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Introduction

IN SEARCH OF DEMOCRACY, PROSPERITY, SUSTAINABILITY

We want to live in societies that are free, a world without poverty, and a climate that is hospitable. We want, in brief, democracy, prosperity, and sustainability. How can we achieve all three, in a global economy that has become more conflictual, is rapidly moving away from its previously established norms and arrangements, and faces a fragile geopolitical context marked by US-China rivalry? How can we render them compatible, when so many policy currents are at cross-purposes, moving us away from the other goals even when they appear to advance one of them? These are the questions that lie at the heart of this book.

Democracy, prosperity, and sustainability are among the most significant challenges the world faces at present. Climate change is widely accepted today as an existential threat. It is a truly global problem, though its adverse effects will be highly uneven around the world, with low-income countries the hardest hit. The broad outlines of what needs to be done to mitigate and adapt to climate change have long been known. The conventional approach emphasizes global agreements on reduction of carbon and other greenhouse gases

along with financial and technological assistance to poor nations, but progress on this agenda has proved elusive. Even where there has been progress, we are seeing the emergence of a messy patchwork of local, national, or regional green policies that lack overall coherence and often appear to shift the costs of adjustment to others.

Democratic backsliding in the US, Europe, and many other countries poses a danger of a different sort, as an existential threat to our freedoms. In November 2024, American voters reelected as their president Donald Trump, who has multiple criminal indictments against him and whose authoritarian tendencies are evident. Within weeks of taking office for a second time, Trump had already endangered the separation of powers, rule of law, free speech, and academic freedom—critical norms on which liberal democracy rests. While there are many reasons for our recent political malfunction, the erosion of the middle class lies at the center of it. Growing regional, social, cultural, and political divides, racism and xenophobia, the decline of democratic values, and the corrosive tide of authoritarianism are all strongly linked to economic insecurity. Automation, deindustrialization, globalization, and fiscal austerity have each contributed to these trends, to varying extents, in different parts of North America and Europe. Since good jobs are the backbone of a middle-class society, addressing these problems will require a strategy for reversing the decline in their supply. Policies in the US and other advanced nations gesture in this direction, but they overlook a critical reality. The bulk of future jobs will be created in services rather than in manufacturing. A coherent approach that focuses on good jobs in services has yet to emerge.

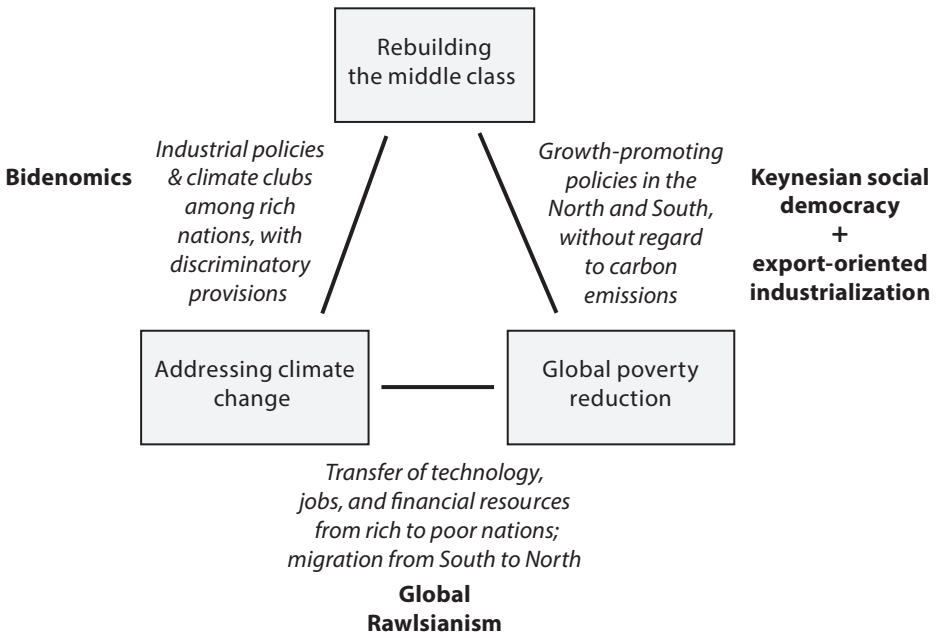
On the global poverty front, experience in recent decades has been more encouraging. There was striking success after the 1980s, as economic growth took off and hundreds of millions were lifted out of extreme poverty in China and many other countries. But optimism has faded since the COVID pandemic, and even more so after Trump's attacks on the world economy and foreign aid. The global conversation has yet to face up to the reality that the nature of the development challenge today is quite different. What worked in the past is unlikely to do so in the future. The economic growth strategy

