How to Create More Inclusive Economies: An Interview with Dani Rodrik

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Dani Rodrik (1957) is a Turkish-American political economist and Ford Foundation Professor of International Political Economy at Harvard’s John F. Kennedy School of Government. Published widely in the areas of international economics, economic growth and development, and political economy, Rodrik is currently Co-Director of the Economics for Inclusive Prosperity Network and, among others, affiliated with International Economic Association, National Bureau of Economic Research and Center for Economic Policy Research. After graduating from Robert College in Istanbul, he earned an AB (Summa cum Laude) from Harvard College. He then acquired an MPA in public affairs from Princeton University and a PhD in economics, with a thesis titled ‘Studies on the Welfare Theory of Trade and Exchange-rate Policy’. He has been the recipient of grants from prestigious foundations, such as the Carnegie Corporation, Ford Foundation and Rockefeller Foundation. Among other honours, he was presented the Leon-tief Prize for Advancing the Frontiers of Economic Thought from the Global Development and Environment Institute, the inaugural Albert O. Hirschman Prize of the Social Science Research Council and the Princess of Asturias Award for Social Sciences. On 21 January 2020, Pope Francis named him a member of the Pontifical Academy of Social Sciences. His monthly columns on global affairs are published by Project Syndicate.

FA: Let me start with a personal question. We know that after spending your childhood and youth in Istanbul, you came to Harvard to study engineering, but you changed your mind. What made you change your mind?

DR: I can’t say I had a very strong idea about my professional future. In high school in Turkey, the social sciences and history were taught in rote

1. A full CV can also be accessed at: https://drodrik.scholar.harvard.edu
2. For a wonderful interview with Rodrik on his personal career, from Istanbul to Boston, see www.harvardmagazine.com/2019/07/rodrik-trilemma-trade-globalization
fashion and did not seem interesting at all. Science and engineering were much more stimulating. The big transition occurred through the discovery of the Widener Library at Harvard, with its endless stacks of books on Turkish history. I gradually came to understand that the social sciences were an open field of inquiry rather than a closed set of questions with predetermined answers. Why Turkey and other similar countries had failed to prosper economically and develop accountable political institutions became my major preoccupation. This was a question for the social sciences, and not the physical sciences or engineering. So, I quickly changed course, and started studying political science and economics.

FA: The coronavirus pandemic adds to existing global problems, ranging from poverty to inequality, violence to economic crises and increased debt to ecological degradation — the combination of which threaten human civilization and planet Earth alike. Consequently, there is a general sense that returning to ‘normal’ is not desirable as a solution. Similarly, you have recently asked if COVID-19 would ‘remake the world’ (Rodrik, 2020a). I have three (related) questions on this puzzle. Let us start with your ‘trilemma’.

You have argued that we cannot pursue democracy, national self-determination and economic globalization simultaneously, famously asking ‘Has Globalization Gone too Far?’ (Rodrik, 2011). Building on this, you recently argued for the need to acknowledge the impacts of market failures (as a likely reason why COVID-19 got out of control) (Rodrik, 2020b). How, from a political economy perspective, do you see the future of neoliberal regimes/ideology dealing with global problems like the pandemic?

DR: I don’t really see a major transformation, but mostly a continuation of ongoing trends. I think different nations are likely to take different paths. As I have written elsewhere (see Rodrik, 2020a), perhaps the most likely outcome is that countries turn into exaggerated versions of themselves. Particularly authoritarian countries become more so. Trump’s incompetence and proclivity to undermine scientific and democratic institutions could not have come as a surprise. That leaders such as Prime Minister Viktor Orban or President Tayyip Erdoğan would use the crisis to strengthen their hold on power was also predictable. Nor is it surprising that governments have responded faster and more effectively in countries in which they still enjoy significant public trust, such as in South Korea, Singapore, or Kerala State in India. The crisis may turn out to be less of a watershed in global politics and economics than many have argued. It will perhaps intensify and entrench ongoing trends rather than put us on a significantly different trajectory.

