



# National Developmentalism: The Alternative to Neoliberalism and Neo-New Dealism

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Neoliberalism's deficiencies are clear. To address the challenges America now faces, policymakers should adopt the doctrine of national developmentalism and not allow economic policy to swing back toward a revised New Dealism, as it is now doing.

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## KEY TAKEAWAYS

- The neoliberal doctrine of unfettered free trade, free markets, and limited government that long guided U.S. economic policy has exhausted itself. It now constrains policy changes necessary to address the major techno-economic challenges of our times.
- Critics across the political spectrum have defaulted to a Manichean alternative that reinvents progressive New Deal and Great Society policies by focusing on redistribution, animus toward corporations and markets, and innovation-dampening regulation.
- This neo-New Dealism will lead to stagnation, fiscal crisis, and diminished international competitiveness, and it could erode America's capitalist, meritocratic economic system.
- Policymakers should instead embrace the doctrine of national developmentalism, which prioritizes growth, favors selective globalization, and seeks to maximize organizations' dynamic capabilities without regard to their size.
- National developmentalism is the only doctrine that can effectively address the three major economic challenges of our times: stagnant productivity and wages, the need for more innovation, and the epochal competitive threat from China.
- Only national developmentalism provides the intellectual framework and guidance for policymakers to craft the necessary approaches to the federal budget, tax policy, trade, regulation, and scientific and technological innovation.
- The stakes could not be higher. Everyone who supports the American experiment, regardless of their political affiliation, should reject the false choice between neoliberalism and neo-New Dealism and choose national developmentalism.

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**INTRODUCTION**

Neoliberalism, the economic policy doctrine of free trade, free markets, and limited government that has prevailed since the early 1980s, has run its course. Many policymakers across the political spectrum are now skeptical of unfettered globalization, decry large corporations, and lament the plight of workers. So in an echo of the New Deal era, when the Roosevelt administration and a Democratic Congress (later joined by many Republicans) executed an abrupt about-face—rejecting the perceived failings of laissez-faire economics on the dubious pretext of responding to the Great Depression—the pendulum has now swung decisively away from neoliberalism. The Biden administration and lawmakers in Congress often disagree in heated terms on the specifics, but a striking, broad-strokes consensus has nonetheless gelled around the contours of a neo-New Deal economic agenda marked by redistribution, global economic autarky, and worker-centric animus toward corporations and markets.

This is a grave mistake. If implemented, neo-New Dealism might generate a one-time reduction in inequality, but it would come at the longer-term cost of economic stagnation, fiscal crisis, and greatly diminished U.S. international competitiveness and global power. In its worst form, neo-New Dealism could severely erode the meritocratic, individualist capitalist system as America has known it.

Many of those who have turned toward neo-New Dealism hold a deep skepticism toward corporations, markets, and American global power. Few of these (mostly liberal) advocates will be convinced to abandon their campaign to transform the U.S. economic system, even if presented with a more attractive economic doctrine. On the other hand, many on the Right and the Center who have migrated to versions of neo-New Dealism, have done so because they understand America needs an alternative to the heavily weathered neoliberal doctrine. But with only one option on the table, neo-New Dealism has replaced neoliberalism, to paraphrase Prime Minister Margaret Thatcher, as the only alternative.

It's time to recognize that neoliberalism and neo-New Dealism are not the only options. Instead of allowing economic policy to swing backward like a pendulum, policymakers should look *forward* and embrace a new entrant into the marketplace of doctrines: national developmentalism, which holds that the key role of government is to foster industrial and economic development and that international economic policy should be crafted to maximize U.S. economic competitiveness and global power.

National developmentalism puts per capita income growth first—because growing productivity is the only way to continue improving everyone's living standards over the long term—and only after achieving robust growth would it prioritize efforts for greater fairness and increased government-funded redistribution. National developmentalism embraces selective globalization, with even deeper integration with allies and other nations that play fair, but with markedly less integration with nations that do not, especially China. In all aspects of government, including tax policy, regulation, spending, and government procurement, national developmentalism would embrace firm-size neutrality, recognizing that on most policy factors, large corporations outperform both small businesses and government enterprises. National developmentalism puts neither consumer welfare nor worker welfare first; rather, it seeks to advance national economic welfare—which, if accomplished, boosts consumer and worker welfare. And finally, national developmentalism recognizes that companies competing in markets generally maximize national welfare—but only when government policy works to maximize organizations' dynamic capabilities (firms' ability to constantly innovate in what they produce and how they produce it), especially for large corporations, and where needed, seeks to align those interests with national interest. In short, America needs a new socioeconomic doctrine that both parties can embrace, and national developmentalism offers the best path forward.

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The most important factor affecting the future of the U.S. economy will be the kind of economic doctrine that guides policy. In contrast to materialists who believe that economic interests and politics determine policy choices, the reality is intellectual frameworks and ideology are vastly more important, for they set the stage for defining problems and crafting acceptable solutions.

## THE FAILURES OF NEOLIBERALISM

Neoliberalism refers to a system of key operating principles for a society and economy: 1) deep global integration; 2) limited government (including low taxes and limited regulation); 3) a preference for price-mediated markets, including in labor and financial markets; 4) a focus on financial capital as the key ingredient for growth; 5) a focus on consumer welfare; 6) a rejection of the public interest as anything more than the sum of private interests, and 7) the general view that state policy be judged by the economic logic of the market.

Despite certain origin stories putting its founding in the late 1930s (or in 1947 at Mont Pèlerin, Switzerland), neoliberalism did not emerge as a dominant U.S. (and Australian, British, and Canadian) governing doctrine until the mid- to late 1970s as a number of structural problems emerged, including high inflation, slow productivity growth, and declining competitiveness,

which doomed the prior, more progressive approach that FDR's New Deal had initiated and subsequent Democratic administrations through LBJ built upon.<sup>1</sup> And many Republicans, including Eisenhower and Nixon, accepted most New Deal realities.<sup>2</sup>

With the election of Ronald Reagan in 1980, neoliberalism became the Republican Party's default economic doctrine. The order of the day was cutting top marginal income tax rates and reducing the corporate income tax rate (at the cost of the investment tax credit).<sup>3</sup> Expanding trade became a part of the Republican Party's DNA, and deregulation, including of financial markets, was the prevailing orthodoxy. And all policies, including on taxes and spending, trade, and antitrust, were now judged on the basis of consumer welfare.

