

# On productivism<sup>1</sup>

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## Abstract

'Productivism' refers to an approach that prioritises the dissemination of productive economic opportunities throughout the entire economy and segments of the labour force. It differs from what has come to be called 'neoliberalism' by assigning governments and civil society significant roles in achieving this goal. Productivism puts less faith in markets and is suspicious of large corporations. It emphasises production and investment over finance and the revitalisation of local communities over globalisation. It also departs from the Keynesian welfare state by focusing 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. This article relates the contemporary labour market problems of advanced economies to the dualism literature in economic development, which focuses on the divergence between 'modern' and 'traditional' segments within poor economies. It then highlights the nature of the new challenges and why established models of economic growth and Keynesian social welfare need to be updated. It describes new modes of industrial policy required to deal with these challenges and questions whether

## Keywords

- productivism
- labour market
- globalisation
- industrial policy
- economic growth
- social welfare

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our governments are up to it. It also discusses how the elements of this new strategy are drawing support from both sides of the political spectrum.

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## **Introduction: An old problem in a new setting**

How to overcome ‘productive dualism’ is our central economic challenge. Dualism is an old idea that lies at the core of development economics and has become increasingly relevant to advanced economies as well. The economists who founded the field of development economics, such as the Nobel Prize winning W. Arthur Lewis, noted that the economies of poor nations are split between a narrow ‘modern’ sector that uses advanced technologies and a much larger ‘traditional’ sector characterised by extremely low productivity. For a long time, scholars considered dualism as the defining feature of developing countries, in contrast to advanced nations where they assumed that frontier technologies and high productivity prevailed across the entire economy. This marked development economics as a distinct sub-branch of economics, separate from conventional neoclassical economics. Correspondingly, the task of development policy became the establishment of new institutional arrangements to overcome the disparities in incomes, education, health, and life chances more broadly created by productive dualism. While the developed-developing country distinction may have made some sense in the 1950s and 1960s, in the 2020s it no longer appears to be relevant.

Industrialisation has been the traditional vehicle for overcoming dualism; as workers get absorbed into more productive manufacturing activities, wages rise, and the economy’s overall productivity increases. But this old and powerful remedy no longer works. As a result of automation and other innovations that have been labour-saving, manufacturing has lost its ability to create plentiful jobs in both developing and advanced economies (Diao et al., 2021). Globalisation has accelerated the process as a small number of countries with strong comparative advantages in manufacturing have squeezed production in middle- and high-income economies.

Employment de-industrialisation has been a common feature of all advanced economies. Manufacturing employment has declined (as a share of total employment), even in countries like South Korea or Germany that have maintained strong industrial sectors. Increasingly, developing countries have also struggled to create significant employment in formal manufacturing firms.

Changes in manufacturing technologies have made it difficult for low-income countries to successfully compete in manufacturing without using skill- and capital-intensive technologies that absorb limited labour and are inappropriate in light of these countries' underlying factor endowments, since they are abundant in low-skilled labour and scarce in capital.

Hence, productive dualism is becoming an entrenched feature of developing and advanced economies alike, requiring remedies that come straight out of the development policy toolbox. In a 2017 book called *The vanishing middle class*, the MIT economic historian Peter Temin pointed out that the Lewis model of a dual economy had become increasingly relevant to the US (Temin, 2017). De-industrialisation, globalisation, new technologies that favour professionals and capitalists, and declining protections for labour have widened the gap between the winners from these developments and those who are left behind. Convergence between poor and rich parts of the economy has been arrested, labour markets became increasingly polarised between high- and low-educated workers, and regional disparities widened. In Europe, the increase in inequality has not been as marked thanks to stronger welfare states, but the same forces have operated there too. The gaps between the most productive firms and regions, and those lagging behind, grew while the middle class shrank (Vacas-Soriano & Fernandez-Macias, 2017).

Consequently, policymakers in advanced economies are now grappling with the same questions that have preoccupied development policymakers for a long time: how to attract investment, create jobs, increase skills, spur entrepreneurship, enhance access to credit and technology—in short, how to close the gap with the more advanced, productive parts of the national economy. The starting points may be different, but the problems of a region where good jobs have disappeared, productive employment has become scarce, social problems (such as crime and addiction) have mushroomed, and there is low trust between government officials and various social groups, and the business community looks distressingly familiar to a development economist. The obstacles that racial or ethnic minorities, recent immigrants, or low-educated workers must surmount in such settings are the bread-and-butter of development economics.

