THE FINANCIAL PAGE

CAN THE GLOBAL ECONOMY BE HEALED?

A noted Harvard economist presents an optimistic vision of a world after Donald Trump.

By John Cassidy

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Gantry cranes and shipping containers at the Port of Nansha in Guangzhou, China. Source photograph by Bloomberg / Getty

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Hours before Donald Trump met with Xi Jinping in South Korea last week, I sat down with Dani Rodrik, an economist at Harvard University, to talk about his new book, "Shared Prosperity in a Fractured World," in which he discusses ways to create something positive atop the wreckage of the postwar global economic order. Although the U.S. and China have agreed not to escalate their trade war, Trump's blanket tariffs and the rest of his America First agenda remain in place, and many economists are despairing about the demise of an open trading system that they regard as a key driver of prosperity. But Rodrik, who shot to prominence in the nineteen-nineties as a critic of the untrammelled globalization that helped give Trump his start in Presidential politics, is more upbeat. "There is reason for hope," he writes. "Ideas and practices in today's global economy still remain in flux. A progressive alternative to create inclusive, sustainable economies does exist."

We spoke in Rodrik's office at the Kennedy School, where he has taught for many years. His optimism is based partly on his conviction that Trump's policies will fail to restore American manufacturing to its past glory and raise living standards, which will create space for a different approach. But Rodrik also believes there can be no return to the pre-Trump global system, which relied on one-size-fits-all trade rules enforced by transnational agencies such as the World Trade Organization. Far from mourning the demise of this system, Rodrik argues that it creates new space at the domestic level to address what he sees as the three defining economic challenges of our time: restoring the middle class in the U.S. and other Western countries; reducing poverty in countries that are still impoverished; and tackling climate change. "We spend so much time on the global economy and global agreements," he explained to me. "But there is so much that can be done internally."

Among the things Rodrik recommends are learning the lessons of China's remarkable industrial rise, focussing on services rather than manufacturing, and further exploiting the dramatic fall in the cost of green energy. He emphasizes the role that governments need to play in areas such as upgrading workers' skills, boosting the bargaining power of low-wage workers, channelling resources to strategic industries, and financing socially necessary but risky investments. But he advocates what he terms an "experimental" rather than a dirigiste approach. And he rejects the argument, from the far right and the far left, that we need to start from ground zero. "The seeds of these innovative approaches already exist within prevailing practices around the world," he writes. "What we require is not a revolution; it is a reconfiguration of our priorities and policies."

Rodrik's thinking about the global economy has evolved. In his 1997 book, "Has Globalization Gone Too Far?," he argued that the job losses, wage stagnation, and other dislocations associated with ever-closening global economic integration risked bringing about "social disintegration." While some anti-globalization protesters were making broadly similar arguments, it was novel to hear them coming from an Ivy League economist who had spent some time at the International Monetary Fund, which has long promoted free trade and globalization. I suggested to Rodrik that the backlash against what he termed "hyperglobalization"—a reaction that populists of the right such as Trump have eagerly exploited—had vindicated him. "I don't take any comfort from it," he replied. "What I was saying seemed pretty obvious."

Now that many governments around the world are moving to protect industries they consider vital, and international institutions like the I.M.F. and the World Trade Organization are being sidelined, Rodrik believes it will be largely up to the U.S. and China, as the world's two dominant economic powers, to define new rules of global commerce after Trump has departed. He is particularly enthused by China's two-decades-long effort to promote renewable energy, which he says could serve as a model to apply in other countries, and in other sectors of the economy. Largely as a result of technological progress in China, solar energy is now so cheap that even a red state like Texas is rapidly expanding its solar capacity. And thanks to the growth of the electric-vehicle industry in China, which is now the world's largest car market, cheap Chinese E.V.s are being exported to many other countries. "We're much further ahead on this"—the green transition—"than anyone thought feasible, and it happened through a mechanism that nobody predicted," Rodrik said.

In his book, he argues that the key to the success of China's green-energy initiative was the breadth of tools it employed, and the flexibility with which they were applied. The Chinese government supplied E.V. startups with venture capital, subsidies, customized infrastructure, specialized training, and preferential access to raw material. But instead of imposing a top-down production plan, it left a lot of the details up to the businesses. "The hallmark of Chinese developmentalism is an experimental approach," Rodrik writes. "The national government sets broad objectives. Then a variety of industrial policies are deployed in different industries and locations, followed by close monitoring, iteration, and revision when called for."

Rodrik also saw much to like in the Biden Administration's industrial policies, which aimed to hasten the green transition by offering subsidies, tax credits, and public support for industrial research. Trump is busy dismantling many of these policies. Rodrik would support restoring them in the future. He also advocates for allowing countries, including the U.S., to use targeted tariffs to protect specific industries that they consider vital, but he insists it's a mistake to focus solely on manufacturing, which employs less than ten per cent of the U.S. workforce. The real challenge, he argues, is boosting wages in the vast services sector, which employs more than eighty per cent of American workers. "Whether we like it or not, services will remain the main job engine of the economy," he writes. Some service jobs, such as managerial ones, are well paid, but many of them, particularly in areas like retail and care, are low-wage positions. "An inescapable conclusion follows: a good jobs economy hinges critically on our ability to increase the productivity and quality of jobs in such services."

