

# An Industrial Policy for Good Jobs

*Dani Rodrik*

For decades the service sector has driven the economy in the United States. Is there a role for industrial policy in sustaining this growth? Dani Rodrik (Harvard University) has written a policy proposal that explains how a modern industrial policy framework would create more “good jobs” by improving productivity and labor income growth for service-sector workers. Rodrik defines a good job as one that invests in worker skills, provides workers with a voice, discretion, and autonomy, and gives them responsibility for the quality of service.

A modern industrial policy would need to move beyond the traditional focus on manufacturing and globally-competitive industries to the service sector and smaller and medium-sized firms. And the practice of industrial policy will need to rely less on traditional top-down policy instruments—such as subsidies and tax incentives for firms—and more on collaborative, iterative interaction whereby public agencies supply a portfolio of customized public services in exchange for firms undertaking soft commitments on the quantity and quality of employment.

Rodrik proposes both federal and local initiatives as the components of “An Industrial Policy for Good Jobs.” The local approach builds on the existing framework of development and business assistance programs: in this ecosystem the provision of public services (such as business extension services, infrastructure, or customized training) is aligned with a new, more-flexible, and contextual model of industrial policy that is better suited to the challenge of creating good jobs in the service sector. The federal initiative is an Advanced Research Projects Agency (ARPA) focused on the promotion of employment-friendly technologies: ARPA-Workers. 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.

## The Challenge

Industrial policy is as old as the state itself. Virtually every government in history has engaged in policies to promote economic activities regarded as critical to national security, economic well-being, or the sovereign’s coffers. Under the influence of free-market ideas, the United States has often viewed itself as outside this tradition. Yet it was none other than one of the nation’s

founding fathers, Alexander Hamilton, who articulated the earliest and one of the clearest arguments for industrial policy in his “Report on the Subject of Manufactures,” which presented a powerful case for subsidizing and protecting America’s nascent manufacturing establishments.

The debate on industrial policy has traditionally revolved around the question of whether governments should engage in industrial policy at all, instead of the more relevant (and useful) question of how they should do so. Since governments always engage in industrial policy, it is desirable that they act deliberately and self-consciously, rather than surreptitiously and without an overall strategic frame. The present economic and technological context for industrial policy is very different—not just from Alexander Hamilton’s day, but also from the heyday of industrial policy during the 1960s and 1970s. Moreover, the nature and contours of

## The Case of Long-Term Care

Long-term care is a sector where employment could increase rapidly in future years as the population continues to age and demand for in-home or assisted living arrangements increases. Yet there is a shortage of workers, due to low wages and other undesirable characteristics of the job. Long-term care could be a test case for the idea that sectoral policies organized along the lines of industrial policy could work, because greater productivity is ultimately the most reliable source of better jobs.

Making long-term care jobs “good jobs” entails a fulsome strategy and requires metrics against which to measure success. An important component of such a strategy would 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 people in their care. These changes would require an investment in R&D, a willingness to experiment with novel work practices and new technologies, and the encouragement of on-the-ground adoption through adaptation and contextualization to local needs. If long-term care jobs were to develop in this manner, realized productivity gains would transform these jobs into good jobs.



best-practice industrial policies have changed considerably, thanks to accumulated experience and knowledge.

While job creation is almost always one of the stated motives of industrial policy, it is typically assumed that increased investments in physical capital or innovation will produce improved labor market outcomes. Instead, Rodrik provides evidence that good jobs must play an explicit and much more significant role in the design of industrial policy. In the absence of programs targeted specifically on the supply of good jobs and on technologies that are friendly to workers, labor market problems will continue, with significant costs to the social and political fabric of the nation. And if these policies do not target service-sector jobs, the vast majority of American workers will be left out.

## The Proposal

### ARPA-Workers

A key plank of a good-jobs strategy is a national effort to steer technology in a more labor-friendly direction. Rodrik proposes the creation of ARPA-Workers to foster the development of new labor-friendly frontier technologies that complement rather than displace workers who have an intermediate range of skills and education. ARPA-W would prioritize technologies that complement and augment what workers can do, expand the range of tasks they can perform, increase their ability to customize services to specific needs and customer demand, and increase the labor share of value added in production.

### Local and Regional Industrial Policies

Rodrik proposes a competitive grant program that allocates funds and promulgates general principles for the

operation of local good-jobs programs. In return for public services, firms would be asked to make provisional commitments on specific quantities of good jobs they will create at different qualification levels. In the proposal, Rodrik offers examples of “good jobs” metrics against which the local programs could be measured. Instead of open-ended tax incentives or subsidies, the conduct of industrial policy must then rely on the provision of customized public inputs through collaborative, iterative dialog with firms, and with soft conditionality on employment quantity and quality. This approach helps firms to internalize good-jobs externalities in their employment, training, investment, and technological choices.

### What the Proposal Does Not Do

The proposal is not sufficient in itself to create an inclusive, good-jobs economy and is not a wholesale substitute for other necessary policies. “An Industrial Policy for Good Jobs” should be supported and complemented by a variety of regulatory, social insurance, and macroeconomic arrangements that increase the bargaining and organizational power of labor in the workplace, provide a robust safety net for workers and their families, and ensure adequate levels of aggregate demand to run a tight labor market.

A comprehensive, robust set of industrial policies would also target the climate transition (to promote green technologies), the high-tech and digital economy (to promote general innovation), and the rebuilding of domestic supply chains (to create a more resilient economy). Just as traditional industrial policies cannot be relied on to serve the needs of a good-jobs economy, “An Industrial Policy for Good Jobs” does not address these strategic goals.