Localities that are left behind in advanced economies may have access to greater amounts of financial resources. In the United States, state and local governments spend tens of billions of dollars, not very effectively, on tax incentives and other subsidies to attract large firms (Slattery & Zidar, 2020). But their officials typically operate under structural and bureaucratic constraints that would be familiar to their counterparts in poor nations. They lack the requisite information on where the most important opportunities and bottlenecks are, they are subject to political pressure and lobbying from parochial private interests, and the capabilities they need to mobilise, even when they exist, are spread across a wide range of public and private organisations that

they do not directly control. The new realities of labour markets require updates to established models of growth and the Keynesian social welfare state.

In this article, I describe the ‘productivism’ approach, which is a remedy that targets productive dualism at its source. I first outline this approach and then compare it to other policy frameworks with the help of a taxonomy of public policies. I discuss the relationship between productivist policies and what are commonly called industrial policies, providing an example of how they can be deployed in service sectors. Since economists and many others tend to be sceptical of the capacity of governments to undertake transformational policies, I will address some of the traditional objections to government interference in the productive sphere. I also suggest that productivism carries appeal for many elements of both the right and left side of the political spectrum. I end the article with some cautions about the dangers of taking economic paradigms too seriously.

## **1. A new approach**

Productivism is an approach that prioritises the dissemination of productive economic opportunities throughout all parts of the economy and segments of the labour force. Our core economic and social problems—poverty, inequality, exclusion, and insecurity—have many roots. But they are reproduced and reinforced on a daily basis as immediate by-products 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 recognised in economics. Learning and innovation spillovers from research and development (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 today, these externalities are broader and include what we can call ‘good jobs’ externalities. Good jobs are a pathway to the middle class. They pay well enough to allow for a reasonable living standard with some security and savings, are relatively stable, have 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 can follow, such as polarisation, the rise of populism, backlashes against globalisation and immigration, decline in trust in government, experts, and institu-

tions. 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 labour force.

Firms’ decisions on how many workers to employ, how much to pay, what kind of technologies to deploy and how to organise work affect not just the bottom line, but the life opportunities 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 internalised by its managers or shareholders. Framing the problem as an ‘externality’—or as a ‘coordination failure’ that prevents firms and governments from undertaking complementary actions (in training, technology adoption, investment decisions) for broad-based prosperity—clarifies that productivism is about productivity, and not about redistribution or social/labour standards. But it does not presume productivity trickles down. It aims to enhance wellbeing across all sectors of society by directly broadening access to productive employment opportunities.

Productivism differs from what has come to be called ‘neoliberalism’ in that it gives governments and civil society significant roles in achieving productive employment goals. It puts less faith in markets and is suspicious of large corporations. It emphasises production and investment over finance, and the revitalisation of local communities over globalisation. It also departs from the Keynesian welfare state—the paradigm that neoliberalism replaced—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 scepticism towards technocrats and being less instinctively hostile to populism in the economic sphere (Rodrik, 2018).

## 2. Where conventional models fall short

To see how productivism differs from alternative approaches, it is useful to consider our policy options through a matrix that categorises different approaches to prosperity and inequality (Figure 1). First, I divide policies into pre-production, production, and post-production stage interventions. To understand fully the range of options for creating inclusive prosperity, this is a better categorisation of policies than the conventional pre-distribution/re-distribution distinction. Within the pre-distribution category, my framework makes a further distinction between policies that affect endowments people

		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
Which segment of the economy do we care about?	low productivity			
	middle productivity			
	high productivity			

**Figure 1. Remedies for prosperity and inequality**

Source: own work.

bring to markets (such as education) and policies that directly influence production, employment, and investment decisions (such as industrial policies or labour market regulations). Second, I divide interventions into those that intend to redress inequities at the bottom, middle, or top of the income distribution. Minimum wages, e.g., target the incomes of the working poor while wealth taxes target incomes at the very top.

