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Impact of technology and the world of work

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ISS-EUR and UN-CDP

‘Re-Thinking our growth model to ensure a job rich recovery ’

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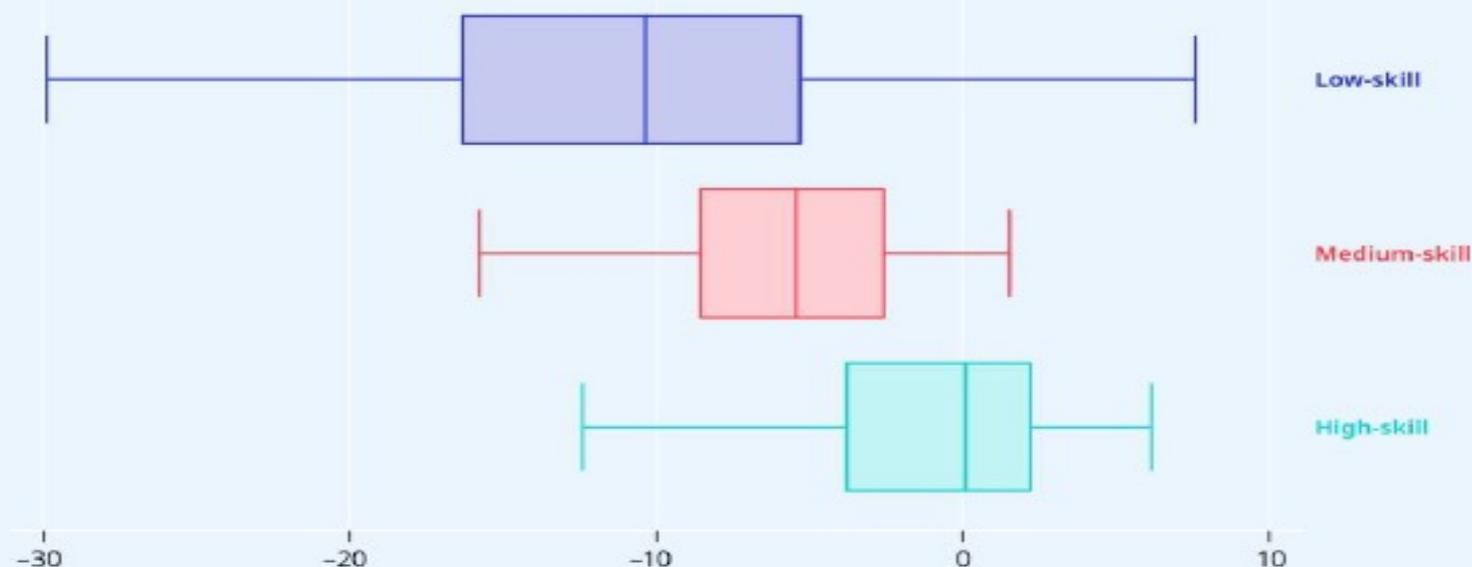
Introduction

The global COVID-19 pandemic is plunging the world into a socioeconomic and financial crisis of an unprecedented scale, in addition to the acute health crisis. The current International Fiscal and Financial System is inapt to respond. (van der Hoeven and Vos 2012)

Many of the gains achieved under the banner of the Sustainable Development Goals (SDGs) are under threat.

The crisis has exposed and exacerbated vulnerabilities and inequalities in both developing and developed countries, deepening poverty and exclusion and pushing the most vulnerable even further behind. (UN-CDP 2021)

Changes in employment by skill level (2nd quarter of 2020, year-on-year change)



Low-skill = elementary occupations and skilled agricultural, forestry and fishery workers; Medium-skill = clerical support workers, service and sales workers, craft and related trades workers, plant and machine operators, and assemblers; High-skill = managers, professionals and technicians, and associate professionals. The skill levels are based on ISCO-08; see [ILOSTAT](#) for further details.

Note: The sample consists of 50 high- and middle-income countries and territories with employment data for the second quarter of 2020 disaggregated by occupation. The box graph should be read as follows: (a) the vertical line in the middle of the box represents the median value (50th percentile); (b) the left-hand side of the box (whisker) represents the 25th percentile; (c) the right-hand side of the box (whisker) represents the 75th percentile; (d) the adjacent lines to the left and right of the box represent the lowest and highest values, respectively.

