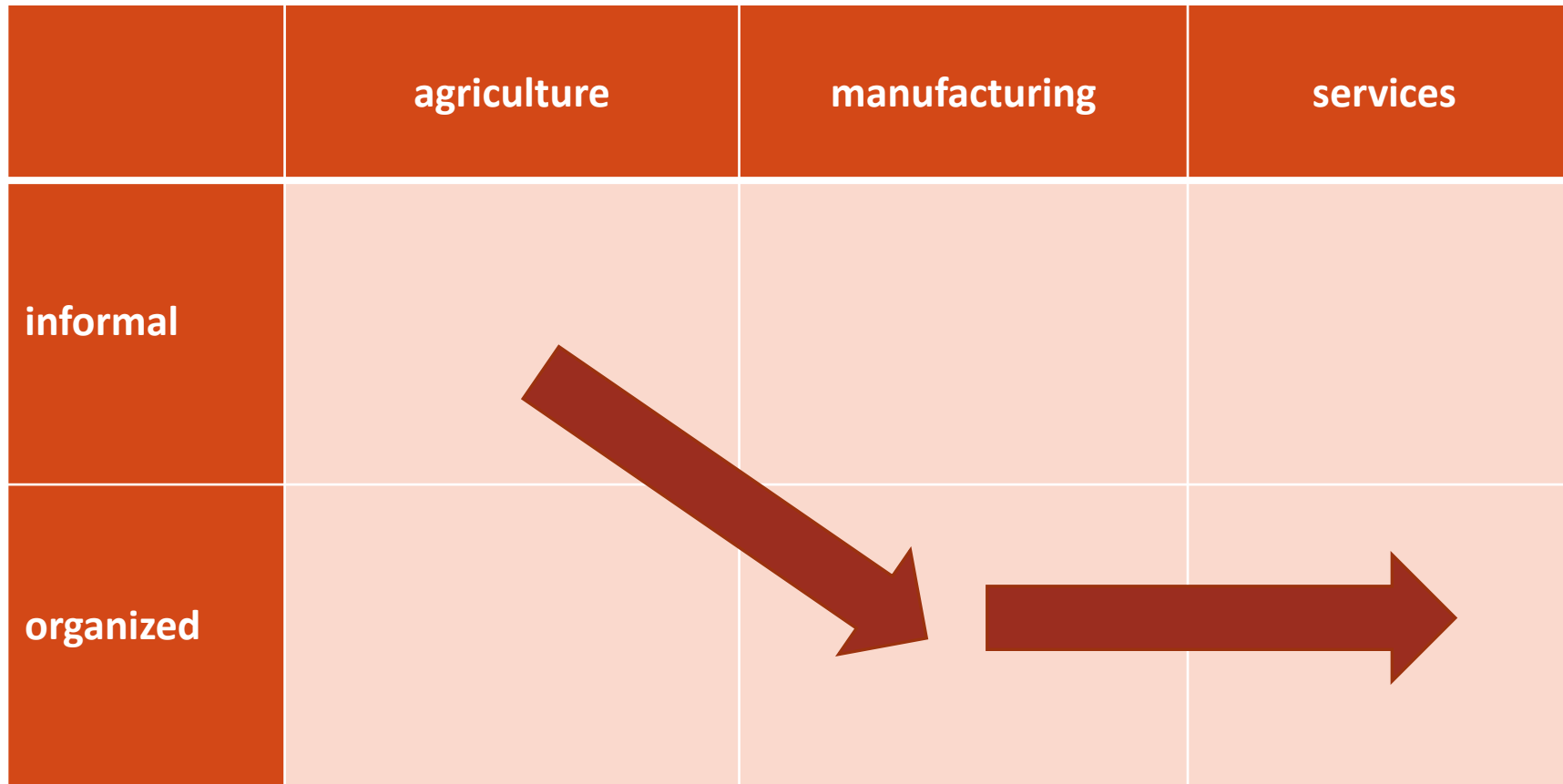


THE FUTURE OF DEVELOPMENT STRATEGY



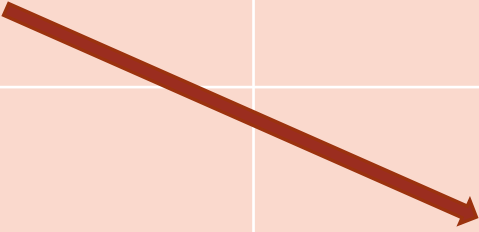
DANI RODRIK

MARCH 2022

Traditional development model



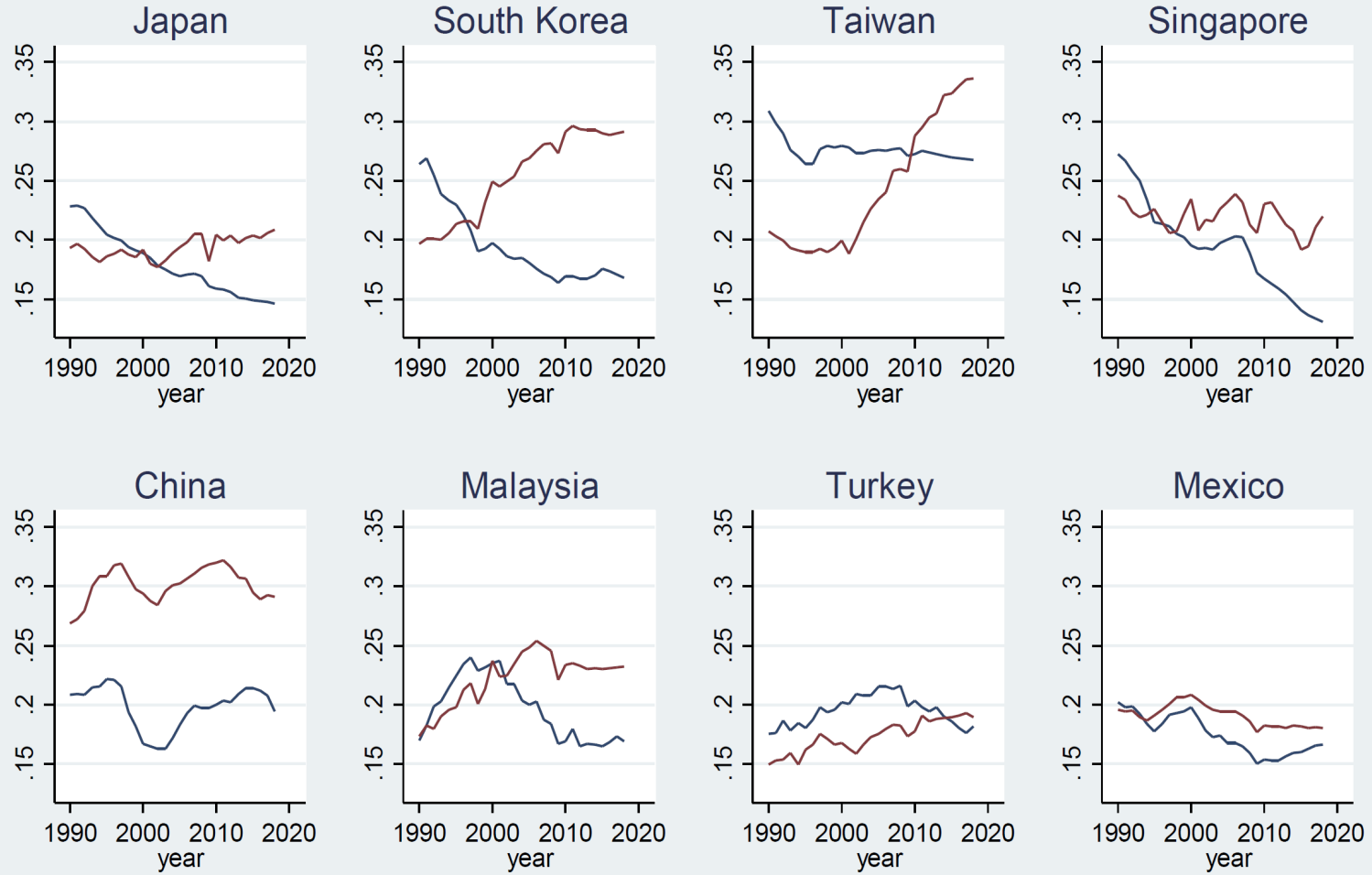
Most developing countries today

	agriculture	manufacturing	services
informal			
organized	 		

- “premature deindustrialization”
- dominance of informality within manufacturing
- aggravated by low employment-absorption capacity of natural resource sectors

