AN OUTDOOR-GEAR MAKER MIGHT CHANGE THE CONVERSATION. AN OUTDOOR-GEAR MAKER MIGHT CHANGE THE CONVERSATION.

Is There a Way to Escape Policy Gridlock?

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From financial regulation to health care to climate change, we can't agree on what to do about anything. Free-market enthusiasts celebrate the creative power of markets and want smaller government; critics counter that we desperately need government intervention to solve problems that markets can't handle. Neither side can understand the other.

Is there any way out? Well, if you're discouraged, I suggest looking to an inspiring new book by an economist, David Colander, and a businessman, Roland Kupers, who believe the deadlock needn't be permanent. We can have better markets, they say, and more effective (and smaller) government too, if only we can muster a little more economic imagination.

The book is called ``Complexity and the Art of Public Policy,'' and its main point is that our policy debates have fallen into a trap that economists inadvertently created some 50 years ago. That's when they started building mathematical models of economic systems, and, to simplify things, made the assumption that people have fixed or unchanging preferences and desires. Sounds innocuous; it wasn't, and isn't.

That's because this assumption has led us to accept that the aim of policy is never to influence individual preferences or values, only to satisfy pre-existing desires as well as possible. A few steps from there and you have conventional economic wisdom -- that decentralized markets do a wonderful job creating wealth and meeting the vast diversity of human wants, but also that markets fail for a variety of reasons. We need government to step in when they do; for example, to supply socially valuable public goods such as broad education and clean air.

Hence, we're stuck with a policy framework that says either "leave things to the market," or instead "count on government" -- a recipe for polarization. By assuming that people have fixed preferences, Colander and Kupers write, economists have effectively ruled out an entire world of policies that might actually get markets and governments working together more imaginatively.

After all, market enthusiasts are right that the free activity of millions of people seeking their own ends is an incredibly powerful way to find solutions to human needs. Central planning can't match local knowledge and creativity. However, the prevailing values of the markets -- valuing financial gain over all else -- means that market ingenuity isn't often directed toward social benefit. Here, Colander and Kupers argue, government has a role, not in finding any solution, or producing any good, but in encouraging institutions within which new values could emerge, helping the market to achieve socially beneficial outcomes.

For example, new kinds of "for-benefit" businesses have already started emerging, and could be further encouraged by government groundwork. Examples include Ashoka.org, an umbrella organization aiding for-benefit enterprise, or Patagonia, the outdoor-gear company devoted to environmental responsibility and -- since 2012 - officially listed under California law as a "benefit organization." To thrive, such organizations require a legal framework attuned to their social focus -- including rules designed to maintain a commitment to the values and culture of the founding entrepreneurs.

With a significant shift in prevailing values, such businesses could compete quite well with for-profit companies, attracting employees with shared norms to work for them, or doing business on favorable terms with other for-benefit firms. In such a world, the government needn't step in for market failures; it would only help create a level playing field so that for-benefit businesses could succeed, enabling the magic of markets to supply social well-being as well as material growth. Imagine new companies devoted to supplying cheap and effective drugs and aiming to maximize social benefit rather than profit. Or companies with an earnest mission to deliver quality health care while keeping costs down.

Recognize that preferences aren't fixed -- and that policies might aim to encourage their evolution -- and you can begin to see how markets and government might work together. Social entrepreneurs could help markets themselves achieve social goals, giving more freedom to individuals, and shrinking government at the same time.

Unfortunately, little of this happens now because institutions haven't been designed to be friendly to social entrepreneurs. Academic economics is behind the curve too. It should be exploring the kinds of institutions that would be most beneficial in bringing such a world about. It isn't, because most economists remain locked in the old policy frame, as do the policy makers and politicians they influence.

Colander and Kupers's book ought to be on every policy maker's reading list. They suggest that we can get ourselves out of the boring old debates, but it will take a little imagination. And the willingness to see that some of the things we think we "know" are precisely what keep us stuck where we are.

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