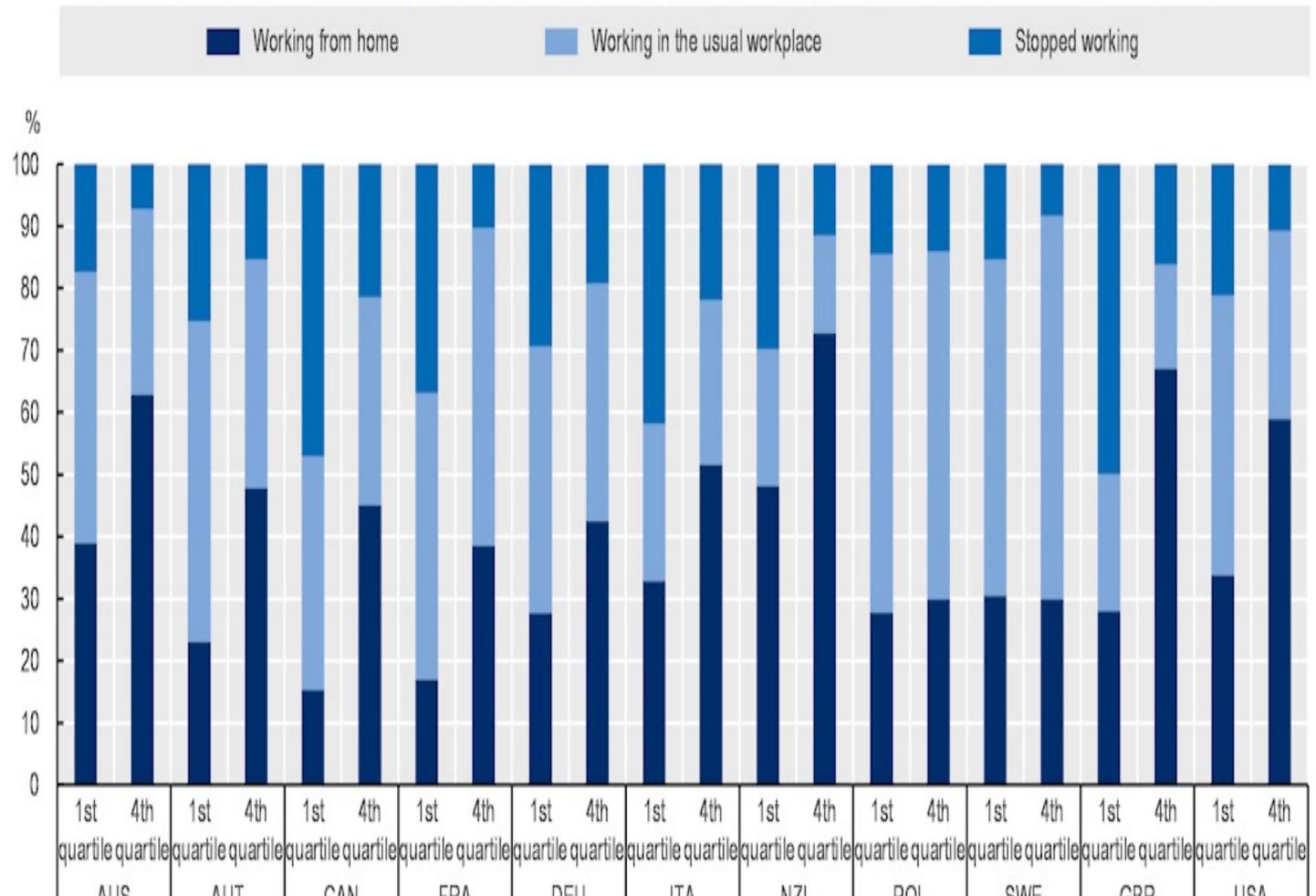
Source: ILOSTAT database, accessed 12 January 2021.

Higher Income groups can better withstand the economic consequences of the COVID 19 pandemic

OECD 2020

Figure 1.12. While higher-earning workers often worked from home, lower-earning workers often had to stop working

Share of total workers usually employed before the onset of the crisis by earnings quartile, selected OECD countries, mid-April 2020



Can Recovery be ‘Business as Usual’?

The trends of how before COVID19 new technologies were handled and how the International Fiscal and Financial System was functioning tell us differently!

The historical record reveals a regular sequence of bubbles and golden ages

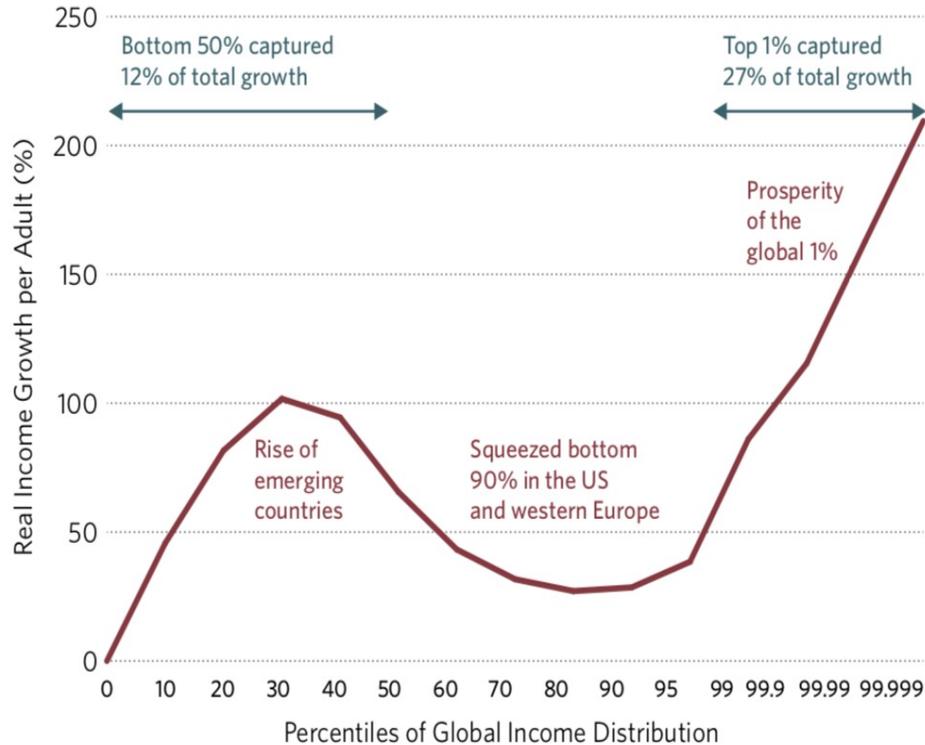


The adequate parallels for today are the 1930s and WWII

And the Golden Ages depend on government policy providing direction

Which groups gained and which groups lost (Galagher and Kozul-Wright 2019)