Manufacturing Trends in Various Countries

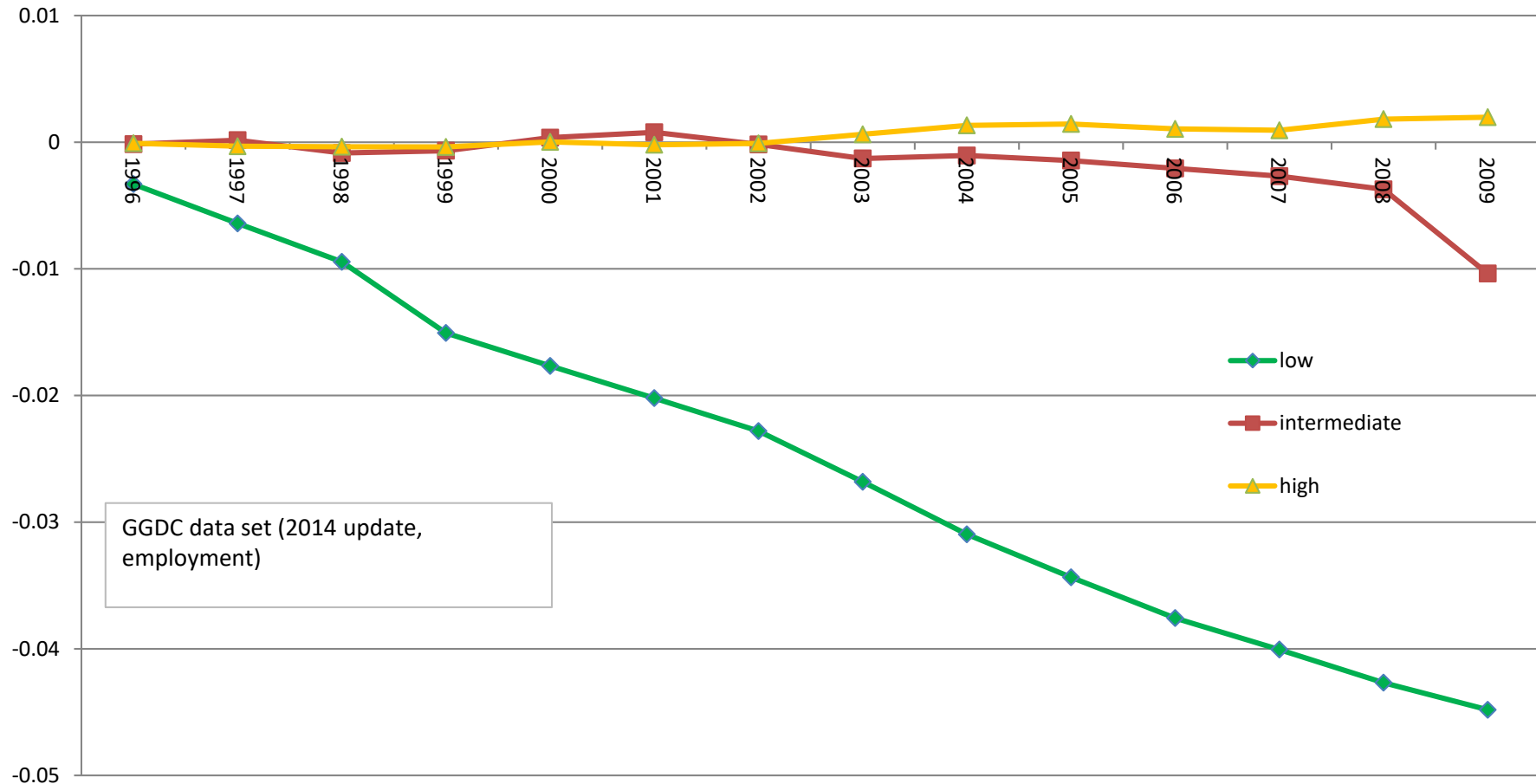
blue line = manufacturing employment share; red line=MVA share in GDP at constant 2015 prices



Source: De Vries et al. (2021), "The Economic Transformation Database."