If we want positive change, this will require both good ideas and a suitable political strategy. If I wanted to be optimistic, I would say that both are also
a bit more likely today, after the pandemic. I am generally heartened by the evolution of my own discipline, economics, which I think is much more open to new ideas these days. Ideas such as the wealth tax, job guarantees, industrial policies, stronger labour unions and tougher regulations all have become mainstream. There is good ferment in the field, and very few are upholding market fundamentalism anymore. On the political front, I view progressives and the Left as having made some gains. Elizabeth Warren and Bernie Sanders could not go the full way, but Joe Biden’s programme is far more progressive than what was considered acceptable until recently.

**FA:** You have made the point that the time has come to think seriously about how improvements in official global governance, coupled with and reinforced by rising activism of ‘global citizens’, can lead to more equitable and welfare-enhancing outcomes for global citizens through better national and international policies (Allen et al., 2014). In the present day of COVID-19, what is your vision?

**DR:** We need better global governance for sure — particularly in key areas such as global public health and climate change — but we need mostly good governance at the national level. Problems of economic inequality, insecurity and exclusion are problems that arise largely from domestic policy failures and domestic political configurations. So, I am not one of those who look to greater global cooperation or greater global civic-mindedness as the solution to our contemporary problems. (As indicated, health pandemics and climate change are the two key exceptions.)

At the national level, there is the universal challenge all countries face. Globalization and technological advancement have made good jobs scarce and have resulted in a polarization of labour markets. The overarching question we therefore face is where the good jobs will come from. My recent writings (Rodrik and Sabel, forthcoming; Rodrik and Stantcheva, 2020), emphasize the need for a new type of approach that goes beyond the traditional welfare state. The focus is on getting governments to engage in collaborative, iterative relationships with business and other non-governmental actors to increase the supply of goods jobs. It is a kind of industrial policy insofar as it aims to alter the structure of jobs in the economy — but it is much less top-down and not focused on manufacturing industries per se. It encompasses training, regional, industrial and innovation policies that lean on firms to internalize what I have called ‘good job externalities’: when good jobs disappear in a district or regions, the social and political costs can be immense.

**FA:** Before we take on the issue of inequality, I would like to ask how the pandemic affected you as an academic and researcher. Some of us quickly and easily adapted to the virtual education/meeting system, but others did not! What was your experience?
DR: I was among the lucky ones, not having to worry about losing a job or experiencing a substantial loss of income. Being unable to travel and being forced to stay at home was even a good thing — at least for a while! My main concern was whether we would be able to deliver the same quality of education to students in our master’s programme in international development at Harvard Kennedy School (the MA in Public Administration in International Development). My colleagues and I worked hard over the summer to overhaul our courses for an online environment. We are three weeks into the term, and while the students report that they are overwhelmed by spending so much time in front of their screens, we have been able to build a sense of community and things are going well academically.

**FA:** We know that inequality has become one of your top concerns lately (e.g. Blanchard and Rodrik, 2021). You propose a $3 \times 3$ matrix, with one dimension dealing with the question ‘what kind of inequality — bottom vs middle vs top — do we care about?’, and the other one dealing with the question ‘at what stage of the economy does policy intervene — pre-production vs production vs post-production’. I think it is a very useful tool for analysing redistributive policies. So, we basically know what needs to be done to deal with the inequality problem. But to what extent is a radical redistribution politically feasible with so many power asymmetries at hand? We have preliminary evidence that the gap between the rich and poor has widened during the pandemic (with some variance among countries, of course). Can you see a path that would lead us to a more egalitarian world (and nation states) that is both economically and politically feasible?