Global income distribution and real income growth, 1980-2016

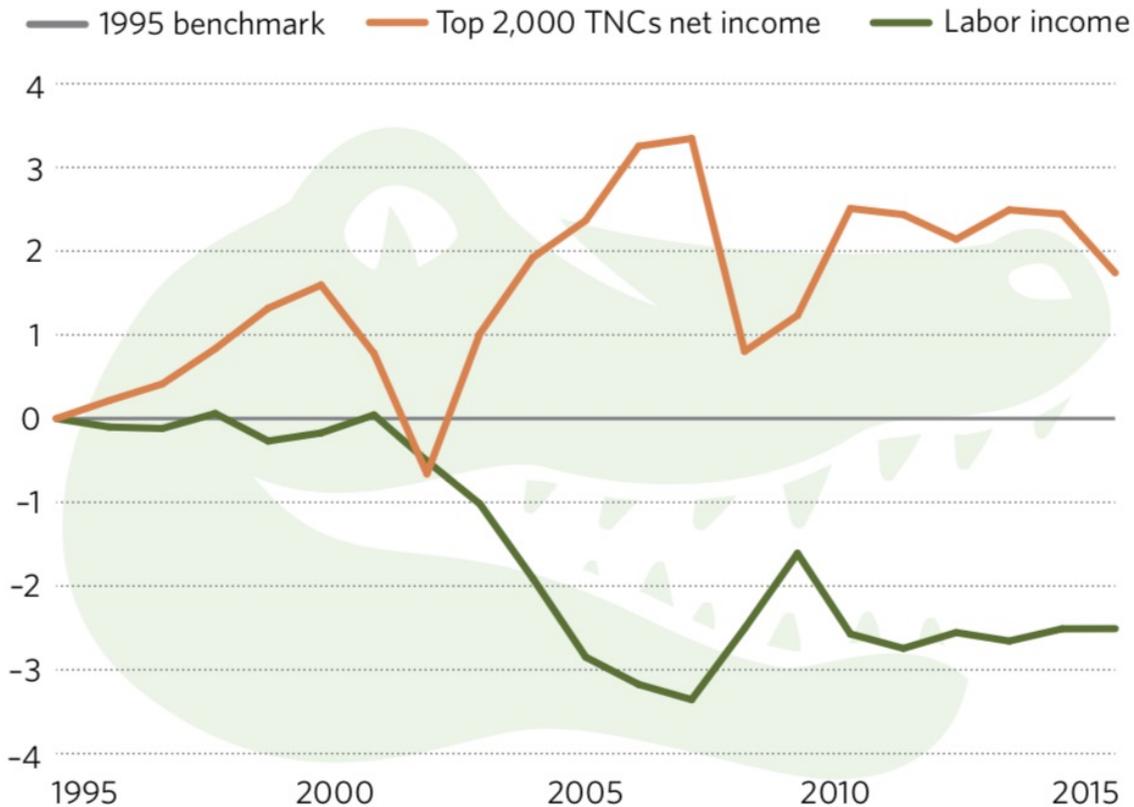


Source: World Inequality Report 2018b.²⁵

Which groups gained and which groups lost (Galagher and Kozul-Wright) 2019

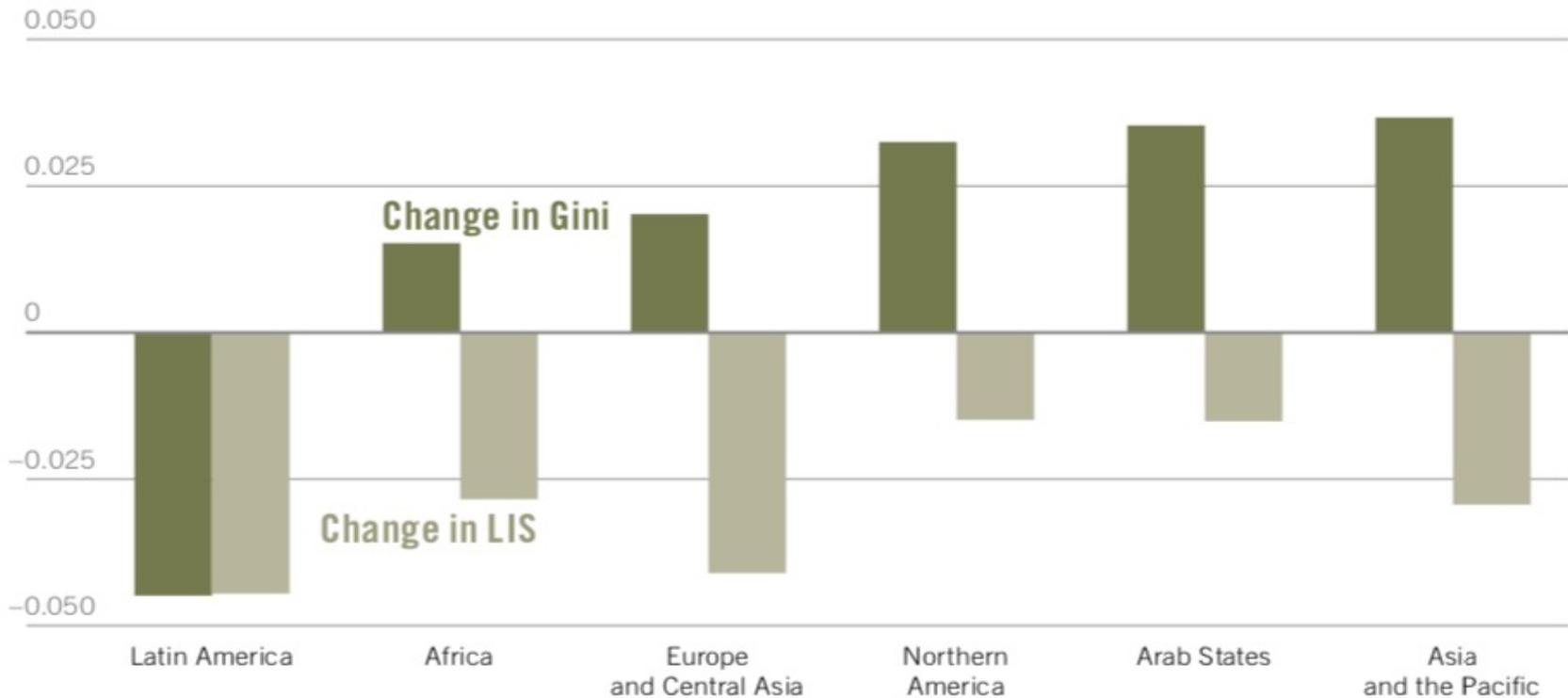
Figure 6: The Crocodile Graph: Superstar Predators