With the election of Bill Clinton in 1992, "New Democrats" largely accepted rather than fought the new neoliberal orthodoxy, but attempted to soften it in a way that would "put people first."<sup>4</sup> While President Clinton and Vice President Al Gore stated that they were "neither liberal nor conservative," they were in fact neoliberal.<sup>5</sup> They supported deep globalization; they just wanted a better safety net for those who lost their jobs to trade and offshoring. They embraced the financialization of the economy; they just wanted an earned income tax credit for low-income Americans. They believed capital drove growth; but rather than cut taxes on the rich, they wanted balanced budgets to free up capital for investment.

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A generous interpretation of neoliberalism is that it was a needed corrective to accreted problems from a half-century of liberal New Dealism: a punitive tax code, stagflation, and overregulation of key industries, including trucking, airlines, and rail. However, a definitive judgment is not needed on the relative merits. Suffice to say that today it is no longer a useful doctrine to guide Anglo-American economic policy deliberations and solutions. The United States is not the only nation that adopted neoliberalism: Australia, Canada, the United Kingdom did as well.

In the Left's damning critique of neoliberalism, they point to its purported role in enabling increased income inequality, harmful globalization, corporate short-termism, and a string of other maladies. To some extent, these critiques hold water. But a more damning indictment of neoliberalism is its failure to address the most important economic challenges facing the nation today: anemic productivity growth rates and its related insufficient real wage growth, along with deindustrialization and loss of America's competitive advantage against China, including in most advanced industries.<sup>6</sup> Indeed, most of the problems with neoliberalism that neo-New Dealers point to actually are caused, or at least made significantly worse, by its failure to address these fundamental challenges.

These failures are not accidental. Indeed, the very nature of neoliberal economic policy makes it impossible to solve these problems. Productivity won't be solved by cutting taxes for the rich or balancing the budget—fiscal policy is not industrial policy. Rather, it will be solved by explicit public-private productivity policies, including at the technology and sectoral level—and neoliberalism ensures that such solutions are not only off the table but out of bounds.<sup>7</sup> Competitiveness won't be solved simply by cutting the corporate tax rate or eliminating a few regulations. It will be solved by an explicit advanced industry strategy.<sup>8</sup> Yet, under neoliberalism,

privileging of national interest over global allocation efficiency is akin to economic malpractice that only cretins ignorant of public choice theory would propose.

As the progressive Hewlett Foundation wrote in its manifesto for neo-New Dealism, “The point is simply that, as has happened before, society’s problems have changed, and the reigning intellectual paradigm, if not in fact causing these problems, certainly no longer seems up to the task of solving them.”<sup>9</sup>

The progressives are right: It is time to overthrow neoliberalism. But not with neo-New Dealism.

## NEO-NEW DEALISM EMERGES AS THE DEFAULT ALTERNATIVE

As the shortcomings of neoliberalism became more apparent, the progressive Left found an opening to drive the equivalent of an intellectual truck through the typically narrow lanes that characterize policy debates in Washington. In a short time, it seemed everything—from climate change to racial tensions to low wage growth—became implicated in the evils and limitations of neoliberalism. The term itself became one of scorn and derision, and it was used to browbeat centrists into submission and conservatives into a defensive crouch or a partial conversion.

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Proponents of neo-New Dealism, a faction that now includes more than just the Bernie Sanderses and “Squad’s” wing of the Democratic party, insist that they are just providing a needed alternative to neoliberalism, filling a gap that needed filling. But with its animus toward large companies; its deep suspicion of markets, globalization, and capitalism; its focus on short-term worker welfare; and its overriding goal of redistributing rather than growing the pie, neo-New Dealism is a harmful dead end. And even more troubling, at its heart, it seeks to remake America in the image of other nations that lack America’s market-oriented, meritocratic, corporate, and individualistic traditions.

And just as Bill Clinton sought to move the Democratic party away from New Dealism to neoliberalism—albeit neoliberalism with a human face—a number of conservatives today are moving in a similar direction, embracing at least some elements of neo-New Dealism. While they may still be fiscal conservatives, many have embraced redistributionist measures favored by progressives, and have adopted a focus on worker welfare.

To be clear, just as neoliberalism was different than the economic liberalism that preceded the New Deal, so too is neo-New Dealism different than the New Deal, Square Deal, New Frontier, and Great Society visions and doctrine. So, irregardless of the term used, neo-New Dealism has emerged in many ways as a dialectical opposite to neoliberalism.

- If neoliberalism was about growth that ignored distributional issues, then neo-New Dealism is about redistribution that ignores, and often rejects, growth (e.g., it’s bad for the planet, it only helps the rich get richer, it creates too much disruption, etc.).<sup>10</sup> Its “middle out” agenda—including eliminating college debt; free health care, elder care, and childcare; weakened intellectual property protection; drug price controls; mandates on companies, such as forcing Internet service providers (ISPs) to sell broadband at a

loss; breaking up big companies and limiting productivity-enhancing mergers; subsidizing more expensive clean energy; and more—is a way to divide a fixed pie, not grow it.<sup>11</sup>

