The New Philosophers

PRINCETON – At the recent meeting of G-20 finance ministers in Australia, US Treasury Secretary Jack Lew noted “philosophical differences with some of our friends in Europe,” before urging Europeans to do more to boost their anemic growth rate. The terminology is striking, and underscores the difficulty of Europe’s search for a way out of its current malaise.

Canada’s finance minister, Joe Oliver, joined the call for fiscal expansion in Europe – a position for which there seems to be some support within the European Central Bank. Indeed, ECB President Mario Draghi has advocated higher spending by more fiscally strong countries like Germany. And ECB Executive Board member Benoit Coeure, together with his former colleague Jörg Asmussen, currently Germany’s deputy labor minister, recently suggested that Germany should “use its available room for maneuver to promote investments and reduce the tax burden of workers.”

In fact, most of the world believes that Germany should adopt a more expansive fiscal policy. According to this view, austerity is counter-productive, because it induces slowdowns and recessions that make long-term fiscal consolidation more difficult.

But Germans – as well as some other Northern Europeans, and perhaps some Chinese
economists – remain reticent. They believe that responding to calls for stimulus would simply lead to more such calls, creating a log-rolling, pork-barrel dynamic in which any hope for fiscal consolidation is ruled out.

The stimulus-versus-austerity debate is an old one. In the 1970s and 1980s, the United States regularly called on Germany and Japan to act as locomotives for the global economy. But, until recently, the divergences were viewed in terms of interests, not “philosophies.” Americans wanted additional demand for their goods and higher prices, while the Germans and Japanese defended their export industries.

The problem today, as Lew’s recent statement highlighted, stems from deeply entrenched differences between the opposing sides’ belief systems, with ideological questions about fairness and responsibility trumping pragmatic discussion of the best way forward for everyone. As the historian Robert Kagan argued in 2002, Americans and Europeans do not only have different worldviews; they occupy entirely different worlds.

Philosophical differences are extremely difficult to reconcile. Just as Platonists and Aristotelians struggled against one another for millennia, Kantians and utilitarians have been at one another’s throats for centuries.

Such deep theoretical conflicts have real-world consequences, as they impede constructive debate and cooperative action in crisis situations. Fundamental ideological divisions over the 2003 Iraq war have strained global politics for more than a decade.

Modern political processes and structures are simply not well suited for conducting – much less settling – philosophical disputes. Democratic institutions are designed for making deals between competing interests, with parliaments specializing in finding the right combination of concessions to enable agreement on a generally accepted solution. Likewise, international forums like the G-20 exist precisely to persuade a large number of vastly different countries to set aside philosophical questions for the sake of their shared economic, political, or security interests.

Philosophies do not just give a little here and there, blurring over the difficult bits in the hope that everything will work out in the end. Imagine asking a Kantian to add just a bit of utilitarian calculation to the categorical imperative.

Of course, resolving a philosophical debate is not impossible. It was standard
pre-modern practice to overcome such differences with a formal disputation. In the early sixteenth century, the German princes attempted to settle the philosophical challenge presented by Protestant reformers by engaging Martin Luther to debate a prominent orthodox Catholic theologian, Johannes Eck.

There are not that many modern varieties of this sort of practice, but the 1944 United Nations Monetary and Financial Conference at Bretton Woods comes close. By systemically engaging with the economic issues involved in building a viable international system, experts created a new global economic and political order.

In a sense, central banks have begun to resemble medieval philosophical faculties, with discussions addressing the issues underlying policy decisions, rather than just the policies themselves. In the ECB, for example, a debate is underway to determine under which conditions deviation from fiscal orthodoxy might be stabilizing in the long term. How that debate is resolved could lead to a new kind of international cooperation.

At a time when political processes are stalled on both sides of the Atlantic, the US Federal Reserve and the ECB have been engaging in a series of policy innovations, feeling their way toward a solution that could promote and sustain economic recovery. On this basis, the ECB is recasting itself as the incubator of a new intellectual and philosophical synthesis.

But central banks’ new role as supreme arbiters of policy truth is fraught with hazard. Given that the solutions that emerge from their disputations and analyses will be the product of technocratic – not democratic – processes, they are likely to trigger populist backlashes.

Moreover, the policy approaches that central banks produce may be too complex and interlinked to function efficiently. In particular, the attempt to make expansionary policies conditional on the implementation of a host of microeconomic reforms is problematic. If only some parts of a complex package linking fiscal leeway with structural reform are realized, the outcome is likely to disappoint – or even prove counterproductive. When it does, the old philosophical divisions are likely to resurface.