Global technological change and low-skill labor

Estimated year dummies, by labor skill type



Changes in labor demand, by type of workers, in global value chains

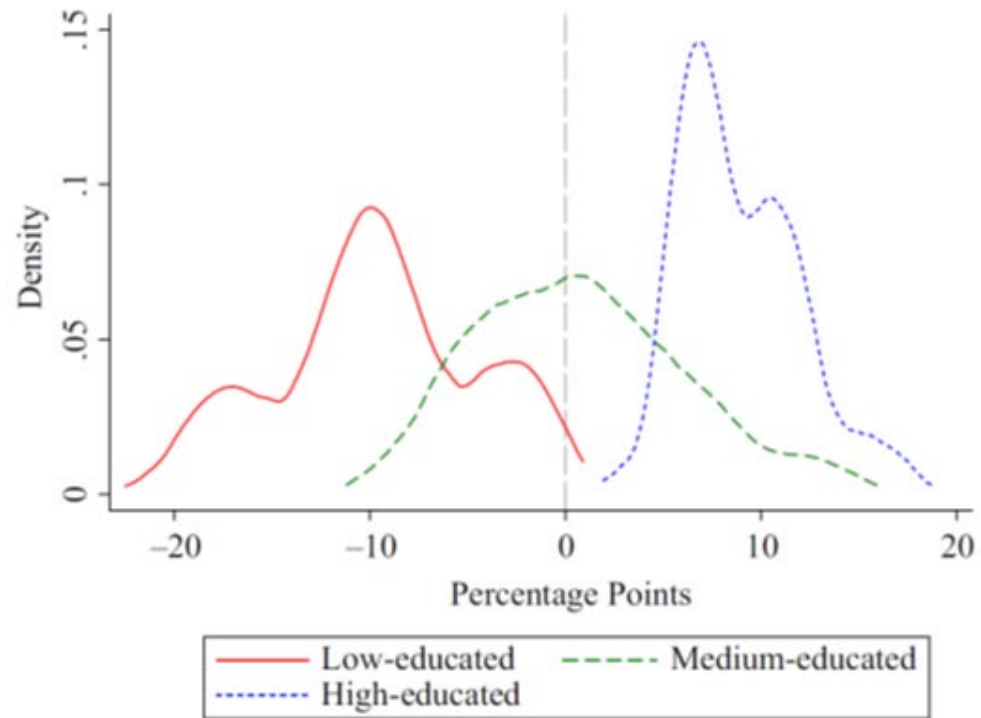
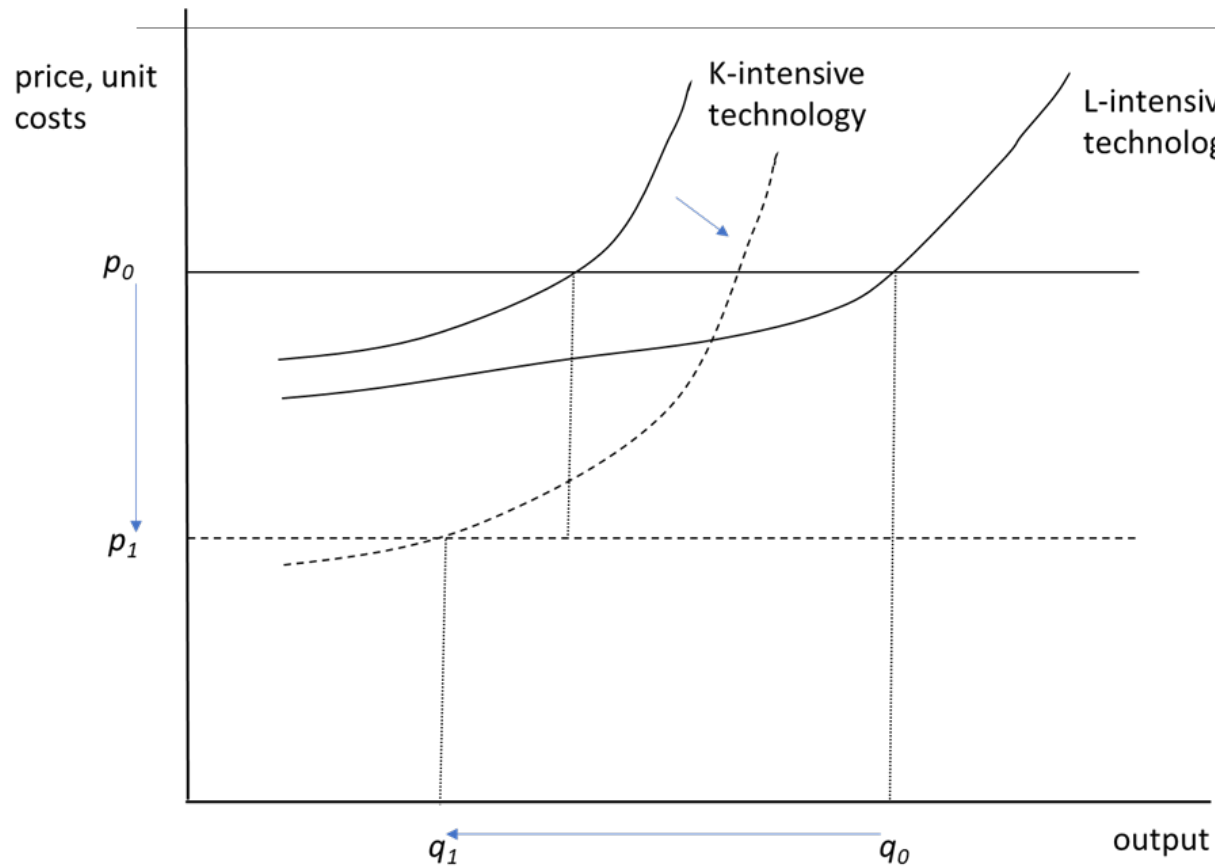