- If neoliberalism was about fiscal restraint (at least in theory) and Friedmanite monetarism, then neo-New Dealism, at least on the left, is about deficit-be-damned modern monetary theory: Spend like there is no tomorrow because working Americans need the cash or tax credits, even if they are really only borrowing it from their children.
- If neoliberalism was about limitless globalization and the belief that foreign mercantilists only hurt themselves, then neo-New Dealism is about economic isolationism and autarky; disengaging from competition with other nations (thereby allowing the government to impose any and all anticorporate policies with no impact on competitiveness); and not only ending trade expansion but reversing it. This is why we hear almost nothing from U.S. Trade Representative Katherine Tai. Her job as USTR has ceased to be trade expansion. It's why some conservative neo-New Dealers support high tariffs on all nations, no matter whether they are friend or foe.<sup>12</sup>
- If neoliberalism rejected industrial policy for the cardinal sin of “picking winners,” then progressive neo-New Dealers want to pick winners and bail out losers, but only if doing so advances their agenda of “green equity” (e.g., clean energy industries, human service industries such as childcare and eldercare, mass transit, etc.).<sup>13</sup>
- If neoliberalism focused on lower taxes, particularly on the wealthy and companies, then progressive neo-New Dealism focuses on higher taxes on both. How else will the cornucopia of government-provided free goods and services be paid for?
- If neoliberalism was pro-business, then neo-New Dealism is anti-business, or, at least, anti-big business. “Big Everything” is bad—banks, oil, broadband, pharma, and even “big sandwich”—because they are run by greedy owners seeking to maximize monopoly profits at the expense of “the people.”<sup>14</sup> Breaking them up would lead to lower prices and higher wages, the neo-New Dealers tell us. In contrast, subsidizing small companies and exempting them from various and sundry regulations would help small business owners, who are seen as one more segment of the oppressed proletariat. Conservative neo-New Dealers have also embraced an anticorporate regime, some because they believe corporate America is too woke, and others because big business has “crushed American liberty” and is not pro-worker.<sup>15</sup>
- If neoliberalism was pro-consumer, then neo-New Dealism is pro-worker. The Biden administration touts its trade policy as pro-worker. Lina Khan’s antitrust attacks are pro-worker. The infrastructure bill was sold as helping workers. Even industrial policy is framed as pro-worker.<sup>16</sup> And the new “New Right,” from think tanks such as the Heritage Institute and American Compass to an emerging set of leading Republican politicians, now pushes a worker-oriented agenda focused on increased wages, more unionization, and stronger business regulations.<sup>17</sup> Any nuance that workers are also consumers and that wage growth faster than productivity growth in one industry can mean higher prices, or that helping some workers (e.g., supporting workers in an industry who want to limit productivity gains, such as script writers who want AI banned) can hurt other workers and the U.S. economy, is glossed over.



- If neoliberalism viewed private capital as the fuel to grow the economy, then neo-New Dealers see government spending and other entitlements to low- and middle-income households as the fuel to grow the economy. This is Keynesianism on steroids: fiscal stimulus to the bottom 90 percent of households so they will spend more money. The fact that inflation is high and unemployment low is ignored. More redistributive spending is justified as boosting growth, something it only can do in periods of economic recession and then for only short-term periods.<sup>18</sup>
- If neoliberalism was focused on production, especially financial services production and capital accumulation, then neo-New Dealism is focused on consumption, much of which is provided by or paid for by the government. Want to raise incomes for low-income households? No need to boost productivity, just mandate a higher wage and provide an array of entitlements, including free college tuition and free day care. Why not ignore the producer side of the economy completely and just pay people to stay at home and consume through universal basic income (aka, welfare).<sup>19</sup> And don't worry about paying for this, Modern Monetary Theory takes care of that.
- If neoliberalism accepted automation and technological innovation, albeit with too little support for affected workers, then neo-New Dealism rejects technological automation as cruel and unusual punishment, benefiting only greedy capitalists. In its place, they favor an economy in which no worker ever loses their job, even if they don't perform adequately, which is why progressives in particular want to turn the U.S. labor market into an equivalent of the federal government employment system.
- If neoliberalism disdained government and pushed privatization, then neo-New Dealers disdain corporations and seek an array of alternatives, including “smaller firms, cooperatives, ethical firms organized as beneficial corporations, and publicly owned entities.”<sup>20</sup> Want better broadband? Have the local government provide it. Want cheaper drugs? Have the National Institutes of Health (NIH) develop them. Want better transportation? Ride on public transportation.
- If neoliberalism favored limited involvement in environmental issues (ideally through “Pigouvian” taxes on pollution), then progressive neo-New Dealers place “green” at the center, largely through regulatory mandates that ignore cost and attempt to change how Americans live (e.g., no more suburbs, passenger vehicles, airline flights, meat, gas stoves, or growing incomes).
- If neoliberalism was about letting companies compete largely unfettered in the market, then neo-New Dealism, especially on the left, is about strong economic regulation, and ideally government ownership (e.g., health insurance, banking, broadband, child and elderly care, drug development, transportation, etc.) or absent that, worker ownership of the means of production.

Progressive journalist Michael Tomasky perhaps defined neo-New Dealism best:

Middle-out economics, in contrast, is the belief that prosperity comes from a thriving middle class, and therefore government plays a role in supporting families and communities. This version of capitalism—more just, more equal, and in which prosperity is shared—could be the American future.<sup>21</sup>

Perhaps an even pithier definition of neo-New Dealism, or at least its goal for the Left, is, in the words of Roosevelt Institute President Felcia Wong, “High care; low carbon.”<sup>22</sup> To be clear, under neo-New Dealism, prosperity is shared, not increased. And the supply side of the economy—enterprises—is ignored in favor of the demand side: a middle and working class showered with a cornucopia of subsidies, hopefully green ones, with corporations increasingly shackled, if not completely dismantled or nationalized.

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Despite these differences, there are, however, several areas where neoliberalism and neo-New Dealism mostly agree.

1. **Immigration.** Neoliberals saw integrated global capital, product, and labor markets as optimal. The business forces in the Republican party, especially small businesses, favored liberal immigration for the low wages it brought. Progressive neo-New Dealers also favor immigration, especially low-skilled, because it helps achieve their goal of global redistribution. While conservative neo-progressives want to limit immigration, they see it as a way to help existing U.S. workers.
2. **Global competitiveness.** Neoliberals never believed that countries competed with one another, seeing the very notion of competitiveness as, in the words of Paul Krugman, a “dangerous obsession.”<sup>23</sup> Neo-New Dealers also deny that America is in competition with other nations, not only because of their desire for global wealth redistribution, even at costs to the U.S. economy, but because they know global competition makes it harder to put in place a raft of needed policies they disdain, such as lower business taxes and limited regulations. If the United States is relatively autarkic, such as before the 1970s, tax and regulate to your heart’s content—we won’t lose any jobs to nations that don’t follow this path.
3. **Short-termism.** Neoliberals view the pursuit of short-term self-interest as maximizing economic efficiency. If companies or individuals can do something that maximizes profits or benefits now, then it is optimal by definition, even if it leads to suboptimal longer-term outcomes. Likewise, neo-New Dealers see the short-term maximization of individual worker welfare as ideal. It doesn’t matter if that has longer-term negative effects (as the United Auto Workers (UAW) push for higher wages may have on the “big three” U.S. automakers, or as resistance to automation by many unions has on U.S. economic strength). As long as some workers are helped today, that is all that matters.
4. **Enterprises.** Neoliberalism embraces price-mediated markets. Enterprises are ignored and are assumed to function well as a group because of market forces. Neo-New Dealism also ignore enterprises, in part because of an animus toward corporations, but also because any recognition of the importance of enterprises would require enterprise-supportive policies, something their neo-Marxian, capital vs. labor view will not tolerate.



