

After Neoliberalism¹

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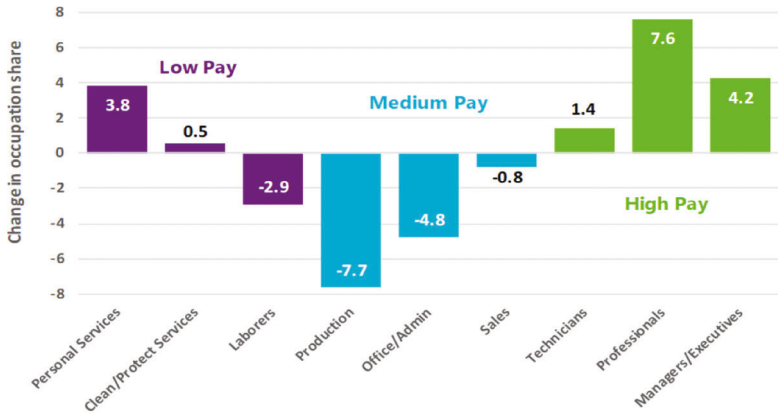
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This section focuses on what policies would be desirable in a potential economic regime following neoliberalism, and alternative to neo-illiberalism, and it aims to present some of the key features of this new order. Two scenarios are possible, an optimistic one and another more pessimistic. This section will mainly focus on the positive scenario, while raising some concerns about how the system could shift toward a negative one.

There is not a very tight connection between neoliberalism and the political regime type, at least in the short run, rather there might be one over longer or historical stretches. However, one relationship I want to draw attention to concerns the nature of the transformation that labor markets have been going through recently. Indeed, what is happening nowadays in low- and middle-income countries, ranging widely from Eastern Europe to other countries, is very different from the historical processes that created advanced social democracies in today's developed world, and it also results in very different kinds of politics.

- 1 This is a lightly edited transcript of Dani Rodrik's remarks at the conference held on March 27th and 28th, 2023 at The New School for Social Research.

Figure 1: Employment Growth by Occupation and Annual Pay, 1980 to 2019

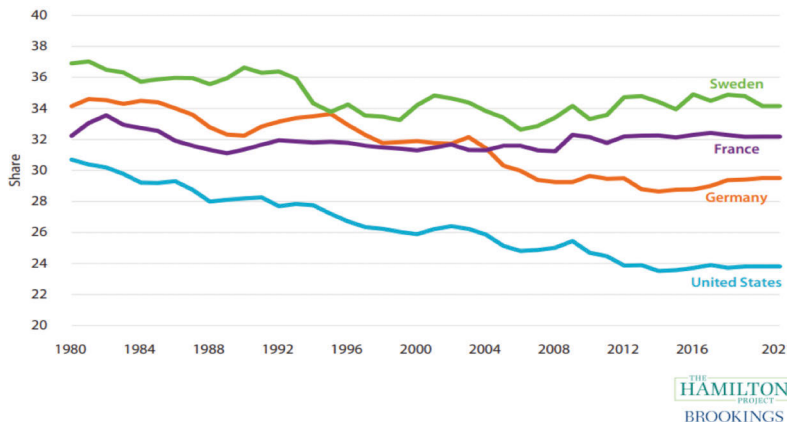


Source: Autor (2021)

When we think about the historical process of economic and political development, industrialization is, to some extent, shaping the development of the working class. The working class in turn becomes, after long periods of struggle, an organized labor movement that ultimately may underpin a kind of labor-based political movement and a party. If this happens, the labor party could drive all kinds of reforms and classical liberalism could either be transformed into explicitly social democracy or illiberal democracy, with a very strong redistributive bent. But at the root of this historical transformation, it is still labor getting organized through a process of industrialization, typically with workers gathered into factories in urban areas. When this process of industrialization is lacking, or when an economy has industrialized but is then subject to premature deindustrialization, the result is a disorganized petty informal sector of micro enterprises, self-employment, and the lack of development of a similar workers class. This is, in my opinion, likely to result in a kind of politics that is very different from what we have gotten in the advanced industrial countries of today. It is much more of a personalized and clientelistic type, which successful authoritarian populists, such as Orbán, Erdoğan, Modi, or Bolsonaro, are actually quite good at delivering in the form of very particular services to “the people”, i.e. their electorate. While this is certainly

not a deterministic process, I believe that one version of politics resulting from changes in the underlying economy is this authoritarian populism. Hence, these labor market trends, which have been driven by globalization, technological trends, and so forth, are making it much more difficult, or nearly impossible, to generate political regimes that we associate with the classical transformation in advanced countries. I want to explore in more detail how this is the case and what could be a democratic alternative to neo-illiberalism after the decline of the neoliberal regime.