DR: It’s partly about power, but also partly about ideas. Powerful groups will always want to get things done in a manner that is to their benefit. That is the iron rule of politics. But we live in an age of mass politics, and that means they cannot always get their way through the exercise of sheer power. They need ideas to support their preferred policies; they need to legitimize the actions they demand. It is rarely a case of ‘I am much more powerful than you, and you have to do this because it is good for me’. It is rather ‘this is good for everybody, really — and see, all these economists agree with me’. If neoliberalism and hyper-globalization succeeded, to some extent and for some time, it was in no small part because neoliberal policies had the support of the intelligentsia. Economists, in particular, were complicit in sustaining the weakening of safety nets and social insurance, the reification of markets and the one-sided pursuit of global economic integration. Call me naïve, but I think ideas matter. When they change, as they have, they can empower excluded groups and can lead to new coalitions. I would like to think that we are at the beginning of this process.
FA: You have argued that advanced stages of economic globalization would produce a political backlash — and it did in the forms of left-wing and right-wing variants, which differ with respect to the societal cleavages that populist politicians highlight (Rodrik, 2018). More recently, you developed a taxonomy of political regimes that distinguishes between three sets of rights: property, political and civil rights (Mukand and Rodrik, 2020). Finally, you also suggested that democratic transitions that are the product of a settlement between the elite (who care mostly about property rights) and the majority (who care about political rights) generically fail to produce liberal democracy. In the light of this, are we trapped in the current moment of neoliberalism defined by authoritarian-cum-populist regimes?

DR: What I think we have learned in recent years is that liberal democracy is exceptionally fragile. This is not a surprise to people in countries such as Turkey or many others in Latin America which have oscillated between more open and more repressive regimes. But rich countries had many decades of liberal democracy behind them and thought they had turned the corner. Alas, it seems not. The fundamental problem that Sharun (Mukand) and I have written about in the paper you mention is that it is much harder to sustain liberal democracy in the absence of a strong norm about mutual tolerance and forbearance among competing groups. Electoral or majoritarian democracy can be sustained as a compromise equilibrium between the wealthy who commit to share power and the majority who commit not to expropriate the wealthy. But the primary beneficiaries of liberal democracy — ethnic, religious or ideological minorities — typically have neither the wealth nor the numbers to sit at the bargaining table. Nor can they credibly threaten social revolution or mass uprising. So, I see liberal democracy as a very fragile state; it dissipates unless it is nurtured by all sides. Can we get back to liberal democracy? We show in our paper that polarization in all dimensions makes liberal democracy less likely. Thus we must begin by bridging the distributional and cultural cleavages that have already opened up wide.

FA: Coming to a second trap: some of us have argued that one of the main characteristics of the current neoliberal regime (again with some variation from here to there) is its ‘crony capitalist nature’. That is, the bulk of the economic rent is captured by those few firms that are closely linked to the regime — thus a perfect collusion between governments and a few select firms. Governments will therefore be able to use the additional revenue they get from their ‘allies’ as they please, and allocate it most likely in a clientelistic manner (through ‘buying votes’). What do you think?

DR: We cannot get rid of politics. That means that there will always be people and groups closer to the government and elites that benefit from their relationship to those in power. However, this does not mean that cronyism
or clientelism is always the anathema to developmental outcomes. In its heyday, the Korean economy was as good an example of crony capitalism as you can imagine: large conglomerates (chaebols) were heavily subsidized by the state. But this produced rapid industrialization and growth, with minimal deterioration in the distribution of income. Similarly, I think we can agree that Turkish governments have never been independent of private business interests. This has not prevented the pursuit of more or fewer developmental strategies.

Once again, I return to the importance of ideas. Large business groups that believe their interests are best served through investment and serving their workers and communities well will produce a different political economy than those that believe the economic pie is of a fixed size and the best they can do is make sure they extract the largest share for themselves. So, I don’t think we should be too deterministic. There are no inescapable ‘traps’.

**FA:** Let’s move to the second dimension of our exchange and focus on the relationship between development and institutions. Along with others, you have argued that institutions exert a very strong determining effect on aggregate incomes and, more specifically, that the ‘quality of institutions’, measured primarily by the existence of property rights and the rule of law, outweighs other possible parameters (such as geography and trade capacity) in determining the national income levels of countries (Rodrik et al., 2004). But you have also emphasized that institutional development has been interpreted in a monocausal manner — a kind of ‘property-rights reductionism’. Instead, you suggested that attention should be given to learning what one is good at producing — since much of the technology is ‘tacit’ (Hausmann and Rodrik, 2003); to put it differently, institutions that are appropriate to the local setting should be selected and targeted. And lately, you have reiterated in *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (Rodrik, 2008) that success (in terms of economic growth) usually requires following policies that are tailored to local economic and political realities. To me, the message this conveys is that institutions are important and that effective institutions can take many forms … All in all, what would your reflections be on this debate?

