Illusions of Pragmatism

by Henry Oliner

"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design." Friedrich August von Hayek

The difference between a liberal and a conservative is often just the time frame. Short term pain can be rationalized or justified if it is a part of a long-term benefit. Paul Volcker, appointed to the Fed by Jimmy Carter, understood the need to drive down inflation and strangled it with high interest rates and high unemployment. Reagan provided him the cover from the resistance from both parties. The short term pain inflicted by the Fed's policies proved successful in stopping the inflationary cycle. Prices stabilized. Unemployment and interest rates fell. The economy entered one of its longest booms.

Statesmen distinguish themselves from politicians by their time frame. We have far too few statesmen. Politicians only see the impact on their next election. They rationalize their short-term perspective by the need to retain power to affect any change. This is a reason to avoid political solutions to economic problems.

The economic cycle is a fact to accept; not a problem to solve. We need a system with firewalls that avert larger losses. When we believe we are capable of taming the economic cycle or are unwilling to accept any short-term pain then bad decisions remain uncorrected longer and the damage accumulates until we encounter a much bigger loss. A government avoiding short term reconciliations can cause long term disasters.

This concept of time frame will color the illusions of pragmatism. FDR and George W. Bush claim to have "abandoned free market principles to save the free market system."

This is a time frame issue. We can acknowledge the imperfections of the free market. We can also debate if the dislocation was a result of inherent flaws in the free market system or the failures of regulation that were blamed on the free market. But what Bush and Roosevelt did acknowledge is that remaining committed to the ideology of a free market during a deep recession or economic collapse entails a time window. If the people suffer too long they will lose faith in the market and totally abandon its ideology and the good it has brought.

Herbert Hoover inherited the financial collapse he is tagged with. His political failure was remaining committed to the free market and sound money ideal while being tone deaf to the actual pain the workers experienced. Hoover believed in an activist government response and his actions, particularly the Smoot Hawley Tariff, contrary to free market ideas, deepened and lengthened the Great Depression.

There was a serious depression in 1920, few people remember because it was so short lived. It was the last time wages were allowed to decline and the government did not interfere. It ended in eighteen months.

Every candidate proudly proclaims to be pragmatic. The presumption is that the other guy is an ideologue, committed more to ideas than people. But they all have an ideology even if it not articulated for fear of boring the voters. They do not reject ideology, just the ideology of the other guy.

It is one thing to be pragmatic if that means a short-term adjustment to the imperfections of a worthy ideology. But in the absence of a sound ideology, pragmatism is just a populist swag bag of short term appeasements that will likely bring long term pain.

Good ideology is pragmatic even if it is not perfect. Claiming pragmatism without a well-articulated and sound ideology is an

illusion, accepting short term gratifications and ignoring long term consequences. The quest for pragmatism enables populist demagogues who will ignore successful but imperfect ideas for short term deliverables.

One should be cautious in being seduced by pragmatic claims from a candidate who is unwilling to articulate his ideas.