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The Future of Work and Incomes: What role for Macro-economic policies

by

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Overview

- The effects of financialization on work and incomes
- The widening gap between the labour and capital income.
- New technologies and future patterns of work and income.
- Macroeconomics for a better future of work and income:
    1 changing nature of macro economic policies,
    2 the consequences of financial reform,
    3 boosting investments,
    4 financing social protection
    5 fiscal and redistributive policies
    6 national and international policy coherence
- Conclusions (importance of staying on course with SDGs)

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.

Studies of earlier ‘business cycles’ and earlier financial crises 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.

Financialization and work

Poorer groups were often hit trice:

- First because they did not profit from the boom leading up to the crisis,
- Secondly because they were hit by the crisis and
- Thirdly 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.

Governments acted as lender of last resort but not as employer of last resort!

Financialization and work

A consequences of growing financialization and globalization is the widening gap between labour and capital income (the functional income distribution) leading to greater household inequality

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.

Financialization and work

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).

Technologies and the FoW

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.

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.

Technologies and the FoW

Technological change is not new, so the question is: will this time be different? Three issues are particularly relevant:

- *impacts on job quality*, especially given the ongoing trend towards job polarization;
- *social and economic adjustments* driven by technological changes (e.g., new skill requirements, geographical relocation);
- (*re)distribution of productivity gains* between different economic and social groups, given the global trend of widening income inequality.

Technologies and the FoW

Some point to unique nature of the current wave of technological changes, referred to as the Fourth Industrial Revolution

Others, 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.

While the direct impact of innovations is job destroying, these innovations and their intended consequences can also trigger new economic activities and create jobs.

Technologies and the FoW

- 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.
- 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.

Technologies and the FoW

Economic models show that sustained growth in productivity and good jobs requires:

- Diversification of the economy.
- The expansion of high-tech activities.
- A dynamic growth in domestic and international demand.

Technologies and the FoW

- Productivity gains from technological innovation are substantial and have contributed to widening inequality).
- In many countries the share of labour in national income decreased, a sign of increased political tensions.
- 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.

Technologies and the FoW

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.

Macroeconomics for Future of Work and Incomes

- Changing nature of macro economic policies
- The consequences of financial reform,
- Boosting investments,
- Financing social protection
- Fiscal and redistributive policies
- National policy coherence
- International policy coherence

Macroeconomics for Future of Work and Incomes

Macro-economic policies have been increasingly challenged by *both* structural and long-term shifts that have undermined the capacity of national policy-making resulting in policy ineffectiveness to full employment and decent work.

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 slower job growth, with increased insecurity.

The consequences of financial reform

Discussed in introduction

Boosting Investments

- Private investment as a share of GDP had declined in many 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.

- 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 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

- 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.

- An increasing number of households are now relying on tax-financed social assistance benefits.

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.

- 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.

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.
- 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.
- 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.

National Policy Coherence

- Macroeconomic and regulatory forces largely determined aggregate employment and income impacts from technology.

- 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.

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.
- 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.

Enhancing global policy coherence

- 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 are seriously out of kilter.

- 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 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.

Conclusions

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, groups of citizens outside the classical triad of workers, employers and governments need to be an integral part of the national 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.

Conclusions

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.

The SDGs imply therefore 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 in order to face future challenges to work and income.