**DR:** I have sort of moved away from the focus on institutions, not because they are not important — in the long run, I believe institutional quality is the most important determinant of economic and political development — but because a single-minded focus on institutions often is more misleading than revealing. Take the way in which economists have used institutions in the development literature. For a long time, the institutionalist perspective was a surrogate for the view that developing countries should mimic the legal and property-rights regimes of specific Western countries. This was unhelpful both because it did not characterize the actual experience of
successful developing countries — whether South Korea, China or Botswana — and because it laid out an impossibly difficult reform agenda. If you failed, it could always be attributed to the fact that there was some aspect of governance in which you had not done well enough. ‘Get institutions right’ was a fail-safe policy advice for economists: they could never be proved wrong.

As I argued from the beginning, the evidence on institutions supported a more nuanced view, which allowed developing nations to move more strategically and more contextually. Institutional universals relate to the functions that good institutions serve; but the form that such institutions take is largely indeterminate. If we want growth, we need to have a policy regime where investors believe they can retain the returns on their investments. But how we get such a regime is another matter. Historically, we have had very different models of capitalism, ranging from Manchester liberalism in 19th century Britain, to the mixed, welfare states of the 20th century, to the Chinese ‘capitalism’ of today. They have all been effective at mobilizing private entrepreneurship. And there is no reason to believe there is only a finite number of institutional forms that serve this function. This leaves a lot of room for agency and creativity.

When I teach my students about institutions, I make a distinction between the functions that good institutions serve and the forms they take. I say that the functions are universal: they must provide for the rule of law, protect contracts and property, maintain macroeconomic stability, and so on. These are general principles that apply everywhere. But achieving these ends (‘functions’) require institutional designs (‘forms’) that are well-suited to the local political and economic context. And those designs are far from unique. It is difficult to argue that China would have provided better property rights protection for private investors and entrepreneurs if the government had adopted overnight the Western contract and property law instead of deploying unorthodox arrangements such as the household responsibility system, township and village enterprises, and special economic zones.

That is why I think that the idea of ‘best practices’ in economic reform, or standard indices such as the World Bank’s ‘Doing Business’ indicators, or the World Economic Forum’s global competitiveness indicators, has been unproductive. They distort policy makers’ priorities. Instead of getting them to focus on the objectives of policy and how to get there in the present context, they induce policy makers to reach some predetermined goal — for example, reduce the number of procedures required to start a business — which may or may not have any effects.

**FA: And can we get back to the traps I have mentioned above? No doubt, perhaps the number one institution is the rule of democracy (together with free speech, protection of civil rights, etc.), but currently most of us are being ruled under some kind of competitive authoritarianism. What needs to be done to restore it?**
DR: You are asking an economist about political strategy! I am not sure I have great insight on this. But in line with what I have said before, I think what we need is good ideas combined with a large enough coalition so that change can happen through elections. There is a real distinction to be made here between right-wing and left-wing populism. The right-wing version is much more likely to be a danger to the ‘liberal’ norms you are talking about — free speech, protection of rights of minorities, etc. — because it fetishizes the cultural identity of the majority. It sets ‘us’ against ‘them’. Left-wing populism is about ensuring that economic and social rights are broadly shared; so, it is not anathema to liberal democracy. Bernie Sanders and Elizabeth Warren, for example, are contemporary examples of left-wing populists. One can disagree with their ideas, but I have not heard many opponents suggest that they would undermine civil liberties and the independence of the media and the judiciary in the way that Trump has so obviously done. I guess what I am saying is that we must hope the left-wing, progressive alternative will garner sufficient support to make economic change possible without undermining liberal democracy. Even if they themselves do not win, perhaps their ideas will. Biden’s presidency in the US will be a real test of this.