The traditional welfare state model operates largely within the first and third columns: it targets the educational and other endowments of workers before they join labour markets and *ex-post* redistribution through taxes and social insurance policies (see Figure 2). The government's role is to finance education, engage in progressive taxation, and provide social insurance against idiosyncratic risks, such as unemployment, illness, and disability. The presumption is that good/middle-class jobs will be available to everyone with adequate education and skills.

Traditional growth strategies, on the other hand, focus on the most productive segments of the economy and encompass interventions within the bottom row (see Figure 3). These may include innovation systems, intellectual property rules, appropriate regulatory structures, and export and innovation incentives. The presumption is that high growth eventually pulls everyone up and leaves few regions or pockets of the labour market behind.

When the inadequacy of good/middle-class jobs is driven by secular trends, such as technology and globalisation, neither of these strategies work well. Economic insecurity, inequality, and poor productivity (except for those at the very top) are important structural problems today. Secular trends in technology and globalisation are hollowing out the middle of the employment distri-

		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
Which segment of the economy do we care about?	low productivity	investments in education and training		transfers; full-employment macro policies
	middle productivity			social insurance, pensions, safety nets
	high productivity			

**Figure 2. Traditional welfare state model**

Source: own work.

		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
Which segment of the economy do we care about?	low productivity			
	middle productivity			
	high productivity	innovation systems, IPR rules, trade agreements	market-friendly regulations, R&D and export incentives	corporate tax incentives

**Figure 3. Traditional growth model**

Source: own work.

bution. These trends exhibit themselves in the form of bad jobs that do not offer stability, sufficient pay, and career progression, and in permanently depressed labour markets outside major metropolitan centres. These problems need a different strategy that tackles the creation of good jobs directly. The focus necessarily turns to firms; to help them internalise the economic and social spillovers that they generate. Hence, the productive sector must be at the heart of such a strategy. This calls for targeting the middle cell of the ma-

trix, focusing on direct interventions in the productive sphere with the goal of expanding the supply of middle-skill jobs (Figure 4). Altogether, we must change what we produce, how we produce it and who gets a say in production decisions. This requires not just new policies, but also a reconfiguration of existing ones.

		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
Which segment of the economy do we care about?	low productivity			
	middle productivity		promotion of higher-quality jobs in SMEs; employer-linked training policies; customised business incentives & services; labour-friendly innovation policies	
	high productivity			

**Figure 4. The productivist ‘good-jobs’ model**

Source: own work.

Advanced and developing nations alike will need a new breed of coordinated policies aimed at the supply and demand sides of labour markets, combining skill training programmes with support for firms (Rodrik & Stantcheva, 2021a). Good jobs require good firms and vice versa. Active labour market policies designed to increase skills and employability should broaden into partnerships with firms explicitly targeting the creation of good jobs (Rodrik & Sabel, 2019). Industrial and regional policies that currently centre on tax incentives and investment subsidies should be replaced by customised business services and amenities to facilitate maximum employment creation (Bartik, 2019). National innovation systems should be redesigned to orient investments in new technologies in a more employment-friendly direction (Acemoglu & Restrepo, 2019). Policies that tackle climate change, such as the European Green Deal, should be explicitly linked to programmes of job creation in lagging communities (European Commission, 2019). Recognising that in the future prosperity will have to rely much more on services and smaller and medium-sized enterprises, the focus of industrial policy should be reoriented away from manufacturers and ‘national champions’, large private corporations that receive priority in government policies.

A new economic order requires an explicit quid pro quo between private firms and public authorities. To prosper, firms need a reliable 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 internalise 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.

Looking at our policy challenge in these terms makes it clear that the conventional separation between growth policies and social policies no longer makes sense. Faster economic growth requires that new technologies and productive opportunities are disseminated among smaller firms and wider segments of the labour force, and that their use is not confined to narrow segments of the elite. Reducing inequality and economic insecurity is more effective when it happens through better employment prospects than through fiscal redistribution only. The economic growth and the social agenda are increasingly one and the same.