Figure 2: Share of Pretax Income Going to the Middle Class in Select Countries, 1980–2021



Note: Figure shows pretax income share going to the middle 30th–70th percentiles for each country.

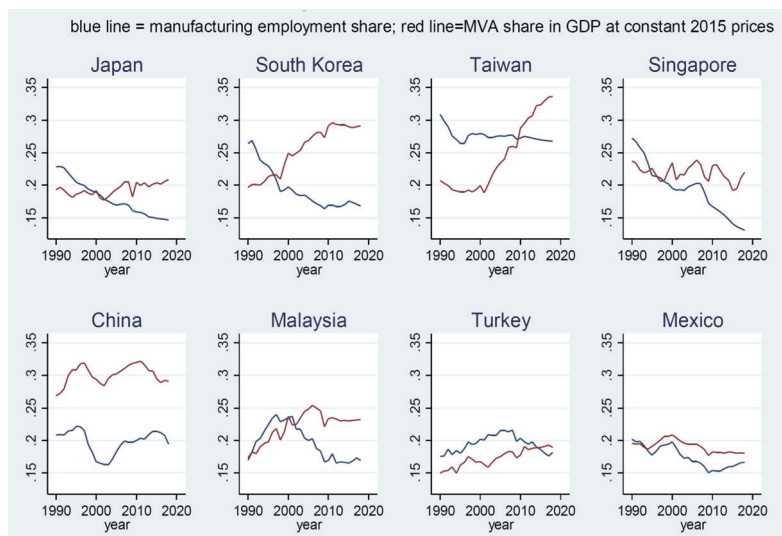
Source: World Inequality Database (2021)

A good scenario for a post-neoliberal order would essentially consist of a step back from what is commonly called hyper-globalization, to allow greater domestic space and freedom for the reconstruction of national social contracts, where each country would remain freer than it has been in the recent past. Freer not just from extortive external regulations, but also at the intellectual and cognitive levels; freer to pursue their own national development models that might be appropriate in the specific context. The issue of industrial policies targeting good jobs has particular relevance for developing and developed countries alike. Indeed, in many

ways, the disappearance of good jobs is at the heart of the rise of illiberalism and authoritarian populism, topics that are the concern of this project. In this regard, the well-known phenomenon of labor market polarization in most of the advanced countries is problematic, as it is hollowing out labor markets, with middle-skill-level jobs disappearing.

Furthermore, it is also true that in the most recent recovery workers at the very low end of the pay distribution have actually done quite well in the last couple of years compared to those in middle-class occupations. This squeeze of the middle class is reflected in a long-term trend, particularly acute in the United States. This squeeze has many implications, not only economic, with rising inequalities, but also social, even affecting health, to name one.

Figure 3: Manufacturing Trends in Various Countries



Source: De Vries et al., *The Economic Transformation Database* (ETD; 2021)

A different version of this dynamic is also playing out in developing countries. Specifically, the traditional pattern of structural change that governs countries' development is no longer working. The traditional pattern entailed a move from agriculture and informal activities to formal

organized manufacturing, and, ultimately, to services, after higher levels of incomes were reached. Instead, what is observed today is very different. Even though people are still leaving the countryside and the agricultural sector, they are not being absorbed by the industrial and manufacturing sector, rather they are funneled into informal services in urban areas. What is observed is a phenomenon of premature deindustrialization in the low- and middle-income countries. Indeed, although these countries are still poor and hence earlier theories of development would have recommended industrialization in order to develop, formal organized manufacturing is actually *shedding labor*. Furthermore, even in some low-income countries where industrialization has gone ahead at a reasonable pace, an increasing dominance of informality within manufacturing is observed.

This country-wide polarity plays out increasingly within manufacturing itself. Hence, the challenge that the system confronts – and this again is common between low- and high-income countries – is that re-industrialization, i.e. trying to reignite domestic industrialization, is not going to solve this problem.