## NEO-NEW DEALERS ARE PREVAILING

As the limitations of neoliberalism grew, there were two responses. Defenders went into a crouch of denial. Tax cuts for the wealthy did grow the economy. Globalization had nothing to do with the loss of millions of manufacturing jobs. Financialization was good for the economy. Deregulation was always good. Just keep repeating.

In contrast, neo-New Dealers, especially progressives, saw the stumbling of neoliberalism as the strategic opening to achieve their agenda they had long been seeking. In the wake of the 2008 financial crisis—caused by the failure of the neoliberal policy agenda to adequately regulate finance—they saw cracks in the façade appear. The loss of millions of manufacturing jobs in the 2000s provided further ammunition for the critique, as did slow wage growth, which they blamed on corporate greed. And don't forget climate change.

Progressive anti-neoliberals rushed into the void with their agenda for change. Anything else was corporate-funded blasphemy. In the resulting intellectual vacuum, their brand of neo-New Dealism became the go-to alternative for virtually all of the Left and much of the Center. And like Clinton and the original New Democratic movement, which sought to come to terms with the then-dominant doctrine of neoliberalism (but now has embraced neo-New Dealism), today, a growing and vocal group on the Right seeks to accommodate itself to neo-New Dealism, albeit with a conservative face. And this shift has had the added benefit of having cache: One can talk about the economy and appear compassionate.

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### The Left

At its core, neo-New Dealism has been funded and advanced by the Left. In this sense, supporters have been pushing on an open door. There are vastly more liberal and progressive university professors than there are conservatives, and national development scholars are even scarcer, as they are rejected by both neoliberal and neo-New Dealer economists. There are vastly more think tanks and civil society organizations with neo-New Dealer agendas than national developmentist ones. The main reason is there are hundreds of progressive foundations and ultra-rich liberal patrons interested in providing prodigious sums to press neo-New Dealism. As John Judis and Rui Texiera documented in *Where Have All the Democrats Gone*, the last two decades have seen the massive expansion of funding for neo-New Dealism, in part from existing foundations and the influx of massive amounts of monies from newly minted rich progressives.<sup>24</sup>

Case in point is the Hewlett Foundation, which in 2018 launched its Madison Initiative to spend \$70 million to support the a badly needed development of an alternative to neoliberalism.<sup>25</sup> However, Hewlett appears to have made no effort to fund a range of possible alternative doctrines and vision, only neo-New Dealism—and for them, this involved supporting a range of policy goals including combating climate change, promoting unionization, boosting the care economy, fighting corporate power, promoting equity, and boosting global incomes, even if the last one came at the expense of American workers.<sup>26</sup>

Likewise, Partners for a New Economy:

focused on transforming our economy for nature and all people to flourish. We were founded in 2015 by the MAVA, Oak, Marisla and KR Foundations, to address the root causes of environmental degradation that lie within our economic system. In 2020 we were joined by Laudes and Ford Foundations, by Omidyar Network in 2022 and by the William & Flora Hewlett Foundation in 2023.<sup>27</sup>

Their goal is transformation of the economic system:

The initiatives we fund show a deep understanding of planetary boundaries and an urgency to transform our economy to live within them. They push the frontiers of alternative economic thinking, and work to change the rules, goals and mindsets underpinning our current economic system.<sup>28</sup>

Even as neoliberalism's actual results did it no favors, neo-New Dealers were not content with prevailing in an open debate where the facts would determine the winning replacement. They engaged in a sustained and massively well-funded campaign of fabrications and exaggerations to demonize neoliberalism. According to their new widely accepted narrative, the following are true:

- Workers saw *no* gains in income and the rich got more than all the gains from economic growth.
- Corporate profits and markups are at an all-time high, now driving “greedflation.”
- Economic concentration is through the roof.
- Globalization (rather than China) caused almost all of U.S. manufacturers’ troubles.
- A large share of jobs is or will be contingent “gig” jobs.
- U.S. broadband is deficient and we need government ISPs.
- Drug prices are skyrocketing because of excess profits.
- Big tech is killing privacy, the media, and democracy.
- The middle class is shrinking because people are getting poorer.
- We have all the tech we need to fight climate change; we just need regulation.

As David Moschella and I point out in our forthcoming book *Technology Fears and Scapegoats: 40 Myths About Privacy, Jobs, AI and Today's Innovation Economy*, all of these and more are either wrong or significantly exaggerated.<sup>29</sup> The neo-New Deal movement assiduously produced and then endlessly marketed these myths in conferences, on social media, in books that *The New York Times* loved to review, at hearings, and in the media. Once these distortions, exaggerations, or both were repeated enough and picked up by an increasingly neo-New Dealism media, they became truths, now virtually impossible to dislodge. As Mark Twain once said, “A lie can travel halfway around the world while the truth is putting on its shoes.” When the truth is irrelevant in policy debates, policymakers can believe anything, including the neo-New Deal narrative and agenda.

### **Bidenomics and the New Supply-Side Economics**

One core difference between neoliberalism and neo-New Dealism is that the former is focused on the supply side of the economy: the parts of the economy that produce rather than consume.