FIGURE 2 Changes in wage bill shares in GVCs of manufacturing goods, 1995–2007. Notes: Kernel density of change in labour cost shares for low-, middle- and high-educated workers. Change over the period 1995–2007 (in percentage points)

Analytics of technology choice in a world with skill/capital intensive technical change



Triple whammy on employment

- Direct employment loss due to reduction in output (due to reduction in comparative advantage)
- Additional employment loss due to shift in technique
- Reduction in employment elasticity to positive profitability shocks (steeper cost curve) due to scarcity of capital and complements to capital (e.g. skills)

Are there alternatives to industrialization-driven growth?

Need to understand why manufacturing is/was special:

1. productivity dynamics
 - unconditional convergence
2. labor absorption capacity
 - intensive in low-skill labor (traditionally)
3. tradability
 - can expand without turning terms of trade against itself

What is different now?

Need to understand why manufacturing is/was special:

1. productivity dynamics
 - unconditional convergence
- ~~2. labor absorption capacity~~
 - intensive in low-skill labor (traditionally)
3. tradability
 - can expand without turning terms of trade against itself

Alternatives: agriculture and services

Agriculture

- significant productivity gains possible in traditional agriculture
- possibilities in non-traditional agriculture
- but hard to imagine agriculture will absorb employment
 - where will labor go?

Services: two types

- high-productivity (tradable) segments of services cannot absorb as much labor
 - since they are typically skill-intensive
 - IT, FIRE, business services (IND, PHL)
- low productivity (non-tradable) services cannot act as growth poles
 - since they cannot expand without turning their terms of trade against themselves
 - continued expansion in one segment relies on expansion on others
 - limited gains from sectoral “winners”

Key question facing development strategy: where will the good jobs come from?

Good jobs = productive jobs

- traditionally spearheaded by manufacturing

Much greater role will have to be played in the future in creating good jobs by (mostly domestic) services

Growth policy and social policy increasingly become one and the same

- cannot have growth without creating productive jobs and expanding middle class; cannot address structural factors behind poverty and inequality without creating good jobs for relatively low-skilled workers

Good jobs require good firms

Hence the need for a mixture of interventions on both supply- and demand-sides of labor market

- education & training important but not adequate if good firms are not there
- new kind of “industrial policy”

Reconsidering development policy

		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			

Traditional poverty-reduction & social protection model

		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		cash transfers; full-employment macro policies
	middle productivity			safety nets
	high productivity			

Traditional industrial & growth policies

		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	subsidies, R&D incentives	corporate tax incentives

The good-jobs development model

		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 through: employer-linked training policies; wage subsidies; customized business incentives & services	
	high productivity			

New type of “industrial policies”

Collaborative and iterative relationship with firms

- instead of top-down, arms'-length, ex-ante rules

Customized assistance to firms with soft conditionality on job creation

- instead of subsidies and tax incentives

Focused not smaller and mid-sized, mostly services firms

- instead of export champions and most productive segments of the economy

Based on quid-pro-quo:

- firms need access to stable, skilled workforce, reliable horizontal and vertical networks (w/out holdup, informational problems), technology, contractual and property rights enforcement
- governments need firms to internalize “good jobs” externalities in employment, training, investment, and technological choices
- deep uncertainty precludes simple remedies (such as Pigovian employment subsidies)

Advantages of the “good jobs” agenda

Structuralist approach

- shaping production, innovation, employment incentives and relationships in situ, rather than taking them as given
- from “welfare state” to “productivist/innovation state”

Breaks through institutional fetishism

- traditional conceptions/distinctions of “markets” and “state,” and “regulation” no longer apply
- collaborative, iterative rule making under extreme, multi-dimensional uncertainty

Merging of equality/inclusion and economic growth agendas

- growth possibly only through dissemination of advanced methods throughout rest of economy

Opens up of a path of radical institutional reform from gradualist beginnings

- avoids reform/revolution dilemma