Rodrik concedes that there is no tried and tested formula to achieve this. The approach that he advocates mimics the Chinese model in encompassing government agencies at the national and local level, as well as educational institutions, private businesses, and workers. He supports efforts to organize service workers in labor unions, and he discusses the possibility, raised by Arin Dube, an economist at the University of Massachusetts, Amherst, of establishing wage boards to set minimum wages that vary across industries, occupations, and locations. Rodrik, citing the contrast between nurse practitioners, who earn a median yearly salary of a hundred and twenty-six thousand dollars, and low-wage care workers, also argues that training, technology, and regulatory reform can a play a big role—as can directed scientific research.

He calls for the establishment of a workers' equivalent of DARPA, the Pentagon agency that has helped finance the development of the internet, G.P.S., and the mRNA technologies used to make COVID-19 vaccines. Whereas DARPA focusses on research that potentially has military implications, Rodrik's proposed "ARPA-W" would focus on developing "labor-friendly technologies," including some that employ artificial intelligence. As some observers predict that A.I. could eliminate huge numbers of jobs, many of them well paid, Rodrik, echoing the M.I.T. economists David Autor, Daron Acemoglu, and Simon Johnson, argues that technological progress needs to be refocussed. Referring to his proposal for an ARPA-W, he writes, "The overarching objective would be to allow workers to do what they cannot presently do, instead of displacing them by taking over the tasks that they already do."

For the past seventy years, the so-called Asian model of export-led growth in manufacturing has had enormous success. But the relentless advance of automation, including rapid progress in robotics and 3-D printing, means that for the poorest countries, many of them in Africa, such manufacturing may no longer be a viable way of providing employment to huge numbers of people. The only alternative, Rodrik says, is embracing the services economy and raising productivity and wages in it. He concedes this won't be easy, but he cites a number of success stories, including two from India. In the state of Haryana, the government and two big rideshare firms, Uber and Ola, partnered to provide driving jobs for thousands of unemployed youths. In Uttar Pradesh, a development initiative provided community health workers with a smartphone app that combined diagnostic and treatment instructions with a client-management program. As the program proceeded, the workers became more knowledgeable and "more proficient in counseling the beneficiaries and identifying sick newborns who needed immediate medical care." In economic terms, their productivity rose. "The services model may not deliver very fast growth, but the growth it generates is more inclusive and equitable," Rodrik writes. "It is the most direct route to building a large middle class in the developing world as well."

Like the "abundance" movement, Rodrik puts forth a recipe for shared prosperity that embraces the goal of unleashing society's productive potential. Indeed, he labels his approach "A Productivist Paradigm." But whereas many abundance advocates typically talk about removing government impediments to growth, such as zoning restrictions, Rodrik focusses on government interventions. He does express some support for regulatory reforms, such as eliminating rules that prevent care workers from administering routine medical care, but he mainly emphasizes the need for governments to help finance things like education, training, scientific research, infrastructure, and the development of green technologies—all areas where private enterprise tends to fall short if left to its own devices. At the same time, he distances himself from some previous forms of interventionism, saying his approach favors "collaborative, experimental solutions over technocratic ones."

To be sure, Rodrik's effort to look on the bright side can seem Pollyannaish, beginning with its basic presumption that there will be an opportunity to repair the damage Trump is doing, and that the U.S. political system will be up to the task. In a panel session that preceded our conversation, Rebecca Henderson, a professor at Harvard Business School, reminded the audience that billionaire tech barons are busy buying up media properties, and major corporations are making large donations to Trump-related projects. These developments hardly augur well for the prospect of persuading major corporations to redirect their A.I. investments in a pro-worker direction. The checkered prospects for grand multilateral initiatives, like the Kyoto Protocol, in which nearly a hundred and ninety countries pledged to reduce their carbon emissions, present another challenge. Without an enforceable international agreement, I asked Rodrik, how are we ever going to put into effect the long-advocated grand bargain in which rich countries agree to finance the green-energy transition in poor countries in return for pledges from the latter to restrict their emissions? "You hit on the one area where I couldn't find anything to be optimistic about," Rodrik replied. In his book, he cites the proposal, supported by France and Brazil, for a global tax on the super-wealthy to help finance the green transition, writing, "The logic for such a tax is impeccable." But it also seems a long way away.

Rodrik did concede that Trump's election and subsequent actions have left him less optimistic than he was when he started writing his book, last year, when Biden's industrial policies seemed to him like an important and permanent break from the past. Still, he refuses to succumb to gloom. Particularly in the area of green energy, he said, Trump's "demolition job is not as harmful as I had feared." Although the so-called Big Beautiful Bill that Republicans passed at Trump's behest will eliminate, at the end of this year, tax credits for the purchase of home solar panels, it hasn't halted the construction of industrial-scale solar farms across the country, including in Texas. "This stuff is now so cheap," he said. "The economics has flipped."

In Rodrik's thinking, this is a sign that, if the appropriate policies are adopted and given time to develop, progress can be made in other areas, too. Biden-era industrial policies may not have generated support for Democrats right away, but he attributes this failure not to their intrinsic nature but to timing. "It will take more than four years for a coherent alternative to emerge and capture the public imagination," he writes. His book certainly isn't the final word on constructing such an alternative, and he wouldn't claim it is. But it's a stimulating contribution to the project. ♦