that delivered earlier results—export-oriented industrialization—is no longer viable, not only because of the imperatives of the green transition or the challenges of protectionism but also because of new technologies, such as automation, which undercut the advantage of low-cost, unskilled labor in manufacturing. Developing countries need a new approach to promote growth and poverty reduction.

Democracy, prosperity, and sustainability are vast subjects, each with enormous bodies of literature of their own. It might seem foolhardy to attempt to tackle all of them in a single volume. I do not pretend to provide a comprehensive discussion of each, with detailed remedies. But these challenges are interrelated, and focusing on one challenge at a time risks creating blind spots on the other fronts. Each requires a critical ingredient, with implications and spillovers for the other two. Healthy democracies require *a strong middle class*. Poverty eradication requires rapid, inclusive *economic growth* in low-income countries. And environmental sustainability requires *greening our economies* to slow down and ultimately stop climate change. We need a policy agenda that spans all three arenas. Moreover, as we shall see, addressing these challenges requires a common policy mindset, an updated version of industrial policy that I call *productivism*. Seeing how this shared framework plays out in diverse arenas will allow us to make unexpected connections across them.

The policies we pursue in each domain can be mutually reinforcing. The green transition not only would help on the environment front; it would have a significant positive impact on economic growth and poverty reduction around the world, since poor countries are the ones most at risk from rising sea levels, extreme weather events, and loss of biodiversity. Greater prosperity in the developing world might in turn help strengthen middle classes in the advanced economies, by providing larger markets for other nations' exports and investments and easing pressures for climate-change-driven outmigration. A stronger middle class in the advanced economies would produce societies that are more open to the rest of the world and less prone to hostility to others. A key theme in this book is that these are achievable outcomes if we pursue the right approach.

But win-win outcomes are not assured. In fact, current policy thinking suggests our three goals are very much in conflict with each other. Addressing climate change and global poverty reduction requires, on the face of it, significant global cooperation. Yet most nations, led by the advanced economies themselves, are increasingly turning inward. Their strategies seem mutually incompatible. Developing countries that pursue conventional growth strategies emphasizing rapid industrialization make the climate crisis worse, without necessarily achieving their poverty reduction goals. Policies in the US and Europe that prioritize competitiveness in manufacturing end up discriminating against poor nations, even as they fall short on good jobs. On the other hand, a global agenda designed to maximize economic opportunities for the poorest people in the world by providing greater access to their goods and workers in the markets of advanced economies would clash with the imperative to shore up the middle class in rich nations. We might call this scenario global Rawlsianism, in reference to Rawls's principle that justice requires maximum attention to the needs of the least fortunate.[1] These tensions are illustrated in the accompanying diagram.



It is time for new ideas and fresh approaches that avoid these cruel trade-offs. The global economy is taking new shape in front of our eyes, but so far without a clear guiding direction. The pandemic, geopolitical tensions between China and the West, the uncertain future of low- and middle-income countries, rising inequality in most parts of the world, the increase in support for ethno-nationalist populism, and not least the climate change crisis have irrevocably altered the economic landscape. Conventional policy approaches and economic orthodoxies are being questioned everywhere. The old consensus, whether one calls it neoliberalism, market fundamentalism, or the rules-based international order, is gone.

