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The Future of Work and of Income: Which Role for Macroeconomic Policies?

by

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The Future of Work and Incomes: What role for Macro-economic policies.
Note prepared by Rolph van der Hoeven, EUR-ISS, The Hague[1]

Introduction.
Last month the ILO sponsored Global Commission on the Future of Work published its final report. Among other things it emphasized the responsibilities and challenges of the multilateral system to foster work for a brighter future. This notes argues that macro-economic policies can and should greatly contribute to providing decent work and incomes. The first section recalls the effects of financialization on work and incomes and the widening gap between the labour and capital income. It then reviews how new technologies can and will effect future patterns of work and income. This is followed by a section on macroeconomics for a better future of work and incomes, dealing with the changing nature of macro economic policies, the consequences of financial reform, boosting investments, financing social protection, and national and international policy coherence. The last section concludes.

Financialization and work
Any discussion on the future of work needs to consider the massive effects of financialization and globalization on the world of work.. Globalization makes the power lines and tensions that dominate the national and international labour markets clear and sharpen the contrast between workers, which profit from globalization and those who have difficulties to make ends meet. Especially the crisis of 2008, itself the outcome of unfettered financialization, had major consequences for labour markets all over the world. Studies of earlier 'business cycles' and earlier financial crises (Reinhard and Rogoff, 2009) demonstrated that after a crisis employment recovered more slowly and to a lesser degree than other economic variables ('jobless recovery'). This was even more so the case with the crisis of 2008. However this crisis was different because the boom before the crisis already produced less decent jobs than normally would have been expected. On top of that the very fragile recovery phase was characterized by a slow growth in decent jobs (ILO 2011). In comparison with the 1930's it could however even been worse (Torres, 2010). Many governments took right after the outbreak of the crisis robust measures to avoid a repeat of the experiences of the 1930's. Countries that had the fiscal space decreased taxes to stimulate demand. But the crisis of 2008 and its consequences could have been a wake up call to arrest the globalization trends and to arrive at a more stable and fair economic development. As the governments forcefully stimulated the economy and supported massively their banks to avoid a depression, one could have expected also stronger measures to combat the deeper causes of the crisis, particularly financial globalization and growing income inequality. *One could say that Governments acted as a lender of last resort but not as an employer of last resort*. It were therefore the poorer groups that are often hit double or trice: First because they did not profit from the boom leading up to the crisis, secondly because they were hit by the crisis and third because they suffer from lower public spending, especially in social areas; a consequences of fiscal tightening to lower public budget deficits, which were largely caused by support to the banking system and stimulus measures (van Bergeijk, de Haan and van der Hoeven 2011).

One of the more salient consequences of the growing financialization and globalization in the world of work is the widening gap between labour and capital income in the gross domestic

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[1] This note draws partly on an unpublished background paper on the Future of Work which I prepared for the ILO in 2017. In preparing that paper I had access to unpublished material that various ILO officials made available to me, for which I remain grateful.

product (the functional income distribution) leading to greater household inequality. Atkinson (2009) argues that there are at least three reasons to pay greater attention to functional income distribution: Firstly to make a link between incomes at the macroeconomic level (national accounts) and incomes at the level of the household; Secondly to help understand inequality in the personal distribution of income; Thirdly to address the social justice concerns with the fairness of different returns to different sources of income. ILO (2013) has used an enlarged panel dataset to investigate the drivers of declining wage shares. They observe that the simple average of labour shares in 16 developed countries for which data are available for the period 1970 till 2010 declined from about 75 per cent of national income in the mid-1970s to about 65 per cent in the years just before the global economic and financial crisis. ILO (2010) reports a consistently negative relationship between financialization and wage shares across the majority of high-income countries More detailed regression estimates (ILO 2010) show that capital account openness and currency devaluation are significantly associated with a wage share decline in several regions, partly as a result of significant swings in capital flows and the consequent boom–bust cycles. ILO 2013 reports that in the fall in the labour income share over time was mainly the result of growing financialization, which explained no less than to 46 percent of the fall in labour income shares in developed countries. Trade globalization explained 19 percent and technology 10 percent. In addition 25 percent of the decline in labour share is explained by more domestic institutional variables: government consumption and union density. *Where financial markets dominate the "real economy", the gains from economic activities are increasingly concentrated in a few hands, rather than shared more broadly* (World Commission on the Social Dimension of Globalization 2004).

