Post-Neoliberalism

PATHWAYS FOR TRANSFORMATIVE ECONOMICS AND POLITICS

ECONOMIC DEMOCRACY INITIATIVE

A New Paradigm for Economic Policy and the Role of Mainstream Economics

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'Productivism' is a new approach to economic policy that prioritizes the dissemination of productive economic opportunities throughout all regions of the economy and segments of the labor force. In contrast to neoliberalism, it gives governments a significant role in achieving that goal. In contrast to the Keynesian welfare state, it focuses less on redistribution, social transfers, and macroeconomic management. And unlike both neoliberalism and Keynesianism, it is more skeptical towards technocrats and less hostile to populism in the economic sphere. Mainstream economics can be this paradigm's ally, rather than its enemy.

In this short essay,[1] I will sketch a policy paradigm that I have called "productivism". I also want to suggest that mainstream economics can be this paradigm's ally, rather than its enemy.

Productivism is an approach that prioritizes the dissemination of productive economic opportunities throughout all regions of the economy and segments of the labor force. It differs from neoliberalism in that it gives governments (and civil society) a significant role in achieving that goal. It puts less faith in markets and is suspicious of large corporations. It emphasizes investment in productive activities over investment in financial products, and revitalizing local communities over globalization. It also departs from the Keynesian welfare state in that it focuses less on redistribution, social transfers, and macroeconomic management and more on creating economic opportunity by working on the supply side of the economy to create good, productive jobs for everyone. And productivism diverges from both of its antecedents by exhibiting greater skepticism towards technocrats and being less instinctively hostile to populism in the economic sphere.

Our core economic problems – poverty, inequality, exclusion, and insecurity – have many roots. But they are reproduced and reinforced on a daily basis in the course of production, as an immediate by-product of firms' employment, investment, and innovation decisions. In the language of economists, these decisions are rife with externalities for society, i.e., they have consequences that spill over to many people, firms, and other parts of the economy. Some of these externalities are well recognized in economics. Learning and innovation spillovers from R&D form the rationale for tax credits and other public subsidies. Environmental externalities and the effects of greenhouse gas emissions on climate change form the basis for environmental regulation.

But in our contemporary world, these externalities are broader and also include what may be called "good jobs" externalities. "Good jobs" are jobs that pay sufficiently well to allow for a reasonable living standard with some security and savings, are relatively stable and with safe working conditions, and offer some career progression. Firms that generate "good jobs" contribute to the vitality of their communities. Conversely, a shortage of good jobs comes at social, political, and economic costs. Social consequences can take the form of exclusion, broken families, drug abuse, addiction, and crime. Political ills such as polarization, the rise of populism, backlashes against globalization and immigration, decline in trust in government, experts, and institutions can follow. The prevalence of "bad jobs" is also symptomatic of economic dualism, which creates its own inefficiency: productive technologies remain bottled up in a few firms and do not disseminate throughout the rest of the economy and the labor force.

Firms' decisions on how many workers to employ, how much to pay, what kind of technologies to deploy, and how to organize work affect not just the bottom line, but the life chances of prospective employees and their communities. When a company decides to automate its production line or outsource part of its production to another country, society may suffer long-term damage that is not "internalized" by its managers or shareholders.

Framing the problem in terms of an "externality" – or as a "coordination failure" which prevents the undertaking of complementary actions (in training, technology adoption, investment decisions) for broad-based prosperity – clarifies that productivism is about productivity first and foremost, and not about redistribution or social/labor standards. But it does not presume productivity trickles down. It aims to enhance well-being across all sectors of society by directly broadening access to productive employment opportunities.

Productivism requires an explicit quid pro quo between private firms and public authorities. To prosper, firms need a reliable, healthy and skilled workforce, good infrastructure, an ecosystem of suppliers and collaborators, easy access to technology, and a sound regime of contracts and property rights. Most of these are provided through public and collective action, which is the government's side of the bargain. Governments in turn need firms to internalize the various externalities they produce for their communities and societies when they make their labour, investment, and innovation decisions. So firms must live up to their side of the bargain too – not as corporate social responsibility but as part of an explicit regulatory and governance framework.