**FA: Time for us to concentrate on your concern about ‘uniting the development economics’. I am specifically thinking of your The New Development Economics: We Shall Experiment, but how Shall We Learn? (Rodrik, 2009) together with your very impressive online blog ‘Re-uniting Development Economics’. Do you think there has been some kind of rapprochement between macro- and micro-economics in the last decade?**

DR: Somewhat. There are several trends going on. First, randomized controlled trial (RCT) practitioners have become more modest about their claims. We hear less about randomization being the gold standard and nothing else counting as real evidence. Second, there is more development-like work being done by macro economists. For example, there is very interesting work on misallocation and structural change where macro economists have taken the lead. Third, there is greater appreciation that results from RCTs do not necessarily translate into good policy: factors that need to be taken into account include scaling up, administrative issues, and so on. So, I would say development economics is in a healthier place today. Richer in its methods and broader in its reach.

**FA: Let us move on to a bigger question. Obviously, the success or the failure in development economics needs to be defined in relation to the objective we seek to achieve. There have been calls to focus on more than economic**

3. See: https://rodrik.typepad.com/dani_rodriks_weblog/2008/05/re-uniting-development-economics.html
growth and that we should decouple prosperity from growth. Can we therefore talk about (a) the feasibility of ‘green growth’ (I have in my mind your paper on ‘Green Industrial Policy’; Rodrik, 2014) and (b) the (relatively) recent debate on de-growth?

DR: I just don’t see how we can have human development and poverty reduction around the world without economic growth. I know of no case of sustained social and human development without rapid growth. So, growth will have to be part of the picture. Of course, we need to pursue smart growth policies. That means both inclusive and green growth. At the moment, I don’t see a big trade-off between the objectives of environmental sustainability, slowing down climate change and equity/inclusion, on the one hand, and economic growth on the other. One of the most important ways in which middle-income and rich countries can stimulate growth is by undertaking a large investment drive in green industries and technologies. Moreover, growth and inclusion have become complementary objectives. One reason productivity growth has slowed down everywhere, bringing economic growth down with it, is that advanced technologies and productive methods are not disseminating sufficiently rapidly from firms at the frontier to the rest of the economy and throughout the workforce. If we can pursue policies to achieve that, we can get both more growth and better distributive outcomes.

Doing all this will require a new conception of economic policy that goes beyond ex-post redistribution. This is the new kind of ‘industrial policy’ I was referring to earlier. This is not a totally revolutionary approach to business–government relations. There are many pockets of policy where such an approach is being practised: by Defence Advanced Research Projects Agency in the US, in environmental regulation in the EU, in agricultural innovation in Argentina, and so on. We need to generalize those practices and redeploy them in the service of a ‘good-jobs economy’ (Rodrik and Sabel, forthcoming).

FA: Another radical demand is that we should open up the content of development to public deliberation, so as to define what we want, how to get there, risks associated, etc. Is this a doable project? At that junction, we may equally want to unpack the definition of our societies, and perhaps we may go beyond the standard liberal definition of societies as the ‘aggregation of individuals’. Needless to say, to the extent that we do that, we would depart from the ontological and methodological individualism of mainstream economics. Perhaps your joint effort on highlighting inclusiveness (mentioned above) can be interpreted from this perspective as well?

DR: Methodological individualism does not need to be blind to the sociality of individuals. In neoclassical economic theory, utility functions (‘preferences’) are taken to be determined from outside the system; they are
exogenous. But obviously this is not the case in many domains of economic activity. Our values and beliefs are determined in no small part by our environment, and what many people would call ‘culture’. The question is whether standard economic frameworks can cope with the endogeneity of preferences.

I would argue that they can. In my own work on the political economy of ideas, for example, I have emphasized how political movements can shape the sense of identity that voters have. In Mukand and Rodrik (2020) political parties compete for political support by appealing to voters’ economic interests or to their cultural identities (or ‘who they are’). One of our findings is that as economic inequality increases in society, a party representing the rich is more likely to pursue strategies that appeal to identity and culture. Greater inequality means the median voter grows more distant from the rich in terms of where she stands on economic policy interests. For the party of the rich, there is now a higher return on mobilizing voters around issues such as racial resentment, gay marriage, women’s rights and immigration, all of which can give low-income voters a reason to vote against their economic interests. In their latest book, Hacker and Pierson (2020) argue that this is exactly the strategy the Republican Party has pursued as US inequality rose after the 1970s. The Republicans were able to advance a right-wing policy agenda — tax reduction, deregulation, weakening of labour market protections, cuts in social insurance — that benefited the wealthy and was increasingly unpopular on its own terms. They did so by adopting a racially charged narrative to enhance the appeal of regressive policies to middle- and lower-middle-class white voters.

