; the sheer quality of some German products, the virtuosity of German engineering, have allowed the country to remain a powerful exporter despite having the world's highest labor costs. And Germany did a better job of resisting the inflationary pressures of the '70s and '80s than we did.

But the world has changed in a way that seems to favor flexibility over discipline. With technology and markets in flux, not everything worth doing is worth doing well; in an environment where deflation is more of a threat than inflation, an obsession with sound money can be a recipe for permanent recession.

And so Germany is in trouble—and with it, the whole project of a more unified Europe. **For Germany is supposed to be the economic engine of the new Europe; if it is a drag instead, perhaps the whole train in the wrong direction goes, not so?** [Emphasis added]

Over the intervening period, Germany has improved its relative health at the expense of the rest of the eurozone, at least if you buy, as I do, Michael Pettis's argument that Europe's surplus countries bear most of the responsibility for the severe imbalances that are damaging the economies of peripheral Europe. But I think we can safely say that, as Krugman had anticipated, Germany has been the economic engine of the new Europe, and it has led Europe in the wrong direction.

But what about Krugman's claim that the U.S. is the more pragmatic and experimental country? Whatever you think of the America's post-crisis economic direction, the

response of U.S. policymaking elites, and in particular the Fed, has been far more nimble than the response of European policymaking elites, a difference that at least one acquaintance of mine has (impishly) attributed to the more highly evolved American blogosphere. (John McGinnis's essay on "A Politics of Knowledge" gives us reason to believe that there is something to this idea.)

One potential objection is that President Obama is very much a centralizer by nature, who is drawn to grand plans. Though I'll certainly buy the first part — the president is committed to expanding the role and influence of the federal government — it's not actually clear to me that he is much of a planner, for better or for worse. The Obama administration has married two ideas that are very much in tension, namely the project of state expansion as a means of mitigating the effects of a collapse in aggregate demand *and a resistance to rigid central planning*. Peter Thiel often observes that the U.S. fiscal stimulus took a "let a thousand flowers bloom" to its energy research efforts, to encouraging K-12 innovation, etc. Though conservatives are inclined to believe that the Obama administration has been too heavy-handed and centralizing in its approach, what we absolutely didn't see is, say, a \$1 trillion crash effort to build nuclear power plants or gleaming new highways or some other highly coherent and cohesive approach to remaking the American economy. Instead, we saw piecemeal efforts that in a sense represent a backhanded compliment to the critique of central planning.

These piecemeal efforts could be described as a concession to the pessimism and the diversity of our age: there is no consensus among policymaking elites that building nuclear power plants and high-speed trains, etc., is the way forward, and in the absence of this 1950s vision of material progress we've pursued a bizarre amalgam of the venture capitalist mindset (throw a lot of ideas out there and see what works) and fiscal centralization (private investors can't and won't get this right, so government needs to step in). Rival approaches to post-crisis economic stagnation, like market monetarism, take a different tack: the government isn't a very good venture capitalist and private investors can do the job provided the federal government keeps nominal output growing in a predictable manner.

Interestingly, while left-wing critics of the Obama administration are notionally more sympathetic to central planning, hence enthusiasm for building out smart energy grids and publicly-financed broadband networks, etc., they've also taken in the critique of central planning, e.g., the enthusiasm for carbon pricing as opposed to state-led energy development. In the U.S., left and right are both very resistant to central planning, in good ways (mostly) and bad. Resistance to central planning is good insofar as it reflects humility, but it can be bad when it leaves large, complex governmental systems without a clear sense of direction. If we're going to build large, complex governmental systems, we ought to recognize that we're living in a second-best world and behave accordingly.

Dalibor Rohac has a terrific article that draws on William Easterly's distinction between "planners" and "searchers" to explain how Europe's "planning" tradition has shaped its response to the crisis:

Europe's response to the crisis reflected the planning mentality of its leaders. Rather than recognizing that the monetary union—instead of being the promised catalyst of prosperity—contributed to accumulation of fiscal and external imbalances in the periphery and trying to find ways to go back, politicians

insisted that there was nothing flawed with the existing institutional structure that more political unification could not fix.

Instead of a prudent devolution, Europe got more planning and a “whatever-it-takes” attitude—bailout funds have been created to shield ailing banks and governments from markets and closed-door European summits have become the principal venue where decisions over Europe’s financial future are made. A full fiscal union, unthinkable until recently and still unpalatable to voters in countries like Germany, is now being entertained as a perfectly respectable, though slightly premature, option.

As often happens whenever ideology is confronted with unpleasant facts, Europeans also face a cognitive dissonance between the promise of a better functioning, more closely integrated union, and the ongoing economic mess—which is arguably getting worse, not better. If planning is not working all that splendidly for us, maybe it’s time to let searchers give it a try.

When Rohac describes the “searchers,” he could just as easily be describing the American sensibility:

In short, a searcher’s approach towards solving current economic problems in the Eurozone would readily recognize complexity and involve looking for bottom-up, country-specific solutions without necessarily endorsing any specific political vision for Europe from the outset. Yet, that is not the approach by those believe that they have the answer—i.e. *more* and *deeper* integration—regardless of the problem they are trying to address, and regardless of economic reality. We’ve yet to see the final bill for the ideological blindness of European planners.

So you can see why Rohac brought Krugman on Germany’s Kantian thinking to mind. And perhaps you can also see why the American approach, which recognizes complexity (a good thing) yet abjures a specific vision for the future (a thing that has intellectual virtues, yet that reflects and might contribute to pessimism and dissension), isn’t necessarily an unalloyed good.