

**Global Economy****Dani Rodrik: 'We are in a chronic state of shortage of good jobs'**

The Harvard economist warns that looming disruptions from technology could overshadow those of globalisation and further strengthen far-right politics

Martin Sandbu FEBRUARY 15 2021

Be the first to know about every new Coronavirus story

Get instant email alerts



This is part of a monthly series, "[Economists Exchange](#)", featuring conversations between top FT commentators and leading economists about the coronavirus economic recovery

In 1997, Harvard economist Dani Rodrik published a slim volume called [Has Globalisation Gone Too Far?](#), and went a long way in answering the question in the affirmative. That made him one of only a few top establishment economists challenging the prevailing wisdom on trade and financial liberalisation.

As he [later recounted](#), even colleagues who privately agreed with him in an intellectual sense berated him for "giving ammunition to the barbarians" — providing arguments for protectionism and other limits on the unrestrained globalisation that was pursued in the 1990s.

The FT's European economics commentator, Martin Sandbu, decided to catch up with Rodrik partly because the world of economics — both in research and policymaking — has been catching up with him. Many of the dogmas which Rodrik questioned, such as the rejection of capital controls or industrial policy, are being left by the wayside. Policymakers are navigating a global economy that does not behave in line with traditional models and politicians are contending with a fierce backlash against globalisation and rising inequality.

In the interview below, the economist says that the consensus has moved so much that he now feels uncomfortably part of the conventional wisdom.

Rodrik also shares his analysis of the rightwing populism that has grown strong in so many countries. He thinks it should be seen as having economic roots, despite the fact that it often aligns with a conflict over identity and values. In fact, he says, many places could now do with a dose of leftwing populism instead.

He sets out a four-pronged plan for governments, especially centre-left ones, about where he thinks they should go from here: align labour market, industrial, and technology policy to the goal of supplying “good jobs” and subordinate international economic policy to that domestic priority.

Rodrik also gives a stark warning to governments that fail to achieve this. The looming disruptions from technology, he says, will dwarf those from globalisation. With an inadequate policy response, the social and political fallout could be dire.

Martin Sandbu: [Joe Biden](#) has been in office for a few weeks now. I wanted to start by asking you for your reflections about the change of power in the US.

Dani Rodrik: I don't think we're necessarily done with the problems which Trump has leveraged politically.



Dani Rodrik: 'I think the left has been very much, until recently, missing in action' © Wojciech Strozyk/Alamy

I see him very much as being the result of significant economic dislocations and economic polarisation taking place, not just in the United States but among the advanced countries more generally, which the rightwing populists have used to catalyse and mobilise along nativist, ethno-nationalist lines.

I think the left has been very much, until recently, missing in action.

What we're seeing with Biden is that [the economic programme](#) of the Democratic party has very much moved to the left . . . in a direction which the centre-left should have moved [towards] much more urgently and much sooner in the aftermath of the global financial crisis, for example.

MS: These dislocations are 30 years in the making and maybe even longer. Why did the Democrats and similar forces elsewhere not respond more adequately to these changes earlier on?



At the bottom of much
of this increase in
support for rightwing
populist groups was
the disappearance of
good jobs



DR: I think that the Clinton Democrats, New Labour in [the UK], the Social Democrats in Germany, and the French Socialists as of the 90s had become enthralled to essentially adopting the neoliberal model and simply sweetening it, maybe with a little bit more help for the poor.

They did not have the kind of ideas and policy vision to fundamentally change the system and I think we saw that very clearly in the aftermath of the financial crisis.

In fact, they did as much if not more than the traditional conservative parties to push for globalisation, for the single market in Europe and for the liberalisation of financial and capital flows. That was very much pushed by the French Socialists in Europe.

MS: There is a debate around whether economics or culture are driving these shifts? People who resist economic explanations say it's not the poorest or those who suffer the most who support populist rightwing movements.

DR: There certainly have been slow moving cultural trends: deepening division between social conservatives and social liberals or, in the US context, issues about racial politics [that] run very deep.

