

A Pragmatist Approach to the Proper Scope of Government *Comment*

by
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1 *Introduction*

Pragmatism is a philosophical perspective linked with the name of John Dewey and other 20-th century American philosophers. As I tried to learn something about it, I discovered that there is an enormous literature on pragmatism that could easily fill a small library. Luckily, in his paper KNIGHT [2001] has taught us that the main message of the pragmatist perspective boils down to just a few guiding principles: (i) Evaluate ideas by their consequences (*consequentialism*); (ii) be aware that your ideas may be wrong and may fail (*fallibilism*); (iii) don't be hypercritical (*anti-skepticism*); (iv) try out, debate, and evaluate alternatives (*experimentalism*).

At this level of generality, it sounds all very agreeable, and if one took a count, I guess we would all like to be counted in as pragmatists.

2 *Pragmatism and Experimentation*

Before I elaborate on some limitations of the pragmatist perspective, I would like to praise the fourth principle: the principle of experimentalism. In public policy one is often lead to advise small changes in the face of major problems, because the consequences of change are unknown and involve high risk. A better way to deal with policy reform in the face of uncertainty is to try out major changes in a restricted domain,

and then evaluate the alternatives before one adopts policies on a larger scale. This opens up a way to introduce major policy reform without sticking too much to the *status quo*.

In recent years, the principle of experimentalism has been fruitfully applied to public policy in the design of welfare reform, pollution control, school reform, and in the design of new methods of regulation. Perhaps the best known examples are the *New Jersey Negative Income Tax* experiment, the experimental *school voucher programs* in California, and the experimentation with *markets for pollution rights* and the setting-up of *wholesale electricity exchanges*.

Of course, such experimentation can only work if policy makers share a basic agreement on the relevant policy issue and the desirable characteristics of its solution. Without such a consensus there is no common ground to design and then evaluate the experiment, and running an experiment could not resolve anything. There are many example of policy debates, where the different parties are too far apart to agree on the design and evaluation of a policy experiment.

However, despite these obvious limitations of experimentalism, its potential is still not sufficiently recognized. One should definitely see a lot more policy experiments, encourage a spirit of experimentation, and develop a routine in setting up and evaluate policy experiments.

Of course, experiments cannot always determine the best single policy alternative already because it is often the case that the best policy is to establish coexisting institutions that provide mutual checks and balances. A case in point is public health reform. It is unlikely that one can find one single institution that is best fit to deal with the incentive problems between customers and providers of health services. It may be better to set up competing institutions, like the *Health Maintenance Organizations* (HMO's) that coexist with standard insurance-doctor-patient relationships in the United States. This example of the benefits of competition between institutions suggests that experimentation should sometimes be an ongoing process, rather than a one-time affair.

3 *Individual vs. Collective Decisions*

If you recall Hayek's defense of markets one should think that pragmatists love it. Why? In Hayek's account of the operation of markets: (i) Individual agents judge ideas by their consequences, because the have strong

incentives to anticipate the consequences of their actions; (ii) agents are aware that they may make costly mistakes, and everybody anticipates that they may fail; (iii) agents are active, despite doubt; (iv) agents try out their ideas, the market weeds out bad ideas and rewards good ones, and thus does a good job at aggregating information.

Knight seems to turn Hayek upside-down when he claims that collective decision making may be a more effective mechanism to aggregate individual preferences, ideas, and knowledge. Generally Knight seems to favor collective decision procedures on the ground that they may give rise to a better aggregation of information than competitive markets. However, he fails to provide any detailed reasoning to support his claim.

Of course, group decisions can be superior to purely individual decisions on the ground that groups can initiate a brainstorming and competition for ideas. However, these beneficial side effects of group decisions can only make a difference if there are strong incentives, if incentives are well-aligned, and, above all, if groups are relatively small. Generally, collective decisions are plagued by strategic distortions of preferences, and low powered incentives.

4 *Pragmatism vs. Ideology*

Pragmatism is detached from particular opinions and ideologies. This is not altogether an advantage. Go back to the successful policy experiments that I mentioned before, like the *New Jersey negative income tax* or the *school voucher* experiment. At the time when these ideas were introduced by Milton Friedman, they were received with great hostility, and considered as outrageous and irresponsible.¹ And indeed, the underlying ideas were deeply rooted in an ideology that was particularly obvious because it was not popular at that time.

This suggests that ideology may play an important role in the “production” of policy ideas, whereas a world of pragmatists might lack incentives to produce new ideas, good and bad.

Ultimately, this incentive aspect of ideology has to do with the fact that important social or political inventions are not rewarded in the same way

¹Recently, the city of Hamburg introduced a voucher program to fund preschools. This move was not controversial. A few years ago it would have triggered a heated debate.

as technical innovations are rewarded through markets and the patent system. The rewards for social and political innovation are mostly intrinsic in the sense that the innovator is thus able to propagate his own views of the world. Of course, these intrinsic rewards are only strong for those who maintain a strong ideology.

5 *Pragmatism vs. Commitment*

Another limitation of pragmatism has to do with the value of commitment. Ever since VON STACKELBERG [1934] and SCHELLING [1960] it is well-known that, in strategic decisions, the power to commit oneself may confer a strategic advantage, because constraining one's own behavior may induce others to behave in a way that is beneficial for oneself. This induces players to seek commitment devices. Of course, it is difficult to find and establish commitment devices that are actually irreversible and judged as irreversible by other players, and to assure that one's commitment is communicated to others. Commitment is valuable only if it is irreversible, and if the communication channel is reliable.²

In the realm of politics, ideology is one of the major commitment devices. Indeed, political parties invest in ideological profiles not only because the electorate likes to be represented by organizations that share their own ideologies, but also because they want to be seen as predictable and accountable, and because they want to make strategic use of their predispositions.

From a purely pragmatic perspective, a political party may find it attractive to agree to a certain policy measure in order to gain a majority for some other policy. However, such logrolling activities are limited, because they may erode the ideological profile, and thus destroy a valuable commitment device.

The conclusion is that even if all political parties were pragmatists, and free from ideological predispositions, they would nevertheless rationally adopt ideologies in order to gain commitment power. Of course, all parties will enter into a race for gaining commitment power. And as they

²The importance of the communication structure is often overlooked. SCHELLING [1960] already pointed out that commitment power is useless if opponents can destroy all communication channels before communication takes place. However, the problem is far more serious. Indeed, BAGWELL [1995] showed that commitment power may already be useless if communication is subject to arbitrarily small noise.

all “tie their hands”, the overall outcome may not differ much from what would occur in a world in which no party had commitment power. Nevertheless, it is typically not advantageous to unilaterally abstain from commitment.³

6 Conclusions

It would certainly be desirable if the players of the game of politics would adopt a pragmatist perspective that favors a competition for ideas, focuses on consequences, and fosters a spirit of problem solving and experimentation. However, there are good reasons why political parties subscribe to ideologies and other commitment devices. Moreover, in the absence of well-defined property rights for political and social innovation, ideologies may actually serve a useful role as an incentive device to stimulate the production of ideas.

References

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³And even if it is advantageous to be a pragmatist among ideologists, as it may be the case for a small party that offers itself as a majority making coalition partner, the electorate may not appreciate or not understand this deviation from the norm.