Productivism focuses on enhancing the productive capabilities of all segments and regions of a society. While traditional forms of social assistance and especially better access to education and health care can help in this regard, connecting people with productive employment opportunities requires interventions that go beyond these. It requires improvements on the demand side of the labour market as well as the supply side. Policies must directly encourage an increase in the quantity and quality of jobs that are available for the less educated and less skilled members of the workforce, where they choose (or can afford to) live.

In the future the bulk of these jobs will come not from manufacturing, but from services such as health and long-term care and retail. In the U.S., fewer than one in ten workers are currently employed in manufacturing. Virtually all new net job creation in the private sector since the late 1970s has taken place in services. Even if policy succeeds in reshoring manufacturing and supply chains, the impact on employment is likely to remain limited. The experience of East Asian manufacturing superstars such as South Korea and Taiwan provides a sobering example. These two countries have managed to rapidly increase the share of manufacturing value added in GDP (at constant prices) – yet they have experienced steady declines in manufacturing employment ratios thanks to automation and other labor-saving technologies.

This is important since so much of the policy effort in the U.S. is focused on promoting high-tech manufacturing. The most recent example is the CHIPS act the U.S. Congress has passed providing $52 billion in funding for semiconductors and related manufacturing. The initiative is aimed at both enhancing national security vis-à-vis China and creating good jobs. Unfortunately, even if the first objective is met, the second objective is likely to remain elusive. A strategy fixated on geo-political competition with China will not be very effective on the jobs front. The advanced semiconductor industries promoted by CHIPS are highly capital and skill-intensive and do little for job creation.

A similar point can be made about the subsidies to green technologies that are a core component of the "Inflation Reduction Act." Without question, the green transition is an urgent priority that the new paradigm needs to tackle. But here too, governments cannot kill two birds with one stone. Green technologies will not create many new jobs on net, and the jobs they create will often not be in the distressed regions that need them the most. Policies that target climate change are not a substitute for good-job policies, and vice versa. Shoring up the middle class and disseminating the benefits of technology broadly through society requires an explicit good-jobs strategy.

If the future of good-job creation is mostly in the service industry, the question then arises: Is an industrial policy for services possible? Enhancing productivity in services is notoriously difficult, and often impeded by a myriad of otherwise well-meaning licensing, safety, and other regulations. But if we cannot find ways of increasing productivity in jobs that the bulk of our workers will end up doing, we will end up with economies that are both worse performing and less inclusive. I have discussed elsewhere what such a strategy might look like in the concrete contexts of the U.S., French, and British economies (Rodrik, 2022; Rodrik and Stantcheva, 2021; Doshi, Spencer, and Rodrik, 2023). I briefly summarize here the

U.S. proposals.

My proposed program has both a local and a national component. The local approach would build on existing development and business assistance programs that are already loosely structured along the lines advocated here. These are collaborative partnerships between local development agencies, firms, and other partners aiming to revitalize local communities and create good jobs. They are organized around an implicit (and evolving) quid pro quo: the provision of public services (such as business extension services, infrastructure, or customized training) in return for soft commitments by firms on investment and employment creation. Such partnerships align with a new, more-flexible, and contextual model of industrial policy that is better suited to the challenge of creating good jobs.

The federal initiative would be the establishment of an Advanced Research Projects Agency (ARPA) focused on the promotion of employment-friendly technologies: ARPA-W(orkers). Starting from the premise that innovations that complement rather than displace workers are feasible yet currently undersupplied, ARPA-W would promote early-stage investments in digital and other technologies that enhance prevailing worker skills and create good jobs.

Consider what is perhaps the toughest test case for these ideas: long-term care. This is a sector where employment will increase rapidly in future years as the population continues to age and demand for in-home or assisted living arrangements increases. It might be useful to increase productivity in long-term care through a strategy that is analogous to the deployment of innovations in manufacturing pioneered by Japanese auto producers (Osterman, 2019). This entails a combination of investing in worker skills, providing workers with greater voice, discretion, and autonomy, and giving them more responsibility for the quality of the service. Care workers that are empowered with greater autonomy and decision-making can use their knowledge of residents and patients to customize their services and provide more flexibility (e.g., in schedules, food, and treatment).