Leaving aside the fact that its supply-side strategy of tax cuts, global integration (including with China), and deregulation no longer constitute a valid growth strategy, at least it tries to grow the economic pie so everyone can have more. In contrast, with its “middle-out” and “bottom-up” focus, neo-New Dealism is a demand-side doctrine: giving subsidies to poor, working, and middle-class households and hoping the results, including consumer purchases, will grow the economy. With a few exceptions, such as helping workers get skills, their demand-side strategy will have no effect on growth unless the economy is in a recession (and then it is a temporary effect); it is likely to have a negative one as it comes at the expense of supply-side investments.

Because of the notable limitations of neoliberal demand-side economics—many voters understand that growing the pie is central to their well-being—some neo-New Dealers now paint their doctrine with a supply-side patina. Treasury Secretary Janet Yellen’s repackaging of Bidenomics as “modern supply-side economics” is an example. According to Yellen, the approach “prioritizes labor supply, human capital, public infrastructure, R&D, and investments in a sustainable environment.” But Yellen’s version of modern supply-side economics “cares not only about growth but about creating a fairer and more sustainable economy,” with the emphasis on the latter.<sup>30</sup>

The problem with this intellectual repurposing is that most of what is touted as a progressive supply-side growth strategy is in fact still demand-side redistribution, either in fact or in motivation, or it is spending that has no effect on growth. Childcare subsidies are painted as a supply-side intervention to let more mothers work. The administration’s infrastructure agenda is largely about job creation and advancing progressive goals such as more mass transit and demolishing existing freeways. The massive Inflation Reduction Act is largely subsidies for clean energy projects, most of which would not be built if proponents had to rely solely on market forces, and few of which will lead to economic growth, but rather the replacement of existing energy sources and uses with cleaner ones. Secretary Yellen even defines money for IRS tax enforcement as a supply-side strategy.<sup>31</sup>

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The reality is that the CHIPS and Science Act is the only true significant supply-side measure of the last few years. At its core, the supply-side initiatives for neo-New Dealers are to create jobs and achieve an array of social policy goals, not to boost long-run productivity and innovation. Neo-New Dealer and Harvard Professor Dani Rodrik even goes so far as to assert that the low-productivity human “services sector is the answer as the rising source of good, green, human, local, gender-beneficial jobs.”<sup>32</sup>

## **The Former Center**

It is easy to see why so many progressives latched onto neo-New Dealism: They were always skeptical, if not opposed to capitalism, markets, corporations, and unrestrained growth. But why did so many Clinton-era centrists such as Brad DeLong, Simon Johnson, Robert Reich, Gene Sperling, Larry Summers, and Tom Wheeler—as well as Biden administration officials Bruce Reed, Ron Klein, and Jake Sullivan—transition to neo-New Dealism?<sup>33</sup>

Sullivan is emblematic, writing in the progressive journal *Democracy*, “It’s not the 1990s anymore. People want the government to help solve big problems.”<sup>34</sup> He calls for “new old Democrats,” clearly a swipe at the New Democrat movement and a call for Democrats to revive New Deal economics. And, covering one of his recent speeches, one journalist said Sullivan had declared the death of neoliberalism.<sup>35</sup> His stated goal? Not strengthening the U.S. economy, but “rescuing and rebuilding the American middle class.”<sup>36</sup>

Similarly, Third Way, an advocacy/think tank formed in the late 1990s to provide a centrist intellectual alternative to conservatism and liberalism, has likewise largely embraced neo-New Dealism. Its core economic agenda is now government providing debt-financed subsidies to working people, the unemployed, and retirees.<sup>37</sup> Free childcare. Tuition waivers. Subsidies to small business. Paid family leave. A higher Earned Income Tax Credit. More generous retirement benefits. But innovation, productivity, and national competitiveness? Not really part of the plan.

Some of this centrist shift to neo-New Dealism could be attributable to “finger to the wind” political calculus—assuming that “the Democratic party is now firmly neo-New Dealism, so I better be too.” Some of it surely was the unifying force of Trump, which brought together Democrats of all political inclinations in opposition. Some of it might have been an unreflective embrace of Arthur Schlesinger’s pendulum theory of history: We moved too far to the right, now we need to move way to the left.<sup>38</sup> And some of it might have been fatigue at being relentlessly called out by progressives as the personification of all that is wrong and a betrayal of the true cause of justice.<sup>39</sup> But certainly some of why so many centrists have drifted to neo-New Dealism is that there was no well-articulated alternative to neoliberalism, and since everyone seemed to be jumping on that bandwagon, why not join? At least it’s not neoliberalism.

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### **The New “New Right”**

It should be clear to all but the most devoted Hayekians that neoliberalism as a useful, guiding economic doctrine has run its course. The travesty of U.K. Prime Minister Liz Truss, the shortest serving prime minister in U.K. history, because of her neoliberal proposal to eliminate taxes on the rich in the belief it would spur growth, should be evidence of this. And yet, many conservatives remain stuck in neoliberalism, as when U.S. Senator and former Republican presidential candidate Tim Scott (R-SC) said, “The Laffer curve still works!”<sup>40</sup> It never did and certainly won’t now.<sup>41</sup>

In the lull that has followed the “New Right’s” ascendance to power during the Reagan administration, there is good reason for Republicans to be hunting for a replacement for neoliberalism, if only for political reasons. Unfortunately, the black hole of neo-New Dealism is so strong that it has pulled in some conservatives seeking an intellectual alternative, just as the first New Deal pulled in many Republicans, such as Wilkie and Eisenhower. At first glance, the nascent but growing movement among some conservatives to reject neoliberalism was a good sign, especially as some endorsed or generated ideas that fit with national developmentalism. But some advocates went further, adopting a range of problematic neo-New Deal positions, including that the focus of economic policy should be on American workers (rather than on the

U.S. economy), that redistribution (albeit mostly through the tax code) is needed to help workers, and that large corporations are problematic.