How will new technologies affect the future of work and incomes?

While there is broad consensus on the productivity potential of technical change, recent years saw increasingly different opinions on the "labour replacing potential" of technical change (ILO, 2015c). Some argue that the current wave has already reached a tipping point. Others are more optimistic, noting the sequential process of job creation that is often stronger than job destruction. Yet others agree that technological innovation puts jobs at risk, but that this is not inevitable: the future impacts of technology on the labour market will depend on social choice and policy actions and a job-rich digital economy is deemed to be an attainable future.

Technological change is not new, so the question is: will this time be different? Three issues seem particularly relevant: (a) *impacts on job quality*, especially given the ongoing trend towards job polarization; (b) *social and economic adjustments* driven by technological changes (e.g., new skill requirements, geographical relocation); and (c) *(re)distribution of productivity gains* between different economic and social groups, given the global trend of widening income inequality.

Some observers see a critical departure from the historical pattern, highlighting the unique nature of the current wave of technological changes, referred to as "the Fourth Industrial Revolution" (Schwab, 2015). This revolution builds on the achievements of the previous waves of technological change (including information technology and automation) and brings these all together resulting in an unprecedented –and exponential– pace of productivity growth. Frey and Osborne (2013) explored the *potential* automation of occupations and estimated that 47 per cent of total US employment is in a high-risk category "over the next decade or two". In Cambodia, Indonesia, the Philippines, Thailand and Vietnam it is estimated that 56 percent of jobs in these countries is at a high risk of displacement as a result of new automation technologies (Chang, J and P. Huyhn,2016). Though this is greater than the figure of 47 per cent for the US, the lower labour costs in these five ASEAN countries combined with other impediments to the implementation of new automation technologies suggests that the risk that jobs *will be* automated in these five countries in coming years is actually a good deal lower than in the US (Kucera 2017) .The comparable estimate for the UK is 35 per cent, and studies for Germany and France produced similar results. Critics, however, argue that future automation is unlikely to destroy complete occupations; rather, jobs within occupations will vary, and while some jobs may disappear, others will only change (Autor and Handel, 2013). Studies analyzing jobs rather than occupations find significant lower risks for job losses. Arntz and Zierahn (2016) find that automation will replace some tasks that will fundamentally change the nature of jobs workers will perform, but the jobs themselves are not at risk. They conclude that in OECD countries on average about 9 per cent of jobs are at high risk of being automated, ranging from 12 per cent in Austria, Germany and Spain to around 6 per cent or less in Finland and Estonia.

While the direct impact of innovations is job destroying, these innovations and their intended consequences can also trigger new economic activities and create jobs (Vivarelli, 2007). First, there are *complementarities between new technology and employ*ment within a given sector (e.g. ATM's have reduce the number of tellers but more branches have of banks have been opened). Second, the technological spillover effect creates jobs as *innovations displacing workers in user industries create demand for workers in producer industries*. Third, *technological innovation leads to other innovations*. Fourth *technology-induced productivity growth*- if translated into higher wages, income, purchasing power and reduced prices- will *enhance demand* for domestic products and expand (Acemoglu and Restrepo, 2016). Fifth, declining working hours, as a result of productivity increases, has led to increasing demand for leisure related activities and an entire new leisure industry with new jobs.