This can even be seen in those countries, such as Taiwan, South Korea, and to some extent Japan, which have been rather successful in maintaining high levels of manufacturing activity in terms of output and value-added at constant prices, as employment in manufacturing continued to shrink. South Korea is a particularly striking example of this. In South Korea, manufacturing output as a share of GDP at constant prices has actually continued to increase quite significantly since the 2000s. This is maybe the most illustrative case among countries that are trying to reindustrialize through, for instance, the CHIPS Act or re-shoring in the United States². Just achieving half of this would look like a miracle in the United States in terms of re-industrialization. However, despite this re-industrialization, it is worth noting that manufacturing employment has nonetheless shrunk as a share of total employment. Hence, it seems unlikely that even re-industrialization would be able to reverse the trend of polarized employment. For this reason, the urgency

- 2 The CHIPS and Science Act, passed by the US Congress and signed into law by President Biden in 2022, allocates \$280 billion in funding for research and manufacturing of semiconductors in the United States.

emerges for a new set of policies and the need for the post-neoliberal era to adapt, deal with this feature, and find a way forward to reverse these trends, through the creation of an increasing number of good jobs fitting the middle-skilled class.

To reach this goal, it is not enough to merely talk about re-industrialization. Rather, this discourse would need to be complemented by other interventions, such as investing in training and education, establishing standards, increasing the bargaining power of workers, setting higher minimum wages, and so forth. All of those are obviously important, but their implementation is not without complexities. Indeed, there is a tension between trying to enhance or mandate higher pay for workers at the lower-middle end of the skill distribution and the consequences for employment. This has been observed, for example, in a country like France, which has done rather well at keeping up the bottom of the labor market in terms of pay and standards. The cost has been very high youth unemployment, as people have trouble getting into the labor market at a young age. Thus, the only way this tension could be resolved is by complementing these policies of collective bargaining and standards and better labor market regulations with increasing the productivity of workers at the low and middle end of the skill distribution. This is, after all, really the domain of industrial policy. Indeed, it focuses on fostering innovation and appropriate structural change towards more productive activities.

Today, however, when talking about industrial policies and the variation of innovation policies, the tendency is to focus on manufacturing, supply chains, the green transition and global competitiveness. It is generally thought that jobs are going to be the by-product of these things, as in the case of the Inflation Reduction Act (IRA)³ or the CHIPS Act in the US. But in fact there is no guarantee. Indeed, as mentioned earlier, even if the effort to revive manufacturing is to be successful, the benefit in terms of jobs creation will be rather meager, as nowadays jobs creation is principally shaped by the service industry. It follows that there emerges a

- 3 The IRA, signed by President Biden in August 2022, is a set of tax incentives and subsidies to stimulate and accelerate investments in the green transition.

new need to target industrial policies much more explicitly on good jobs. That also means that industrial policies will need to put as much emphasis on the demand side of labor markets – namely enhancing productivity in small and medium-sized enterprises that will be creating the bulk of jobs – in addition to enhancing the supply side of labor markets, through investment in skills and training that will have to focus much more on services rather than just manufacturing.

Let me now turn to briefly present some salient aspects of what this system might look like on three different levels. First, at the very local level, a set of local “industrial” policies would be needed, combining workforce development with business development to provide firms, especially smaller and medium-sized enterprises, with a portfolio of business services, an extension to services of the sort we normally think of as “agricultural extension” or “manufacturing extension”. In this sense, there is a need to reorient the capabilities of these local cross-sectoral efforts to develop these business services, whether it's in terms of management training, access to platforms or technologies, access to land, or access to help with regulations, to name a few.

At the national level, it is necessary to invest much more directly in labor-friendly technologies. The tendency so far has been to take the direction of technological change as given. But of course, technological change is not given, rather it responds to incentives. One could imagine, for example, setting up an “ARPA-W,” that is an ARPA (an Advanced Research Projects Agency) for workers that would allow investment in frontier technologies. This could provide frontline workers, say in long-term care or education or retail, with digital tools or other AI tools that actually enhance their performance and allow them to provide much more customized services to their customers, whether it is retail customers or long-term care patients. That would actually make this relationship much more productive while giving workers much more agency and autonomy in the way that they produce. In this sense, this ARPA, targeted at enhancing workers and their productivity, specifically and directly at the low and middle end of workers’ skills, would resemble the current DARPA, concerning innovations in defense related areas, or the ARPA-E, the government agency focused on investing in green technology.

Finally, at the international level, there is the need to reverse our understanding of how the global economy and the domestic economy interact. Under hyper-globalization, domestic economies and societies are understood as being at the service of hyper-globalization. The main concern currently revolves around what is needed to be done to become more competitive globally. This question will have to be reversed. It becomes all important that we rearrange the system of international trade and finance and ask the question how global arrangements could best support cohesive and inclusive domestic economies, in a way that dates back to the spirit of the Bretton Woods regime, a regime where that support was very much the underlying concern. Moreover, it would be fundamental to include social safeguards clauses which protect domestic labor standards from erosion due to import competition.