Emulating the progressives neo-New Dealism “middle-out” framing, Oren Cass, the founder and president of American Compass, a conservative reform organization, has written:

This response emerges from an insight that I like to call the working hypothesis: that a labor market in which workers can support strong families and communities is the central determinant of long-term prosperity and should be the central focus of public policy. Genuine prosperity depends upon people working as productive contributors to their society, through which they can achieve self-sufficiency, support their families, participate in their communities, and raise children prepared to do the same.<sup>42</sup>

He went on to note, “Conservatives should look beyond libertarianism and embrace workers.”<sup>43</sup> It’s certainly politically appropriate to sell any economic doctrine on the grounds that it will help workers (and retirees), but to actually believe that economic growth stems from the well-being of workers, and not from the capabilities and performance of enterprises, is an embrace of neo-New Dealism. Moreover, conservative neo-New Dealers’ industrial policies mirror progressives’ in singing the praises of manufacturing, regardless of how technologically advanced it is.

Many new conservatives have also made their bed with progressives when it comes to their views toward large corporations, and in particular their embrace of anticorporate neo-Brandeisianism. Case in point is conservative Sohrab Ahmari, founder of the journal *Compact*. In his new book *Tyranny Inc.*, Ahmari attacked large corporations for all sorts of sins (the same ones, incidentally, that small businesses commit). In an echo of Marx, he asserts that “the employer likewise faces an economic compulsion that forces him to coerce the worker.”<sup>44</sup> As one reviewer noted:

More than half of *Tyranny, Inc.* is devoted to exposing the casualties of private economic power. The stories of corporate greed and judicial hard-heartedness would be right at home in Jacobin if not the Daily Worker. Making what appears to be a social-democratic argument, Ahmari applauds FDR and the achievements of the New Deal. He’s friendlier toward Karl Polanyi than he is toward F. A. Hayek. Ahmari approvingly cites Marxist and post-Marxist thinkers like Wendy Brown, Mark Fisher, David Harvey, and Chantal Mouffe, atypical reference points for a conservative author.<sup>45</sup>

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New conservative editor of the *Journal of American Affairs*, Julius Krein, holds a similar view, for example, decrying the CHIPS Act for not imposing more conditions on semiconductor firms getting incentives to invest in U.S. fabs, damning them for the sin of being global companies and labeling the CHIPS Act as “corporate welfare.”<sup>46</sup> In essence, Krien was channeling progressive neo-New Dealers, seeing economic policy first and foremost through the lens of limiting corporations, not increasing their capabilities in the United States.

Likewise, inveterate centrist contrarian Joel Kotkin has also echoed the neo-New Deal cause, writing for the conservative Clairmont Institute: “Conservatives who may traditionally oppose government controls on business may find common cause with socialists worried about allowing so much power to be concentrated in so few hands.”<sup>47</sup>

This is not to say that the new New Right has not embraced a number of ideas and concepts integral to national developmentalism, such as industrial policy, limiting the financialization of the economy, and support for innovation; many have. But unfortunately, a growing number of conservatives have embraced neo-New Dealism, or at least key parts of it, just as Clinton and the New Democratic movement embraced neoliberalism in the 1990s.<sup>48</sup>

### Trump and Trumpism

Former President Trump clearly rejects many aspects of neoliberalism, especially its embrace of free trade, yet it’s not clear which camp he fits in. The reality is that Trump and Trumpism are one and the same, reflecting his personal and wide-ranging beliefs and views. His idiosyncratic political orientation and policies straddle neoliberalism, neo-New Dealism, national developmentalism, and anti-wokism. He is neoliberal in favoring tax cuts, regulatory reduction, and smaller government. He is neo-New Dealer in opposing cuts to entitlements, supporting trade protection, attacking (some) big companies, trying to boost wages (e.g., by limiting low-skill immigration), and wanting to help consumers through redistributionist policies such as drug price controls.<sup>49</sup> And some of his ideas, such as his proposed Strategic National Manufacturing Initiative, “charter new cities,” and pushing back against Chinese commercial espionage, are more in line with a national development agenda.<sup>50</sup> Finally, he has embraced a cultural agenda that seeks to roll back the “woke” movement.

### The Need for an Alternative

In short, the goal of neo-New Dealism is not growth, as its advocates no longer believe growth helps workers and liberal proponents say we must embrace de-growth for the sake of the planet.<sup>51</sup> Nor is their goal innovation: They see that as the brainchild of ADD-riddled Silicon Valley billionaires who couldn’t care less about America or American workers, and something that tacitly advances racial inequity, destroys jobs, and violates privacy. And their goal is not about competitiveness either, as that is something that might help American capitalists instead of the global proletariat—or, for the new New Right, American workers.<sup>52</sup>

For those who believe that innovation, productivity growth, and competitiveness (especially versus China) are critical to the future of the American experiment, it should be clear that we are in dire need of an alternative to neoliberalism and neo-New Dealism. That is national developmentalism.

## NATIONAL DEVELOPMENTALISM

If neoliberalism is past its expiration date, then neo-New Dealism should be recalled for defects. In an era of near stagnant productivity growth and rapidly declining U.S. technology leadership, it’s time for a new doctrine. While there could be many names for this, my colleague Michael Lind and I have termed it “national developmentalism.”<sup>53</sup> It holds that the key role of the state is to foster industrial and economic development (including productivity and innovation) and that international economic policy should be crafted to maximize U.S. economic competitiveness and



national strength. When these are achieved, other goals, including higher wages and greater government benefits, are much easier to achieve.

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There are five basic principles of national developmentalism:

1. **First, growth is at the center**, particularly productivity, innovation, and competitiveness. Productivity is the only source of increases in living standards, and it largely comes from the development and widespread adoption of new technologies in enterprises. Innovation is the development of new products, processes, and business models that provide value to society. It is not “manna from heaven,” but something that is maximized when a country’s national innovation system is optimized for performance.<sup>54</sup> Finally, competitiveness is the ability of the United States to run a trade surplus (or at least balanced trade) in a range of advanced industries, while maintaining a strong dollar. A national developmentalist economic policy goes deep into crafting effective policies for all three areas.
2. **Strong, dynamic capabilities of companies of all sizes, especially large corporations, are key to achieving growth.** In contrast, neoliberalism relies on capital to achieve growth, and neo-New Dealers on a subsidized and protected middle class consumer.<sup>55</sup> Productivity, innovation, and competitiveness don’t come from more capital or middle-class consumers. And they don’t come from government, at least mostly not directly. They come from and are realized through dynamic enterprise capabilities located in America: capabilities to enter new markets, produce at high quality and low costs, and constantly innovate. At the end of the day, it is the capabilities of business establishments located in the United States—including large and small, foreign and domestic—that determine the nation’s economic well-being.