### **3. New types of industrial policies**

If productivism is to be successful it will have to internalise the lessons learned from the failures of past policies and adapt to fundamentally new challenges. State interventions aimed at reshaping the structure of an economy—so-called 'industrial policies'—have been traditionally faulted for being ineffective and getting captured by special interests. 'Governments cannot pick winners', as the old adage goes. In reality, much of this criticism is overdone. While there have been notable failures (Lincicome, 2021), systematic studies in the 2010s and early 2020s find that industrial policies incentivising investment and job creation in disadvantaged regions have done surprisingly well (Criscuolo et al., 2019).

Public initiatives have been behind some of the most startling high-tech successes of our time, including the internet and GPS. For every Solyndra, a solar cell manufacturer that failed spectacularly after half a billion dollars in government loan guarantees (Stephens & Leonnig, 2011), there is often a Tesla, the phenomenally successful electric battery and vehicle manufacturer that also received government support at a critical phase of its development (Overly, 2017).

Nevertheless, there is much room for improvement. The most effective industrial policies entail close, collaborative interactions between government agencies and private firms, whereby firms receive critical public inputs—financial support, skilled workers or technological assistance—in return for meeting soft and evolving targets on investment and employment. This kind of industrial policy is likely to work much better, whether in promoting local economic development or in directing major national technological efforts, than open-ended subsidies or tax incentives.

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 healthcare can help in this regard, connecting people with productive employment opportunities requires further intervention. It requires improvements both on the demand and the supply side of the labour market (Rodrik, 2021b). Policies must 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 not come from manufacturing, but from services, such as health and long-term care and retail. In the United States, less 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 experiences of East Asian manufacturing superstars, such as South Korea and Taiwan, provide sobering examples. These two countries have managed to rapidly increase the share of manufacturing value added in gross domestic product (GDP) (at constant prices), yet, they have experienced steady declines in manufacturing employment ratios.

This is important since so much of the policy effort in the United States is focused on promoting high-tech manufacturing. The most recent example is the CHIPS and Science Act that the US Congress has passed, providing \$52 billion in funding for semiconductors and related manufacturing (Moore, 2022). The initiative aims at enhancing national security vis-a-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 geopolitical competition with China will not be effective on the jobs front. A similar point can be made about the subsidies to green technologies that are a core component of the so-called Inflation Reduction Act that US President Joe Biden signed in 2022. The green transition is undoubtedly an urgent priority that the new paradigm needs to tackle. But here, governments also cannot achieve multiple objectives with a single instrument. 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.

## 4. A good-jobs strategy for services

But is an industrial policy for services possible? I have discussed elsewhere what such a strategy might look like in the contexts of the US, French, and British economies. Here, I will briefly summarise the US proposals (Doshi et al., 2023; Rodrik, 2022; Rodrik & Stancheva, 2021b).

My proposed programme has both local and national components. The local approach would build on existing development and business assistance programmes that are already loosely structured along the lines advocated here. These are collaborative partnerships between local development agencies, firms, and other partners aiming to revitalise local communities and create good jobs. They are organised around an implicit (and evolving) *quid pro quo*: the provision of public services (such as business extension services, infrastructure, or customised 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: longterm care. Employment in this sector will increase rapidly in future years as the population continues to age and, consequently, demand for in-home or assisted living arrangements increases. Much of long-term care work is done in homes (through agencies that provide the caregivers or through self-employed caregivers) or in assisted living or retirement communities where, unlike hospitals or nursing homes, regulations are weak. In such settings, remuneration and work conditions have traditionally been very poor—characteristics that epitomise bad jobs. Employees are mostly women and disproportionately are people of colour. Long-term care workers are typically regarded as performing low-skill jobs and are often not viewed as real professionals.

As Paul Osterman has noted, there are three ways in which jobs in longterm care can be improved (Osterman, 2020). First, the government can regulate and impose standards (such as high minimum wages). Second, the government can increase reimbursement rates from Medicaid and Medicare in the hope that higher rates translate into increased wages. Third, the productivity of direct-care workers can be raised, allowing the long-term care system to serve patients' needs better and to reduce costs, generating room for better

compensation. While the first two strategies might be useful, greater productivity is ultimately the most reliable source of better jobs.