Top 2,000 transnational corporations' profit and the global labor income share, 1995-2015 (percentage point change in GDP)



Source: UNCTAD 2017.¹⁶

Figure 19 Change in labour income share and income inequality, 1995–2012



The current technological wave has not yet generated sufficient social forces to achieve greater income inequality as in other periods.

This is now exacerbated by the COVID-19 Pandemic!

4 possible post Covid-19 scenarios in response to Technological change Acemoglu, 2020

- Business as usual
- China-lite
- Digital serfdom
- Welfare state 3.0

Business as Usual

No serious effort to reform failing institutions or address the economic and social inequities that have become endemic. Neither strengthening the role of expertise and science in decision making, nor take steps to boost the resilience of our economic, political, and social systems. Today's deepening polarization and collapsing public trust are accepted

This path is highly likely if leaders do not understand the severity of the problem, or if we cannot organize ourselves to demand from them the necessary reforms.

But business as usual cannot last. One way or another, democratic politics will start coming apart at the seams, with serious societal consequences.

China Lite

Thomas Hobbes: In times of deep uncertainty there is a need for high-level coordination and leadership. An almighty state to keep individuals safe from one another. Citizens in advanced economies deciding that democratic governance is too inefficient or unwieldy for dealing with the challenges of a globalized, interconnected world.

Western democracies would then try to emulate China by worrying less about privacy and surveillance, while permitting more state control over private companies.

There could come a time when this option gradually passes some unmarked threshold: when its domestic surveillance regime, privacy laws and conventions, and economic policies start to look more like those in contemporary China with starkly diminished people's control.

Digital Serfdom

As more and more technologies come to seem indispensable, the private tech companies will amass more power; and in the absence of a viable state based alternative, the public might voice few objections.

The same firms will, of course, continue to collect personal data and manipulate users' behaviour, but they will have even less to worry about from the government, which would become a kind of subservient handmaiden to Silicon Valley and others.

Silicon Valley would then propose its own solutions, by pushing for a universal basic income, charter schools, and more e-government. But insofar as these measures would merely paint over the underlying problems, they are likely to lead to even wider discontent and frustration in the future.

Welfare state 3.0

The First iteration of the welfare state emerged from the Great Depression and World War II in conjunction with the golden age of growth, partly financed with stable fiscal policies.

The Second in the 1980s (Reagan and Thatcher and, subsequently the collapse of the Soviet Union). Welfare state 2.0 amounted to a downgrade – a weakened, less effective iteration of what had come before, with many old protections, such as trade unions, hollowed out or neutered.

There is growing agreement today for better, more accountable institutions, as well as a more equitable way of sharing the gains from technological progress and globalization. Voices from the left and the right argue that the game is rigged to benefit a small but powerful and well-connected cohort at the top of the income and wealth pyramid.

Welfare state 3.0

To anticipate what could – and should – come next, one should start with an understanding of current needs. Clearly, many advanced economies need a stronger social safety net, better coordination, smarter regulation, more effective government.

Pretty much everyone agrees that governments need to shoulder more responsibility, while also becoming more efficient. It is also safe to assume that the pandemic-era expansion in spending, regulation, liquidity provision, and other interventions will become permanent to some degree though it will have to include expanded taxation, too.

At a time of unparalleled polarization, crumbling democratic norms, and dwindling institutional capacity, a reformed and renewed welfare state is a tall order indeed. But like the WWII generation, we have no other choice but to try.

Post WW2 consensus and social contract as a possible model

Facing the need to reconstruct countries and societies the periods of the 1950s and the 1960s were characterized in Europe by rising employment, fairly equitable inequality and growth.

Some analysts have labelled that period as the Golden Age: the willingness to set economic and social goals and to adhere to these goals contributed much to this.

What is also remarkable is that a goal of achieving an equitable distribution of income was accepted, at a time when research on inequality and growth had not yet advanced as far as it has today and major research conclusions still pointed towards a trade-off between economic growth and reducing inequality.

Yet, despite this assumed trade-off, maintaining an equitable distribution of income was accepted as an economic goal. (van der Hoeven 2010)

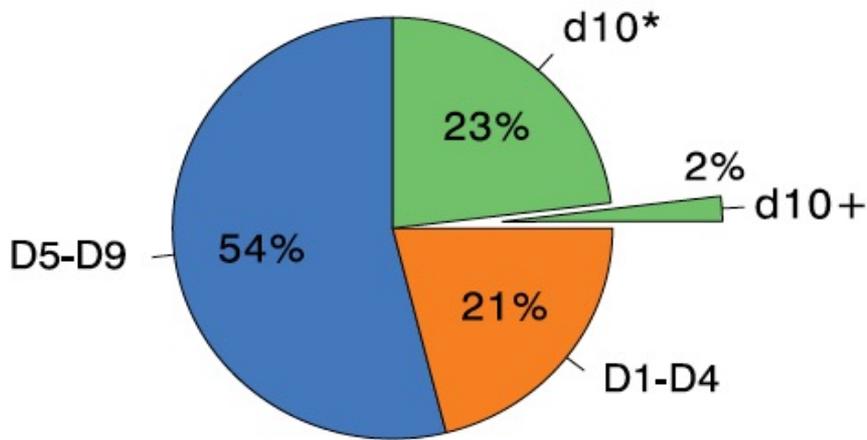
An impediment to welfare state 3.0 is the growing divergence between income from labour and from capital, necessitating larger (and politically more difficult) transfers and subsidies to households.