Markets don’t design and produce cars; automakers do. Markets didn’t invent and commercialize biotechnology; university researchers and entrepreneurs did. Markets didn’t produce the Internet and e-commerce; government policy, universities, and entrepreneurs did. In other words, what should be at the center of economics is not markets (which are merely a mechanism). There is nothing in the free market itself that assures the maximization of enterprise capabilities, especially in sectors that compete in intense global competition. Nor should government be at the center, as it is at best an enabler. Government redistribution and regulation cannot be a sustainable substitute for deficiencies in enterprise capabilities. It is the capabilities of enterprises that are instrumental in achieving what society requires and needs: fast and broad increases in productivity, innovation, and competitiveness.

This is why a capabilities approach is needed. But it needs to be a *dynamic* capabilities approach because needed economic outcomes for society are dynamic in nature. New firms. New products. New business models. New production processes.

3. **Carefully crafted and implemented government policies are essential.** These are needed not only to maximize dynamic enterprise capabilities but also to align state goals with

enterprise interests. This does not mean that the development state has the expertise to decide “the next big thing,” especially as narrowly defined (e.g., lithium-ion batteries), but it does mean that government should seek to maximize enterprise capabilities and to guide private enterprise toward state goals through public-private partnerships (e.g., dual-use and direct defense capabilities, higher productivity, more exports, lower carbon emission products, etc.). All legislative and executive branch policies and programs related to economics should be filtered through the lens of “do they strengthen or weaken enterprise capabilities?”

4. **National development is focused more on goals than processes.** Both neoliberals and neo-progressives privilege processes—or at least the latter claim to. For neoliberals, the process of free markets is largely sacrosanct, with the belief that if markets are just left alone, the final outcome, whatever it may be, is by definition optimal. This is why neoliberal economist Alan Blinder could make the outlandish statement that the United States losing its TV industry to the Japanese was a success because supposedly the market dictated it. (In reality, Japanese government protectionism and destructive U.S. antitrust law led to this result.) Neo-progressives pay homage to process. For example, they justify their antitrust attacks on corporations as defending competition. But competition is not an end; it’s a means to other goals. They argue that the process of workers having voice is key. But again, that is mostly a means, hopefully, to higher productivity and innovation. National developmentalism is clearly focused on three goals—innovation, productivity, and competitiveness—and is agnostic about the means to achieve these goals.
5. **National developmentalism rejects the neoliberal and neo-New Deal Marxian capital-labor dialectic.** The list of inane (and destructive) ideas generated by Karl Marx would take several volumes to catalogue, but one that surely deserves top billing is his notion that capital and labor are fighting in a zero-sum game where what’s good for one is bad for the other. While neo-New Dealism is not the same as Marxism, this idea has been baked into neo-New Dealism (and sometimes neoliberalism), with atrocious policy results.

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Neoliberals proclaim themselves to be pro-business or pro-capital and view any policy that might help labor (such as a stronger minimum wage or limits on low-skill immigration) as antithetical to that. But business welfare should not be the goal. That is a means to maximize national economic welfare.

Conversely, neo-New Dealers proclaim themselves to be pro-worker and see any action that helps a company, such as supporting labor-displacing automation or merging with another company to gain efficiencies, as helping capital at the expense of labor. The reality is that almost always such benefits flow through to the entire economy.

Replacing neoliberalism and neo-New Dealism with national developmentalism would have profoundly positive results. If applied and followed, it would mean a different approach to a wide array of economic policy areas, including trade, tax, antitrust, and budget, to name just a few.

Trade policy would move away from the intellectual dead end of free trade versus protectionism and toward a trade regime focused on boosting domestic advanced technology capabilities. Tax policy would move away from the stale debate of taxing business more versus less to a more sophisticated one of how tax policy can support dynamic capabilities of entrepreneurs and established firms. Antitrust policy would move away from the dead-end debate between weak enforcement and punitive enforcement to a focus on how antitrust can enable innovation, especially disruptive innovation. Budget policy would move away from the either-or of balancing the budget or boosting social spending to one of how targeted spending (through tax expenditures or direct spending) can boost capabilities.

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This is not the place for a detailed national development-focused economic policy agenda, but here are a few broad proposals.<sup>56</sup> Some are perhaps unique to national developmentalism. Others could find support among neoliberals, while still others could be supported by neo-New Dealers.

**Budget:**

- Increase taxes to cover 70 to 80 percent of the budget deficit shortfall.
- Cut spending, especially entitlements to the elderly, to cover 20 to 30 percent of the shortfall.
- Increase investment, including through tax incentives and direct spending, to support enterprise capabilities for innovation, productivity, and competitiveness.<sup>57</sup>

**Tax policy:**

- Raise taxes on the wealthy (higher marginal rate and tax dividends, capital gains, and carried interest as normal income).
- Adopt a carbon tax.
- Adopt a Tobin tax on short-term financial trading.<sup>58</sup>
- Adopt a border-adjustable value-added tax.
- Craft a business tax code that rewards firms' domestic investment in research and development, capital equipment and software, international standards setting, and workforce development with much lower effective tax rates.

**Trade policy:**

- Form a democratic nations' alternative to the World Trade Organization.
- More aggressively push back against Chinese innovation mercantilism, especially by blocking Chinese imports produced with unfair trade and economic policies.
- Make global market expansion for advanced industries with high fixed costs and low marginal costs, such as semiconductors and drugs, the major goal of U.S. market opening.

- Limit economic benefits (e.g., GSP preferences, foreign aid, etc.) to nations with non-trivial mercantilist policies that harm the U.S. economy.
- Significantly expand support to U.S. exporters through expansion and reform of institutions such as the Ex-Im Bank.
- Adopt a “buy allied” system wherein the U.S. government agrees to buy from allied nations that commit to reciprocity. Reciprocity would also apply to programs such as the IRA tax incentives.
- Increase STEM (science, technology, engineering, and math) immigration.