Osterman suggests that it could 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 car producers. 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 customise 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, and to their local adoption, adaptation, and contextualisation 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 hospitalisation rates, better management of chronic conditions, and quicker and smoother transitions out of acute care facilities. None of this is easy. Enhancing productivity in services is notoriously difficult and often impeded by a myriad of well-meaning licensing, safety, and other regulations. But if we cannot find ways of increasing productivity in jobs that our workers are destined for, we will end up with economies that are both worse performing and less inclusive.

## **5. Are governments up to it?**

Scepticism about the ability of governments to lead and achieve positive change is near universal. To many, 'effective government action' is an oxymoron. Given the state of our contemporary politics, such doubts may be well-placed. Authoritarian populism and polarisation—which interact with and reinforce each other—have infested our public sphere to the detriment of our capacity to mount collective action against common problems.

But there is a longer-standing concern about government action that relates to administrative capabilities. Governments do not have the information and capabilities, the argument goes, needed to achieve positive structural change in the economy. Give governments too much power and they

will direct resources towards the wrong places and turn into captive tools of special interests. That was the argument at the heart of neoliberalism and a key source of its appeal. It is the argument that must be overcome by any successor narrative on economic policy, and productivism especially, if it is to become successful.

In reality, government capabilities are not inherited or static. They are built over time, once appropriate priorities are set and as a result of experience, learning and building trust with private entities. For public officials, the relevant questions should not be ‘do we have the capacity?’ but rather, ‘do we have in place the right priorities and the correct mode of governance?’

The sceptic might say this all sounds good in theory, but it is not achievable in practice. Look around and public governance seems to be failing throughout, from the local and national to the global level. In fact, as Charles Sabel and David Victor point out in their book, effective models of governance already exist and have made a big difference (Sabel & Victor, 2022). The practice is there, but so far, theory has been lacking. Sabel and Victor focus on climate change, which is the greatest policy challenge of our time, and it is also an area where governance is doubly difficult: regulations have to be not only effective at the national level, but they also have to be negotiated globally among states with different interests and circumstances. They build their argument on the example of the Montreal Protocol on ozone (UN Environment Programme, 2018). First negotiated in 1987, the protocol has been successful at curbing ozone depleting substances (ODS), to the point where the ozone layer is now on course to full recovery.

The ozone layer and climate change challenges looked similar at the outset, with significant scientific and technological uncertainty and considerable differences among the positions of advanced and developing nations. The United Nations Framework Convention on Climate Change of 1992, the first global climate agreement, in fact took the Montreal Protocol as its model. Both global regimes started out as ‘thin’ regimes, with broad commitments to cut emissions—ozone depleting substances in the first case and greenhouse gases in the second—by a certain date, but otherwise it had little operational content.

But the agreements evolved very differently. The Montreal Protocol made steady progress by bringing firms and governments into collaboration in solving concrete technological problems, while climate change agreements got stalled in global negotiations. Sabel and Victor show that a key difference was the creation of sectoral committees under Montreal, in which ODS-emitting firms joined national regulators and scientists in search for technological alternatives. The groups started small and were few in number, but expanded as knowledge accumulated, actors acquired new capabilities, and parties built trust between each other. The virtue of the sectoral committees was that actual problem solving was devolved to local actors, the firms with the requisite technological know-how. When innovation stalled, targets were reset.

The result was a virtuous loop of on-the-ground innovation and top-level goal setting. In the climate regime, by contrast, firms were kept at arms' length from regulators, for fear that they would control the process. Instead, these entrenched conflicts of interest and resulted in inadequate innovation.

The Montreal Protocol is not the only successful case of what the authors call 'experimental governance'. They discuss in detail a wide range of national and sub-national programmes, ranging from the Advanced Research Projects Agency—Energy (ARPA-E) in the United States to the control of agricultural pollution in Ireland. In each of these cases, governance revolves around ground-level experimentation married to higher-level goal setting. Successful practices that emerge from these collaborations are routinised subsequently through dissemination and standard setting.

These examples are not limited to environmental policy. The operation of ARPA-E is modelled after the Defense Advanced Research Projects Agency (DARPA), a US agency that is responsible for some of the landmark innovations of our time, such as the internet and GPS. At the local level, the most successful initiatives to revitalise communities and create jobs take the form of private-public collaborations that bring training programmes, businesses, non-profit groups, and public officials together to create new pathways to economic opportunity (Fallows & Fallows, 2019). Effective national industrial policies take a similar collaborative, cross-sectoral approach (Ghezzi, 2017). The important point is that there are enough concrete, real-world examples of these collaborative approaches to give us hope that these ideas are not utopian.