FA: The third dimension of our conversation, I thought, should be on your Economics Rules: The Rights and Wrongs of the Dismal Science (Rodrik, 2015). I very much like your point that, as economics dominates the policy scene, politicians and citizens need assurance that the discipline is not a ‘flawed science’. Philosophy of science, the core question of which concerns the demarcation line between science and pseudo-science, used to be a part of our curriculum — but not anymore! In that regard, I appreciate your point about ‘a’ rather than ‘the’ model — a very clear position against dogmatism.

Let us unpack the debate on the ‘plausibility of assumptions’, which was initiated by Friedman in 1953, and which is still ongoing. I think Friedman is right insofar we rely on Popper’s philosophy — that science consists of falsifiable but not yet refuted statements/predictions. And it seems that mainstream economics by and large supports this position. But perhaps, rather than Popper, we should rely on another position, say that of Kuhn (who argued that scientific research and thought is usually generated within a given set of assumptions, theories and methods — paradigms — till a crisis erupts due to insoluble theoretical problems)? My point is
that we first need to answer this question before moving on to the reality of assumptions. What is your stance on that?

DR: Friedman’s point is that the realism of assumptions does not matter as long as the model does a good job at prediction. In *Economics Rules* I argue that this is true for some assumptions but not all. Abstraction and simplification are a necessary part of any theory. It follows that every model has to make unrealistic assumptions. What matters is whether the critical assumptions — those that would reverse the conclusions if they did not hold — are valid. So, for example, in many contexts, it may be harmless to make the representative agent assumption; but in others, it can become a hindrance to understanding. I like Keynes’ definition of economics as the science of using models joined to the craft of choosing the models that are relevant. In economics, there is always that craft part — the good judgement you need to select the appropriate models to work with. In most applications, we don’t have the ability to run the perfect test to reject (or validate) a model. And even when we can do so retrospectively, through RCTs or other ways of establishing causal inference, we rarely really reject models. At best, we reject them provisionally: ‘We can reject the hypothesis that the intra-household allocation of land was efficient in such-and-such villages during such-and-such period’, etc.

So, I think Popperian or other scientific analogies go only so far in economics. I can say that we have a scientific way of thinking, because our models and formalizations allow us to be clear about what our conclusions depend on, and they clarify where our disagreements are. But are we really a “science”? I don’t know, and I don’t think it matters greatly.

**FA:** Finally, and related to the last point, let’s focus on the well-known discussion on whether the discipline of economics has become overly technical? Are we getting new PhDs who are great at mathematics, modelling, estimation, etc., but illiterate in the ways in which economics has evolved? I think there is a kind of self-fulfilling prophecy here: more technicalization brings about further technicalization. Only those capable and willing to model will find places in the economics departments and the rest should go somewhere else? Do you think the mainstream economics is going in the right direction in terms of its methodological position?

DR: It is true that economists value maths and technical prowess. Mathematical ability is often used as a screening device. You better make sure you have taken real analysis if you want to enrol in a good PhD programme in economics, even though 95 per cent of economists will not see it beyond the first year in the programme. This maths fetishism can sometimes be harmful and keep people away from the profession. On the other hand, I think things have gotten better recently rather than worse. And that is because the profession has become much more empirical. It is much more difficult to publish
in the top journals without doing data work. While econometrics can get maths heavy too, much of the technical pyrotechnics in empirical work is about dotting the i’s and crossing the t’s for the sceptical referee. The main results can typically be presented with a chart or a simple table.

This is very different from what prevailed when I received my PhD back in 1985. At the time, all three of my special fields — trade, industrial organization and development — were heavily theoretical. Outside of labour economics, doing empirical work was discouraged. You would run regressions or collect data only if you wanted a job at the World Bank or with consulting firms, not if you aimed for a job in academic departments. Have we solved all our problems as a discipline? Of course not. But I remain reasonably upbeat about economics.

REFERENCES


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