#### **Regulatory policy:**

- Focus antitrust more on combatting anticompetitive conduct and much less on purported anticompetitive industry structures.
- Ensure proposed regulations are screened to limit negative effects on competitiveness and innovation.
- With regard to internet and AI policy, embrace light-touch regulations that balance public interest protection with innovation, and focus more on harms (e.g., SPAM, identity theft).
- Embrace size neutrality, favoring neither large nor small business.

#### **Industry and science policy:**

- Craft policies to shrink the financial trading sector and move firms away from short-termism.
- Create and fund an Industrial Finance Corporation.<sup>59</sup>
- Adopt a whole of government approach to spurring productivity, innovation, and competitiveness.
- Provide the lion’s share of new science and technology funding to industry-led applied research projects.
- Place a stronger focus on tech transfer and commercialization, and less focus on basic and mission-oriented research.
- Establish a more industry-led workforce training system.

## **THE PROSPECTS FOR NATIONAL DEVELOPMENTALISM**

The more national developmentalism is articulated and fleshed out, the greater the likelihood it will be accepted and become the intellectual foundation for those seeking a growth-oriented alternative to neo-New Dealism and a more efficacious alternative to neoliberalism.

Both neoliberalism and neo-New Dealism have a leg up because they are at their core utopian and revolutionary projects, which appeal to many people’s desire for meaning in life. In the former, a free society with minimalist government action where the free individual or homo economicus is seen as the summum bonum. In the latter, a society characterized by equality for all that throws off the yolk of capitalist oppression. Both are “storm the barricades” visions that tug on emotional heartstrings and lend themselves to easy demonization of alternatives. Whereas

working to raise the productivity growth rate a couple percentage points and improve the high-tech trade balance while preserving a modicum of fairness mostly yields a yawn, even from hardcore wonks.

In addition, the new national developmentalist doctrine suffers from an inherent nebulousness because it does not frame the world in Manichean terms: free trade versus autarky (not a bit of both); low taxes versus high (low taxes on some investments, higher taxes on some individuals); little regulation versus strong regulation, etc. It is, at its core, a middle-ground approach based on the realpolitik and the real world.

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**The new national developmentalist doctrine suffers from an inherent nebulousness because it does not frame the world in Manichean terms.**

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Finally, while free-market libertarianism was always an elite intellectual project, it could and did draw on financial and political support from wealthy conservatives and many in the corporate community when the latter's agenda aligned with the neoliberal agenda. Neo-New Dealism has the advantage of a massive contingent of academic allies who now see their role as advocacy rather than enlightenment, extremely well-funded foundations committed to changing the world in the progressive direction, support within "Wall Street," hundreds of advocacy groups constantly pushing the neo-New Deal agenda, and a media dominated by voices sympathetic to neo-New Deal goals and means. And the international development community is now firmly in the neo-New Deal camp, pressuring U.S. policymakers to turn in that direction.<sup>60</sup>

In contrast, national developmentalism has relatively few interest group allies. Many corporations would resist the push by the government to align their behavior to state goals and would prefer a tax code of low rates and few incentives. Wall Street rightly sees a national development agenda as antithetical to its agenda, as national developmentalism seeks to restore the role of finance to one of collecting savings and investing those in the best long-term growth activities, rather than as a hedge-fund-dominated casino. However, many companies, especially those in advanced industries and that face tough global competition, are natural allies, as are some private sector labor unions.

A final word of hope. As Michael Lind and I have written:

The tradition of national developmentalism has deep roots in American soil. From the days of Alexander Hamilton's Report on Manufactures, through the Lincoln administration's investment in the transcontinental railroad and the A&M universities, to the Defense Department's role in fostering the computer revolution, American policymakers have successfully worked together with inventors, entrepreneurs, corporations, investors, and workers to promote technological innovation and create a more competitive and prosperous American economy... Developmentalism is not alien to American tradition. It has always been an American tradition—and deserves to be the dominant strain once again.<sup>61</sup>

At the end of the day, choice of doctrine depends on choice of goals. If the overriding goal is liberty and freedom, then someone is not likely to adopt either neo-New Dealism or national developmentalism. If the overriding goal is "equity," then someone is not likely to adopt

neoliberalism or national developmentalism. But if the goal is to boost American power and welfare (including innovation, productivity, and competitiveness), then the only choice is national developmentalism. As U.S. productivity and wages continue to stagnate, the need for more robust innovation grows, and the international competitiveness challenges become more acute, particularly from China, it's useful to know that there is a doctrine—national developmentalism—ready to be adopted and enacted.

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**As long as neoliberalism and neo-New Dealism are guiding the economic ship of state, there is reason to be deeply concerned about the future of the U.S. economy, and deeply pessimistic about the ability of the U.S. government to respond to the critical challenges facing the U.S. production system.**

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The real question is will it be adopted in time? In 1933, John Maynard Keynes published *The Means to Prosperity*, which advocated countercyclical spending to end the global depression. The next year he met with FDR. And yet his ideas were ignored until at least after WWII and, because of this, the United States remained mired in the Depression until WWII spending shocked the system out of its stupor. This failure to expeditiously adopt the right new doctrine did not permanently affect America's future, but it did extend by a decade the misery that tens of millions of unemployed Americans endured. America faced little foreign competition, the momentum of American progress was powerful, and despite the influence of the Soviets on the American communist movement, virtually all Americans supported the American system.

Today, America does not enjoy the luxury of assuming that everything will work out on its own. The choices it makes, or does not make in the next decade—in particular, to avoid seeing its advanced industries permanently atrophy and avoid a crippling government default—depend in large part on the willingness of policymakers to embrace national developmentalism.

As long as neoliberalism and neo-New Dealism are guiding the economic ship of state, there is reason to be deeply concerned about the future of the U.S. economy, and deeply pessimistic about the ability of the U.S. government to respond to the critical challenges facing the U.S. production system. Only a national developmentalist doctrine will provide the needed intellectual justification and guidance for policymakers to adopt a framework that focuses on the dynamic capabilities of enterprises.



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