Without question, those are background conditions but . . . whether it is trade with China or austerity shocks in Europe . . . we can actually empirically trace how these economic shocks, especially in particular regions, have led to [increases in support for parties of the extreme right](#) and far-right populism. I think the kind of explanation we need is one that has to be more global.

In 2016, if Bernie Sanders had been elected instead of Trump, we would have gotten a different type of populism where it would have been the banks, the big corporations and international trade that would have been the culprits. That populist narrative would be very different.

I hasten to add that I don't think Bernie Sanders is inimical to democracy. I think that's the big difference between rightwing versus leftwing, that rightwing populism is inherently inimical to democracy. I don't think leftwing populism is. In fact, I would say that we probably do need a good dose of leftwing populism today to save us, really, from the very damaging and ultimately much more scary rightwing version.

MS: You say a dose of left populism in economics could be a good thing. As you know, there's a lot of talk now about how we need a new social contract. What is it we need to do?

DR: The welfare state is no longer the answer. The welfare state was an amazing set of institutions but it was predicated on the assumption that if you invest enough in education you prepare people for jobs.

Then, you have enough social insurance and transfers and a progressive tax system to take care of people who might fall through the cracks or are the subject of idiosyncratic shocks. Then you could create an inclusive society where everybody would have decent jobs and decent lives



I am not sure Biden, in his heart, is . . . going to be very courageous in contemplating the kind of structural change that we need



Now, western Europe did this absolutely beautifully for a number of decades. The United States still falls short in a number of different respects. However, I don't think the answer, even in the United States, is going to be more taxes, more transfers, more investment in education, as much as it is needed.

We're living in a world now where the problem is that for a number of trends — to do with technological changes and how globalised the world market is — we are in a [chronic state of shortage of good jobs](#).

I think that at the bottom of much of this increase in support for rightwing populist groups was the disappearance of good jobs.

There are at least four different strands of policy that [addressing this] will require. We can do much better on our active labour market policies, in terms of linking them up with employers to ensure that training programmes are . . . supplying the hard and soft skills that employers need.

Second, [in] industrial and regional policies, we must target the creation of good jobs and maybe de-emphasise a little the traditional focus on capital investment, global competitiveness, innovation and so forth. Because even when those work they don't necessarily create good jobs.

Third, we need to rethink our innovation policies. We're doing nothing right now to invest in technologies that augment rather than replace labour.

Fourth, our international economic policies have to be those that enable countries to carry out these policies without them being overwhelmed by forces of international arbitrage.

MS: What are specific policies that do that?

DR: Move away from these open-ended subsidies or tax incentives and engage in attracting investment from good firms to distressed areas by essentially providing them with the customised services that they need most.

That could be improving some brownfield area for their investment, providing infrastructure, investing in specific kinds of skills, providing technology, marketing assistance or help with business plans.

On innovation, I'm really trying to countervail against this view that you always hear [that] technology is rapidly changing the kinds of skills needed on the job and workers need to adjust to increased education and continuous training. Here is this inexorable train that is moving and the rest of our society has to adjust.

There are norms, private and public, that are embedded in innovation systems and the narratives in Silicon Valley, and that are very much about saving on labour.

Finally, there's relative power. When workers have more voice in the workplace they might either militate towards the adoption of technologies that are more complementary to their skills or, at least, ensure that when new technologies are adopted, [the consequences for workers](#) are less severe.

MS: How binary is the choice between labour-saving and labour-augmenting technology, though? You make one worker more productive by technology that complements their skills but that, at the same time, makes others redundant.

DR: [Historically,] as the candlemaker and the carriage driver lose their job, many more jobs are created in the electric lightbulb or automotive industry.

It's not settled, necessarily, that these new technologies are losing us jobs but here is what I'm worried about. We had the same argument with globalisation: that, on balance, globalisation would create new jobs or at least would only shift the composition of jobs and not change the overall level of employment.



We need something
close to wage
bargaining to set
a wage floor and
minimum standards of
work on a sectoral level



We know that, A, that wasn't quite right and, B, the structure of jobs altered in a way that . . . privileged relatively few and left a lot of people without similar levels of income.