The *economic and social outcomes of technological changes tend to depend much on how countries address these issues*. Firstly technological changes will transform the nature and quality of existing and new jobs. Will we be able to avoid the destruction of good jobs and the creation of bad jobs, even though total employment increases (Gordon 2016, p. 604). Second, job destruction and creation involves significant changes and adjustments for workers and companies as well as communities, which are often painful and costly. Third, technological changes can bring about significant productivity gains, but not equally distributed between economic and social groups, when overall household and factor income inequality has already reached a historic high (ILO 2014b)

Kucera (2017) notes that the challenge of technical change may not be so much whether there will be more jobs destroyed than created, but the facility with which workers are able to transition from old to new jobs in a period of rapid change and to equitably share in productivity gains. Then as now – and looking to the future – this in turn will likely depend on progressive education, skills, labour market and social protection policies and the bargaining power of workers.

Technological innovation, as discussed above, is the result of collective and cumulative effort by individuals and companies over generations, and therefore its benefits should be shared widely. The concentration of productivity gains among certain economic groups can depress overall consumption and thus constrain economic growth. If this is combined with technological unemployment, it can create significant shortfalls in aggregate demand, which will affect global (Ford 2015). Economic models show that sustained growth in productivity and good jobs requires diversification of the economy, the expansion of high-tech activities, and a dynamic growth in domestic and international demand (Astorga et. al. 2014).

Productivity gains from technological innovation are substantial and have contributed to widening inequality (van der Hoeven, 2010; ILO 2014 and 2015). It many countries the share of labour in national income decreased (ILO, 2014), a sign of increased political tensions(Atkinson, 2009). Also the expected increase in the skills of managers, and in particular the important soft skills that can only be acquired though experiences contributing to rising inter-generational inequality. *Thus, with continued technological advancement, inequality, if unattended to, will likely increase further.*

Furthermore the new wave of technological innovation (Industry IV), takes place at a juncture where the degree of concentration of capital and know-how is extremely high, while the current regulatory framework favours strongly the owners of intellectual property (as a result TRIPs) agreements. The current 'de-regulation of finance' favours strongly the big financial wealth owners and operators. (UNCTAD 2018).

Macroeconomics for a better Future of Work and Incomes

Changing nature of macroeconomic policies

Macro-economic policies have been increasingly challenged by *both* structural and long-term shifts that have undermined the capacity of national policy-making *and* policy ineffectiveness to full employment and decent work. As noted growing demographic changes such as ageing have led to a substantial imbalance in the available workforce across the regions of the world. In addition, technological advancements and automation have widened the gap between labour supply and demand; often with a growing job polarization in which the number of both low- and high-skilled jobs rises at the expense of middle-skilled occupations. These shifts have often contributed to a downward pressure on wages and working conditions, increasing income security, and eroding the financial capacity of the state to sustain social protection. Economic risks such as global imbalances, financial market volatility and a rising demand for safe assets have continued to undermine financing conditions for sustainable enterprises and employment creation. These challenges for macro-economic policies are compounded by the ineffectiveness of past and current policies. For the past three decades in many countries, a policy regime of open markets based on free trade, free capital markets and rapid credit growth have led to significant restructuring of production and distributive systems, together with changes in labour market institutions aimed at greater flexibility. However, evidence suggests that these policy packages have produced, at best, mixed economic and social results, with volatile and unsustainable growth, growing trade and higher profitability but nonetheless weak investment and "job-less" growth.

Financial reform: From "rent-seeking" to "financing for all"

Unfettered globalization and the erosion of global policy coordination have been accompanied by excessive financial market liberalization and lax implementation of regulatory standards (Admati and Hellwig, 2013; Calomiris and Haber, 2014). Moreover, financial market deregulation has encouraged rent seeking behaviours with serious distributional consequences (van der Hoeven, R. 2010, Jaumotte and Tytell, 2007). As a consequence, financial market activities have increasingly become a cause of stress for job stability, earnings growth and social cohesion rather than a stable source of funding of physical and human capital (van der Hoeven, R and M. Lübker 2008; van Bergeijk P., A. de Haan and R. van der Hoeven,2011) The impact of these trends on financial market liberalization has been magnified by shifts in the way monetary policy has been conducted over the last three decades moving away from broad economic and monetary stabilization goals towards inflation targets (Corbo et. al 2001). Several changes in the banking sector regulation and in the conduct of monetary policy making have been enacted since the 2008-09 global financial crisis. However, these have not yet led to a widespread strengthening of the financial sector and have failed to contribute to a more sustainable and faster recovery (Acharya, 2016).