As Sabel and Victor explain, the general strategy in all these domains is to start out with ambitious, somewhat ill-defined goals. Programme leaders must acknowledge the deep uncertainty and, hence, the likelihood of mistakes and false starts. There must be incentives for the actors with the most detailed and accurate information—typically firms—to look for solutions, which means public agencies must contribute some combination of sticks (the threat of regulation) and incentives (public inputs). Milestones and monitoring are key to permit reassessment and revision. Solutions are generalised, as they emerge, in the form of standards or regulations for all. Innovation is key, since higher standards (cleaner environment, better jobs) are possible only through productivity-enhancing innovations.

This kind of policymaking differs significantly from the conventional approaches that dominate today's thinking. From my perspective, the state versus market dichotomy no longer makes sense. States and markets are complements, not substitutes. Economists' standard top-down, principal-agent model of regulation (with its top-down, principal-agent framing) becomes unhelpful.

## 6. A paradigm beyond right and left?

If productivism is to be successful, it will have to transcend the stale ideologies of the past. A new economic paradigm becomes truly established when even its purported opponents start to see the world through its lens. At its height, the Keynesian welfare state received as much support from conservative politicians as it did from left-wing liberals. In the United States, e.g., Republican presidents Dwight Eisenhower and Richard Nixon bought fully into its essential tenets—regulated markets, redistribution, social insurance, and counter-cyclical macroeconomic policies—and worked to expand social welfare programmes and strengthen workplace and environmental regulation (Gerstle, 2022).

It was similar with the neoliberal approach. The impetus for it came from economists and politicians—such as Milton Friedman, Ronald Reagan, and Margaret Thatcher who were all market enthusiasts. But if the paradigm eventually became dominant, it was in no small part thanks to centre-left leaders, such as Bill Clinton and Tony Blair, who had internalised much of its pro-market agenda (Rodrik, 2016). These leaders pushed for deregulation, financialisation, and hyper-globalisation, while paying lip service to ameliorate the consequent rise in inequality and economic insecurity.

As with previous paradigms, productivism will have to find support eventually from both ends of the political spectrum. The polarisation that prevails in our political life makes such an outcome seem outlandish. Yet, there are in fact signs of convergence.

We saw many of these elements in the Biden administration’s narrative and in at least some of its policies. The wholesale embrace of industrial policies to facilitate the green transition, rebuild domestic supply chains, and stimulate good jobs, the finger-pointing at corporate profits as a partial culprit behind inflation and the refusal to revoke Trump’s tariffs against China are some examples. When the administration’s most senior economist, Secretary of Treasury Janet Yellen, extols the virtues of ‘friend-shoring’—sourcing supplies from US allies—over the World Trade Organization (WTO), we know we are in a different world (US Department of the Treasury, 2022).

But similar strands exist on the political right as well. Alarmed by China’s rise, Republicans have made common cause with Democrats in pushing for active investment and innovation policies to bolster US manufacturing (Franck, 2021). Past (and likely future) Republican presidential candidate Senator Marco Rubio has made impassioned pleas for industrial policy—promoting financial, marketing, and technological assistance to small businesses as well as manufacturing and high-tech sectors (Rubio, 2019, 2021). “In those instances in which the market’s most efficient outcome is one that’s bad for our people,”

says Rubio, “what we need is targeted industrial policy to further the common good”. Progressives on the left could not agree more. The architect of Trump’s China trade policy, Robert Lighthizer, similarly has won many fans on the left for his hard-ball tactics vis-a-vis the WTO. Robert Kuttner, a leading voice among the progressives, has argued that Lighthizer’s views on trade, industrial policy, and economic nationalism ‘were more those of a progressive Democrat’ (Kuttner, 2022).