Technology, I think, is going to be a shock that is so much bigger than globalisation . . . if it ends up that a lot of people are displaced into these gig economy jobs with very little autonomy, very precarious existence, and the beneficiaries are a relatively small segment of very skilled professionals . . . The social and political consequences of that is really what concerns me.

MS: To what extent is this in the nature of the technologies themselves and to what extent does it relate to our regulatory environment?

DR: I think it has to be both. Especially, in a place like the United States, where labour market regulations are very weak, we need them to be much stronger.

We need something close to sectoral wage bargaining, for example, to set a wage floor and minimum standards of work on a sectoral level . . . You don't need unions for that, necessarily, but something like that.

MS: So, when [Biden goes ahead and raises the minimum wage to \\$15](#) an hour, that's not going far enough?

DR: Maybe in some places it is too far. We don't know. In the United States the minimum wage has lagged for such a long time that I do think it is time to make a push forward but there are always risks.



We probably do need
a good dose of leftwing
populism today to
save us from the much
more scary rightwing
version



MS: You mentioned that trade and globalisation policies must not get in the way of these domestic policies. For a long time you have warned against that danger. Do you think economists have caught up with you?

DR: To some extent, yes. I do feel a lot more mainstream these days than I did maybe 15 years ago. But I've never been entirely happy to become part of the conventional wisdom. By the time an idea becomes conventional wisdom that is probably the time to start chipping away at it.

Let's take stock of where ideas have really changed. For example, the sanctity of free capital flows. That is gone, intellectually. It has not disappeared as a matter of policy practice but the argument has been lost.

The idea of industry policy. Everybody wants industrial policy these days. The idea that trade policies can have very significant distributive effects and have to be managed.

I think there is a tension between wanting all of that to be replaced by a new consensus versus the uncertainties and uncomfortable nature of being in a time of flux where you have nothing to hold on to.

Many of my colleagues respond by saying . . . show me what evidence-based policy you're supporting — show me what has actually worked.

I feel that is inadequate for the time. It is sort of like saying FDR should have been forced to take on policies only for which there had been evidence. That's like a recipe for not trying anything new and FDR very explicitly said this is a time where we have to experiment.

MS: "Bold and persistent experimentation" was Roosevelt's [phrase] . . . Where do you see globalisation headed?

DR: The key practical question in globalisation is [around] America and Europe and China . . . What kind of a settlement they will reach. Unfortunately, one of the Trumpist ideas that the Biden administration is likely to continue is a very hard line against China.

And I think there are certainly some areas where we need to take a hardline attitude, particularly with respect to human rights issues.

But we need to realise that it's impossible to disentangle the Chinese economy from the economies of the west without paying a very large economic cost. [Also] that the west's ability, through trade rules or investment agreements to really reshape the Chinese economy, let alone polity or human rights practices, is extremely, extremely limited.

If you take on board both of those, then you go for a kind of a thinner version of globalisation where you understand that there'll be very big differences in institutional arrangements.

Where those institutional arrangements are similar you can sustain deeper economic integration. Where they are big, you'll have to allow countries to protect their own technological systems, social protection regimes, labour markets.

In some areas it will come with economic costs. You're not going to necessarily have a single internet. Maybe you're not going to have the cheapest provider of telecoms equipment because you're concerned about national security or technological integrity.

MS: What's your best bet in terms of the debate about a new social contract domestically?

DR: Clearly, it's an opportune time for a big change.

But that doesn't mean that necessarily we're going to get that change, so I think muddling through is as likely if not more likely. I am not sure Biden, in his heart, is really the person who is going to take big risks and is really going to be very courageous in contemplating the kind of structural change that we need.

If the pandemic disappears and we go back to normal, and economies start to grow because they're simply catching up with their previous trend, will the pressure for systemic change dissipate? Quite possibly, frankly.

MS: If that old Keynes line about policymakers being the slaves of defunct economists is anything to go by we might have to wait for a couple of decades after the change in the intellectual consensus. Really, really nice to talk to you again.

[Copyright](#) The Financial Times Limited 2021. All rights reserved.