Boosting investment

Boosting investment remains a key challenge for the global economy. Private investment as a share of GDP had declined in OECD countries during the last two decades and took a further hit at the onset of the global crisis; it has yet to recover to pre-crisis levels. The weakness of both private and public investments has contributed to the current slump in productivity growth (Ollivaud et.al. 2016). Obviously a decline in maximum corporate tax rates was not sufficient to stimulate investment. Investment policies should be consistent with employment and skills development policies as well as with local economic development policies. This also requires that the private actions of multinational enterprises be brought into line with public objectives and priorities on sustainable development.

Financing social protection

Financial liberalization, intensified international tax competition and a fall in the labour income share have reduced the capacity of public finances to maintain, let alone expand, social protection, especially in advanced economies as was discussed above. Furthermore pressures to delink social protection from employment necessary to guarantee income security for workers in the long run puts further pressure on the financing capacity. Importantly, even where countries managed to maintain their level of social expenditures, rising constraints to public finances reduced the efficacy of these expenditures when it came to employment generation (see Ernst et. al. 2011). An increasing number of households are now relying on tax-financed social assistance benefits, which contributes to a rising incidence of (working) poverty in high-income countries. Bertelsmann 2016 reports that for EU countries a growing number of people in full-time employment are at risk of poverty.

Redistributive fiscal and national policies
Growing inequalities can be mitigated by redistributive fiscal policies to increase household income of working families, but can also be mitigated by drastic changes in the way the national and international financial system is organised. For example by better regulation of the banking system, caps on top incomes and introducing a basic income or a social or citizens dividend either through workers owning shares, fiscal distribution or through setting up publically owned funds trough technology taxes. (Standing 2016, Basu 2016, Brynjolfsson, and McAfee 2015, Rodrik 2015, Dervis 2015, Freeman 2014, Korinek and Stiglitz, 2017). in In many developing countries government's ability to create a sound fiscal base for investment in social infrastructure and redistributive policies is severely hampered by base erosion of the tax base and by profit shifting (ICRICT,2019).

Enhancing national policy coherence
Macro-economic policy instruments cannot be developed in isolation but need to be coordinated in a coherent way. Tackling widening income inequalities and persisting economic instability cannot be separated from each other. Monetary and fiscal policies need to work in tandem. The importance of policy coherence has been increasingly recognized but a new solid policy consensus is still far-off. Especially in an environment where monetary policy is progressively losing its capacity for economic stabilization, a more active role of fiscal policy interventions – or alternatively – a larger role for automatic stabilizers such as social protection systems has been shown to support employment-friendly growth (Ernst, 2015). Most importantly, full employment and decent work should be mainstreamed into macro-economic policies as an explicit goal, not a simple residual outcome of economic growth**.** Consensus on full employment as a central goal of macro-economic policy had been an implicit cornerstone of the social contract in advanced and emerging economies since World War II. In this regard, coherence between short-term stabilization, long-term growth and job creation is essential in order to prevent short-term sustainability concerns from prevailing over longer-term objectives.

Macroeconomic and regulatory forces largely determined aggregate employment and income impacts from technology (UNCTAD 2017). Appropriately expansionary macroeconomic policies can mitigate, if not prevent, any adverse employment and income effects from technological advances. This means that the novelty of the technological development and in particular the digital revolution lies not only in its greater scope and faster speed alone, but also in its occurrence at a time of subdued macroeconomic dynamism in the developed economies and stalled structural transformation in many developing economies, which tend to hold back the investment needed for the new technology to create new sectors and absorb displaced workers (UNCTAD 2017).