The following examples illustrate this.

Distribution of disposable Income

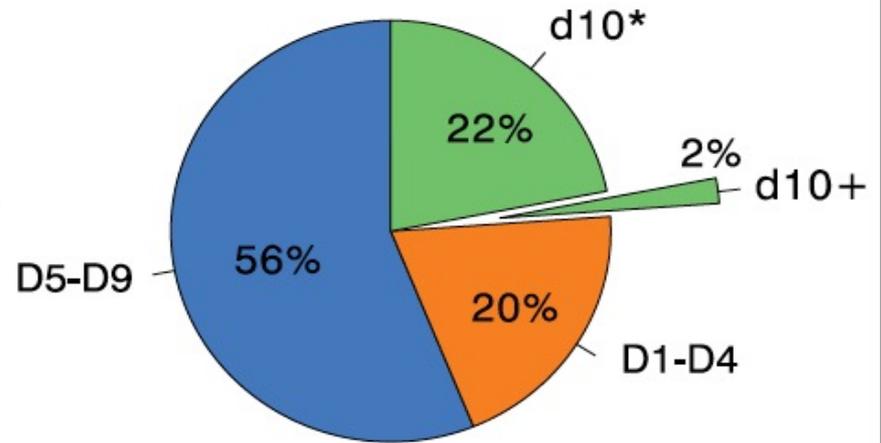
Palma 2019

Germany



Palma ratio 1.2
 Gini 32

Korea

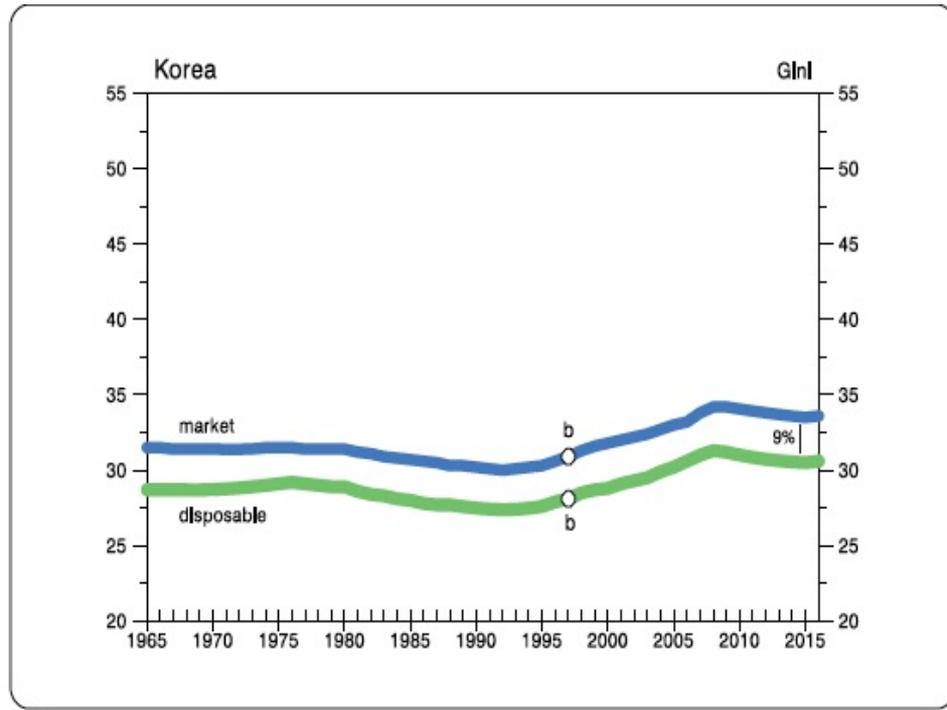
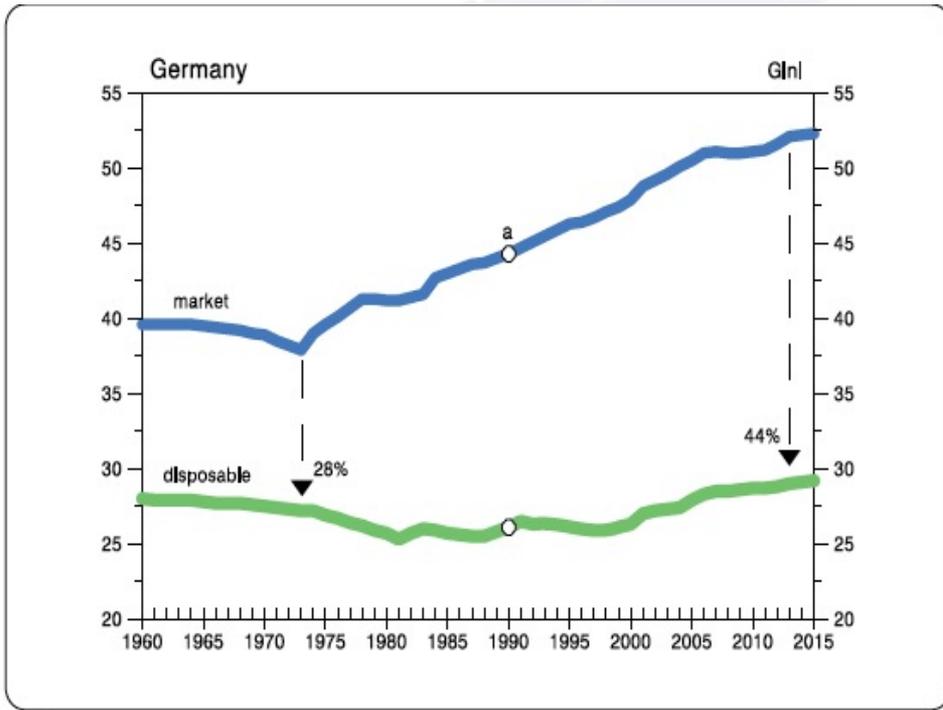