An important component of the strategy could be the introduction of new technologies that complement caregivers' skills, such as digital tools that enable caregivers to collect real-time information, and to respond quickly and efficiently to the needs of individual residents. These changes would require a willingness to experiment with novel work practices and a continuum of efforts—from R&D and the introduction of new technologies for long-term care, on the one hand, to their local adoption, adaptation, and contextualization in specific communities, on the other. If long-term care is managed better in these ways, productivity benefits would show up in lower turnover among care workers, reduced hospitalization rates, better management of chronic conditions, and quicker and smoother transitions out of acute-care facilities.

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In this paradigm, the conventional separation between growth policies and social policies no longer makes sense. Faster economic growth requires new technologies and productive opportunities to be disseminated among smaller firms and wider segments of the labour force and that their use not be confined to narrow segments of the elite. And reducing inequality and economic insecurity is more effective when it happens through better employment prospects than via fiscal redistribution only. The growth and social agendas effectively merge.

Let me conclude by saying a few things about the role of mainstream economics in all this. Neoliberalism and mainstream economics seem inseparable. Neoliberalism promoted freer markets and freer trade, and discouraged government intervention. Aren't those precisely the policy conclusions that students in economics courses are taught? And weren't deregulation, tight money and fiscal austerity, weakening of labor market institutions, and hyper-globalization promoted using the ideas of (and by) leading members of the economics profession? Since the answers to both questions are yes, the demise of neoliberalism should perhaps prompt us to jettison mainstream economics as well.

But the economics of reasoned discussions in graduate seminar rooms is quite different from Econ 101 and the bastardized economics of the neoliberal policy advocate. Consider whether economics preaches free trade. In my book The Globalization Paradox I imagined a journalist going undercover as a graduate student and visiting an economics professor during his office hours. The undercover journalist asks the professor: Is free trade good? In public, the professor might have been tempted to provide a knee jerk answer in the affirmative, but this is graduate school, and the question demands a fuller answer. “What do you mean by ‘good’?” the professor responds. “And good for whom?” The professor then launches into an extensive exegesis that will ultimately culminate in a heavily hedged statement: “So if the long list of conditions I have just described are satisfied, and assuming we can tax the beneficiaries to compensate the losers, freer trade has the potential to increase everyone’s well-being.” If he is in an expansive mood, the professor might add that the effect of free trade on an economy’s long-term growth rate is not clear either, and would depend on another long list of requirements.

If even the beneficence of free trade is up for grabs by mainstream economics’ own rules, imagine how indeterminate policy conclusions must be in any other domain. As Carlos Diaz-Alejandro wrote a while back:

"by now any bright graduate student, by choosing his assumptions ... carefully, can produce a consistent model yielding just about any policy recommendation he favored at the start" (Diaz-Alejandro, 1974:97). And this was some fifty years ago! Imagine how creative today's graduate students can be. One can also express this idea in a more positive light. Keynes, who was probably the best practitioner of contextual economics, defined economics as "a science of thinking in terms of models joined to the art of choosing models which are relevant to the contemporary world."

Unlike what many of its critics believe, where policy preferences are concerned mainstream economics comes paradigm-free in its sophisticated, seminar-room version, and can be used to support any number of conflicting policy paradigms. What disciplines this immense flexibility is logical rigor (which helps clarify the critical conditions under which any policy recommendation holds) and systematic evidence (which tries to map those conditions to the real world in specific settings). Neoliberalism was bad policy not because it adhered too closely to neoclassical economic tenets, but because it treated them too cavalierly. Neoliberalism was in fact bad neoclassical economics (Naidu, Zucman & Rodrik, 2019) The economists who let their enthusiasm for free markets run wild were not true to their own discipline. A younger generation of economists, using the rich variety of contextual predictions of mainstream economists and sticking closer to the evidence, will likely do much better.

See James Galbraith's reply to this piece, "A Comment on Dani Rodrik's 'New Paradigm for Economic Policy'" for further discussion.

Footnotes

[1] This essay borrows heavily from my monthly Project Syndicate columns and from my essay "On Productivism."

[2] See this article for a discussion of how thinking of economics as a collection of models helps us overcome the faddishness, over-confidence, and hubris that often accompanies public punditry on economic policy see Rodrik (2015).

[3] See for example the policy briefs produced by the Economics for Inclusive Prosperity network, or the new generation of empirical work on industrial policies discussed in Juhasz, Lane & Rodrik (2024).

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