Enhancing global policy coherence
Failure to coordinate macro-economic policies at the global level is a key factor behind current slow growth in most countries. Central banks have only have limited capacity to stimulate the economy by the traditional means of reductions in interest rates. Alternative measures, such as forward guidance and quantitative easing, have quickly lost their effectiveness. In such an environment, only government spending can generate sufficient growth in order to lift countries out of their secular stagnation trap (Eggertsson et al. 2016). International coordination is required in order to create the necessary fiscal space for the global economy while reducing global imbalances at the same time (World Commission on the Social Dimension of Globalization. 2004, UNDESA 2012). Tax competition and tackling financing loopholes is another area where the lack of global policy coherence has been particularly detrimental). Often, countries cut taxes as a reaction to unfavourable productivity

developments in comparison to main competitors (Zirgulis, 2014). In addition, lack of mutual recognition of tax obligations together with illicit financial flows create loopholes that add to these shortfalls in public revenues(ICRICT, 2019. Thus the current lack of global policy coherence has created conditions for a race to the bottom and a zero-sum game for generating jobs across countries. In the present context of weak global demand, with emerging countries slowing down as well, the pressure on businesses to preserve margins by cutting costs is particularly high. This leads increasingly to slicing up production according to regulatory and cost arbitrage. However, seeking higher competitiveness by cutting production costs can have adverse aggregate effects on aggregate demand (Flassbeck and Lapavitsas, 2013).

UNCTAD(2017) argues that to create the conditions for future jobs it is necessary to crowd in private investment with the help of a concerted fiscal push – a global new deal – to get the growth engines revving again, and at the same time help rebalance economies and societies that, after three decades of hyperglobalization, are seriously out of kilter. However, in today's world of mobile finance and liberalized economic policies, no country can do this on its own without risking capital flight, a currency collapse and the threat of a deflationary spiral. What is needed, therefore, is a globally coordinated strategy of expansion led by increased public expenditures, with all countries being offered the opportunity of benefiting from a simultaneous boost to their domestic and external markets.

Conclusions

The current trends and challenges faced by developed and developing countries in may well put a heavy mortgage on the Future of Work. Unfettered globalisation and financialization have increased insecurity as well as income, wealth and social inequality. A technical revolution, if unchecked, and demographic change may even reinforce these tendencies. New technologies and societal development are so pervasive that as the defining line between who is a worker and who is an employer becomes more hazy and groups of citizens outside the classical triad of workers, employers and governments need to be an integral part of the social contract,. This puts more responsibility in the hand of the governments, especially at times when in certain societies a notion redevelops that government is perceived as the problem and not the solution. Such a notion, though, is wholly erroneous in times of technological change and globalization, when more is expected of governments in terms of managing change and globalization, and of dealing with distributional consequences of these processes.

This requires in these times of globalization greater policy coherence between almost all aspects of socio-economic policy: Macroeconomic policy, sectoral and structural policies, education policies and social security policies. This requires that attention for work and especially decent work is not only of concern to the ministry of labour but needs to get attention at the highest political level, not only in word but also in deed. National Governments and International Financial Agencies should not only be accountable how they contribute to growth and stability, but also to how much decent jobs have been created. It is imperative to have an integrated and global vision on labour markets and a precise goal for that. It makes no sense anymore to speak of a national labour market. This requires another way of thinking. Exact blue prints, as the various scenarios showed, are not available, but if rethinking on the contours of a renewed social contract and acting in the spirit of the actualisation of a social contract does not start now, it could be too late..

The Sustainable Development Goals (SDGs) agreed to by all members of the United Nations in 2015 provide the political impetus for this much-needed shift towards global macroeconomic policy coordination. UNCTAD (2017). calls therefore for more exacting and encompassing policy measures to address global and national asymmetries in resource mobilization, technological know-how, market power and political influence caused by hyperglobalization that have generated exclusionary outcomes, and will perpetuate them if no action is taken. It argues that, with the appropriate combination of resources, policies and reforms, the international community has the tools available to galvanize the requisite investment push needed to achieve the ambitions of the SDGs and promote sustainable and inclusive outcomes at both global and national levels.

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