Palma ratio 1.2
 Gini 32

But what about market income?

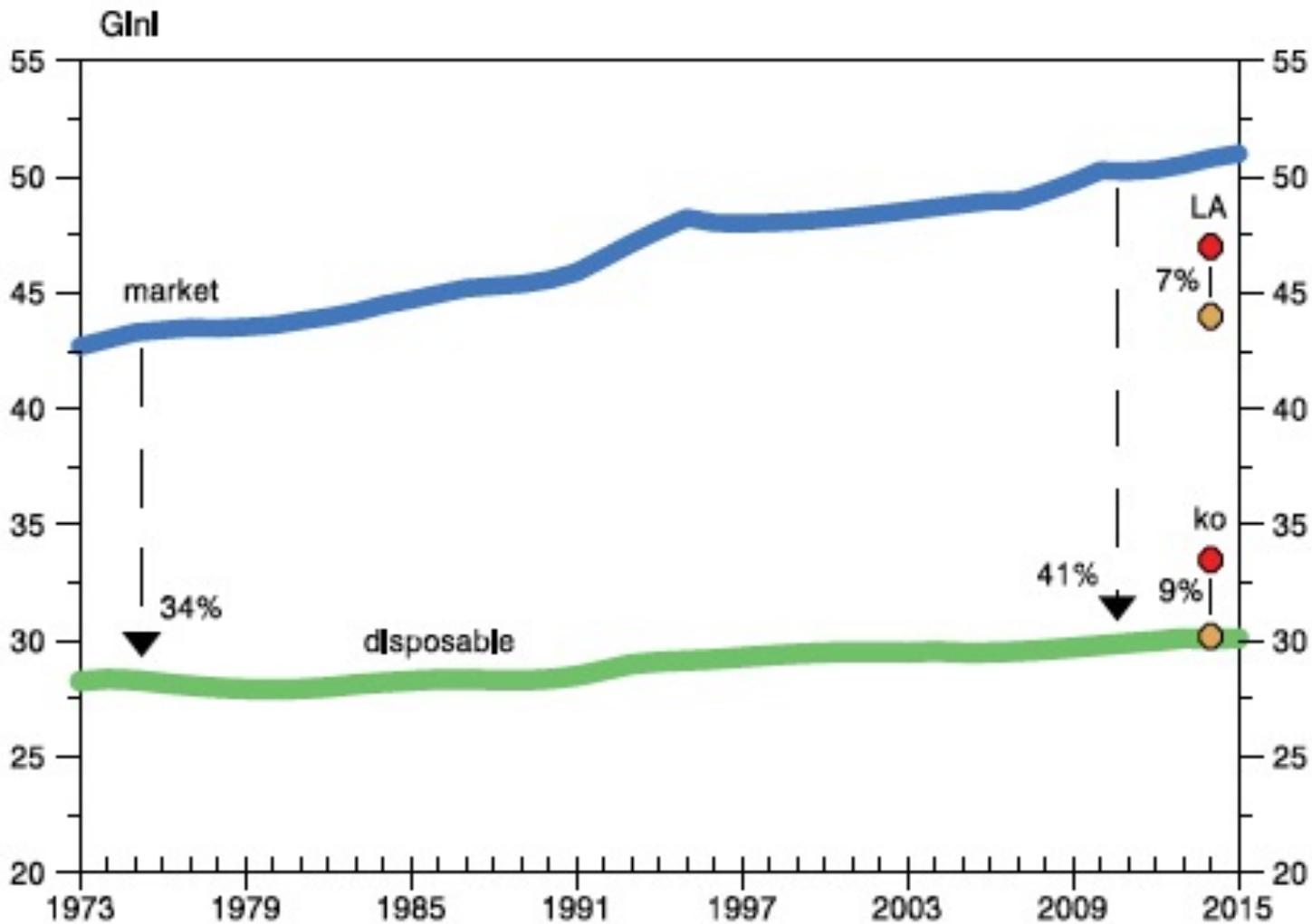
Widening gap between market and disposable income

Palma 2019



Widening Gap between market and disposable income in Western Europe.