This is in part because of the old order's shortcomings and the predictable backlash that has ensued. Neoliberal policies not only failed to lift all boats; they created damaging blind spots on the environment and public health. Past arrangements no longer fit new realities. A US-dominated international order is not suited to a world where the US is no longer a hegemon, China and other rising powers want to have a greater say in global rules, and the zero-sum logic of geopolitical competition among major powers has risen to the fore.

What will replace the old order is unclear. A return to the Keynesian social democratic model of the mid-twentieth century will not work, as management of aggregate demand, social insurance, and worker empowerment cannot on their own restore the middle class in the advanced economies without commensurate increases in most workers' productivity. In developing countries, the strategy of export-oriented industrialization has run out of steam. Greater international cooperation to strengthen global rules on trade, migration, technology, and climate might be desirable, but it cannot be our main hope in a world where national sovereignty rules with greater force than ever. The new industrial and green strategy adopted under the Biden administration was an important start insofar as it recognized the need for a new direction focused on the middle class and the climate. But its preoccupation with manufacturing and US-China geopolitical competition created new blind spots. It ignored the importance of services for the future of middle-class jobs. It also failed to heed the developmental concerns of poor nations.

Trump returned to office in 2025 on the back of the economic anxieties that President Biden had vowed to address, but his policies took a very different turn. Trump was determined to reverse policies on climate change, made his disdain for other nations clear, and did not have a coherent vision of industrial policy, relying on higher tariffs as his exclusive tool to revive manufacturing. But the speed and recklessness with which Trump took a wrecking ball to the world economy was nevertheless a surprise. His erratic trade policies, sky-high tariffs, and aggressive approach to foreign nations—geopolitical rivals and long-term allies alike—produced greater disruption and turmoil than most observers had predicted.

Trumpism moves us even further away from our goals. It offers no real remedy for workers and regions left behind, turns America's back on the global poor, and threatens to reverse recent gains on the climate change front. It fails to meet even a single one of our three challenges, let alone manage the trade-offs among them. But its failures make Trumpism also the perfect backdrop for the ideas advanced in the book. They starkly highlight the costs of manufacturing fetishism and of zero-sum thinking on international trade; the priority of developing good jobs strategies for services that generate the bulk of employment; the centrality of industrial and technological policies that help the climate as well as workers; the need for new growth strategies for poor nations that go beyond trade and foreign aid; the necessity of an alternative framework for the global economy that does not rely on the false hope of global cooperation; and the urgency of charting a healthier, more sustainable path between the extremes of neoliberalism and hyperglobalization on the one hand and destructive economic nationalism and protectionism on the other.

Trumpism is a cautionary tale of how things go wrong when we lack fresh ideas to address our challenges. It makes it clearer than ever that we need a new, coherent approach that fixes our problems and does not offer fake solutions. Authoritarian, ethno-nationalist leaders should not make us pessimistic about the possibilities of a better alternative. Nor should they leave us yearning for an old order

that enriched many but left many others behind. We need to move forward instead of going back or faltering sideways.

But is there such an alternative, and what does it look like? I offer in these pages both a warning and some reason for hope. The caution is that our present policy menu is inadequate to the task and creates serious conflicts among the objectives. It falls short because it overlooks political realities, the trade-offs among our multiple objectives, and our altered technological or geopolitical landscape. To meet all three of these challenges simultaneously—rebuilding the middle class, reducing global poverty, and addressing climate change—we need to depart from established ways of thinking and consider new approaches. We must do things differently, relying often on unconventional remedies.

The good news is that it is neither infeasible nor too late to carve such a superior path. The seeds of these innovative approaches already exist within prevailing practices around the world. What we require is not a revolution; it is a reconfiguration of our priorities and policies. Domestic politics and lack of global cooperation often rule out what economists and other technocrats would consider preferred options. But they rule in other approaches that are often more effective in the real world.

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