The Niskanen Center, named after the libertarian economist William Niskanen who was a principal advisor to Reagan, has made ‘state capacity’, the ability of governments to provide public goods, one of its main planks, emphasising its importance for a healthy economy (Lindsey, 2021). Oren Cass, advisor to 2008 Republican presidential candidate Mitt Romney and a former senior fellow at market-promoting Manhattan Institute, is a critic of financialised capitalism and supports reshoring supply chains and investment in local communities. Patrick Deneen, one of the leading intellectuals of the ‘populist right’ talks about the importance of ‘pro-worker policies’ and ‘the encouragement, through government policy, of domestic production’. Listening recently to Deneen discussing these and other economic policies, the *New York Times* writer Ezra Klein was moved to say: “What’s funny about that to me is that they seem to me to resemble what the current Democratic Party is” (Klein, 2022).

Pragmatism can override political partisanship when it comes to the real work of fostering local businesses and job creation and the public-private partnerships necessary to achieve that end. That was the revelation of the husband-and-wife team of James and Deborah Fallows when they travelled around America on their single-engine plane to study experiences with local economic development (Fallows and Fallows, 2019). Confronted by the challenges of economic decline and joblessness, local politicians were engaged along with community groups, entrepreneurs, and other stakeholders in extensive policy experimentation—and in many of those cases whether they were Democrats, Republicans, or Independents made little difference to what they did.

However, deep divides between the two parties on social and cultural issues, such as abortion rights, race and gender, remain. Many in the Republican Party, including key figures such as Marco Rubio, have yet to give up their allegiance to Donald Trump, who continues to be a threat to US democracy. And there is always the danger that the ‘new’ industrial policies that conservatives and progressives alike favour will fizzle out or turn into the policies of the past.

Whether it goes astray or not, there are signs of a major reorientation in economic policy—one that is rooted in production, work and localism instead of finance, consumerism and globalism. And it might turn into a new paradigm that captures the imagination of both sides of the political spectrum.

## 7. Beware economists bearing paradigms

At present, we are in the midst of a transition away from neoliberalism, with much uncertainty about what will replace it. We might approach the absence of a solidified new paradigm with mixed feelings. On the one hand, we certainly do not need yet another orthodoxy offering cookie-cutter solutions and ready-made blueprints for nations and regions with very different circumstances and needs (Rodrik, 2021a). On the other hand, economic policy needs to be guided by an overall animating vision. If history is a guide, the vacuum left by the waning of neoliberal ideas will soon be filled by a new paradigm—and the more appropriate and adaptable that paradigm, the better.

All our previous policy paradigms—whether mercantilist, classical liberal, Keynesian, social-democratic, ordo-liberal or neoliberal—had important blind spots because they were conceived of as universal programmes to be applied at all times and everywhere. Inevitably, the innovations they brought to how we think about economic governance were overshadowed by those blind spots. The result was over-reach and a back-and-forth swing in the pendulum between excessive optimism and pessimism about the role of the government in the economy.

The answer to any policy question in economics is ‘it depends’. It may seem this would render economics useless and irrelevant. But in fact, the opposite is true. We need economic analysis and evidence to fill out the details of *what it depends upon*. The keywords of a truly useful economics paradigm are contingency, contextuality, and non-universality. Economics teaches us that there is a time for fiscal profligacy and a time for fiscal conservatism. A time when government should intervene in supply chains and a time when it should leave markets to their own devices. Taxes should be sometimes high, sometimes low. Trade should be freer in some areas and regulated in others. Mapping the links between varying real-world circumstances and the desirability of different types of interventions is what good economics is about.

Our societies are confronted today with vital challenges that require new economic approaches and significant policy experimentation. But those who are looking for a new economic paradigm—or actively trying to develop one—should be careful what they are wishing for. Our goal should be not to create tomorrow’s ossified vision, but to learn how to adapt our policies and institutions to changing exigencies. Ultimately, what our economy demands is sound ideas, and not necessarily a new paradigm (Rodrik, 2021b).

By the time any set of ideas becomes conventional wisdom, it is riddled with one-size-fits-all generalisations and truisms that are bound to be unhelpful and misleading as a general orientation to policy. As such, what I have de-

scribed here as productivism must be understood as a contingent set of policies—a set of policies that at best meets the demand of our time. The more successful it is, the less relevant it will become to future challenges.

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