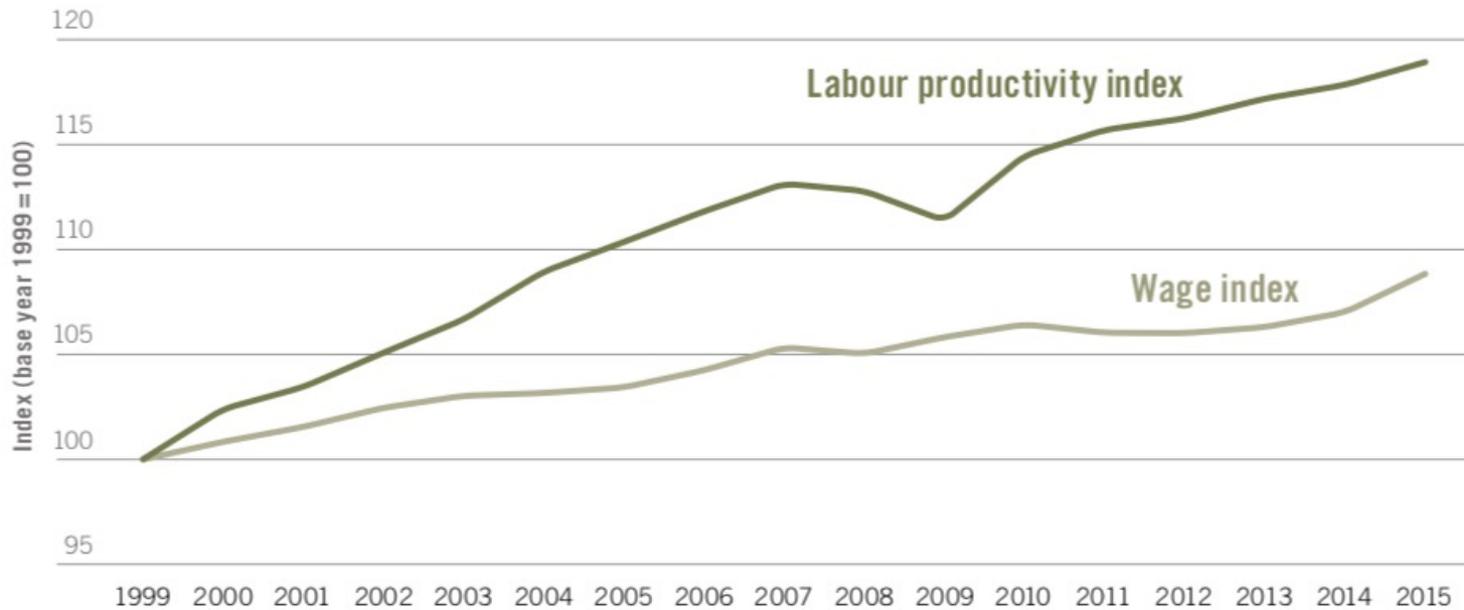
Palma 2019



Growing difference between labour productivity and wages

ILO 2016-17

Figure 11 Trends in growth in average real wages and labour productivity in developed economies, 1999–2015



Note: Wage growth is calculated as a weighted average of year-on-year growth in average monthly real wage in 36 economies (for a description of the methodology see Appendix I). The base year is set in 1999 for reasons of data availability.

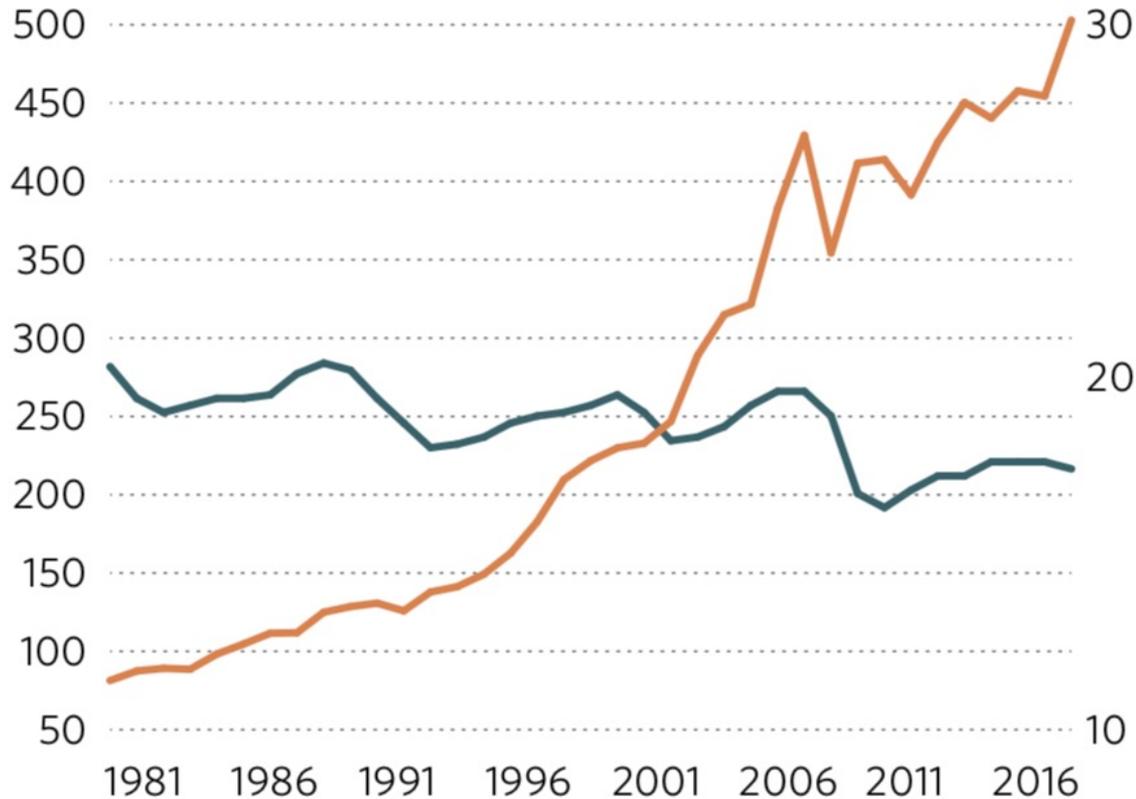
Source: ILO Global Wage Database; ILO *Global Employment Trends* (GET).

Growing inequality of market income has not led to higher investments

Gallagher and Kozul-Wright 2019

Developed economies

- Total External Assets and Liabilities (left-axis)
- Gross Fixed Capital Formation (right-axis)



Taxation has been shifting from corporate tax to income tax with also lower marginal rates than before. This should be reversed!

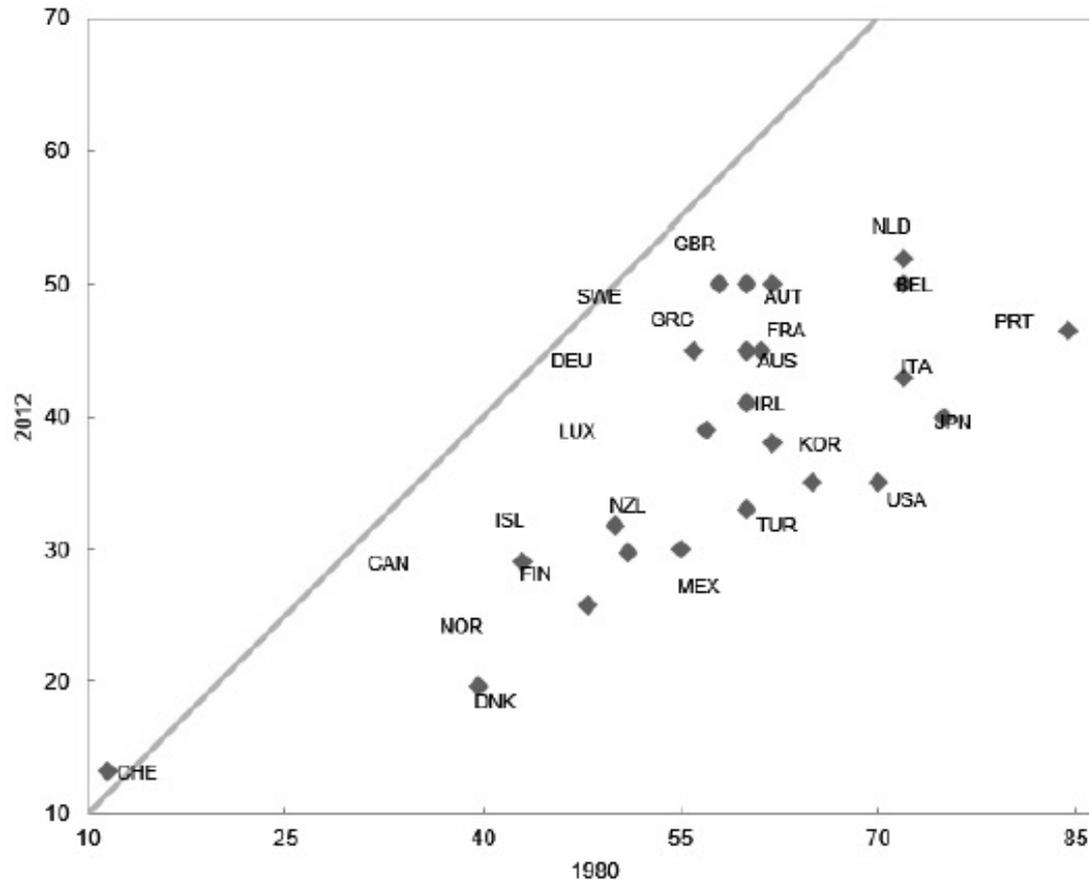
In order to protect disposable income European governments need to upgrade schooling and tertiary education (which has become more unequal), tax more or to borrow and increase government debt.

Middle classes are put under pressure, and do not trust governments!

Share of corporate taxes declining

Fitzgerald and Siu 2019

Figure 1.1: Revenue from the Corporate Income Tax (CIT) in Percent of Total Revenue



Falling top income tax rates UN DESA 2020



In countries of the OECD, top income tax rates fell from 66 per cent in 1981 to 43 per cent in 2018

Equality, Investment and Decent work in times of technological progress.

Rodrik and Stantcheva 2020

Economic insecurity and inequality today are structural problems. Secular trends in technology and globalization are hollowing out the middle of the employment distribution. The result is more bad jobs and permanently depressed labor markets outside major metropolitan centers.

Addressing these problems requires a different strategy that tackles the creation of good jobs directly. The onus should be on firms to internalize the economic and social spillovers they cause. Hence, the productive sector must be at the heart of the new strategy.

The decline in workers' bargaining power in recent decades points to the need for new forms of social dialogue and cooperation between employers and employees.

Better-designed progressive taxation must be introduced to address widening income inequality. Anti-monopoly policies must be reinvigorated to ensure greater competition, particularly where social media platforms and new technologies are concerned.

Climate change must be tackled head-on. And governments must play a bigger role in fostering new digital and green technologies.

Some elements of adaptation for *inclusive job-rich recovery*

Demand-side measures

- With investment in **strategic sectors** (“strategic” in terms of job creation potential and social demand”):
 - e.g. health/care, digital, green economy as well as rural
- With fully-aligned measures for **skill development and social protection** (“investing in people”)

Macroeconomic policy environments

- “Accommodative” **fiscal policies**, with clear focus on jobs
- Employment at the center of **monetary policies** along with inflation and others (both quantity and quality – low wages, informal workers)
- **Sectoral and industrial policies** for strategic investments
- In many developing countries, **global constraints** are strong, which require global actions
- To be facilitated by UN’s work on **financing for development**

Targeted approaches for hard-hit groups,

- **Youth, women, and informal workers, as well as SMEs**
 - e.g. Youth guarantee programme
- With **employment impact assessment** for public investments (both quantity and quality), including disaggregated estimates

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