JustJobs NETWORK

Transformations in Technology, Transformations in Work

October 2016

SPOTLIGHT: AN IMF AGENDA FOR BALANCING EFFICIENCY AND EQUITY

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"…the time is not far distant when everything that machinery and cheap labor can produce will crowd every market. The millions of China, with the millions of India, will offer the cup of cheap machine labor, filled to the brim, to our lips, and force us to drink it to the dregs, if we do not learn wisdom."
(The Atlantic, volume 44, 1879*)*

"We are being afflicted with a new disease ... technological unemployment."
*(*John Maynard Keynes, 1930*)*

Fear of "others" taking "our" jobs is a staple of economic discourse. Sometimes it is a fear of China, sometimes of robots; today it is a fear of the effects of Chinese investment in robots. Digital technology and the 'sharing' economy have transformed the world of work, but they have also fueled familiar fears about the impact of technology on jobs.

Technological advancements boost productivity, the demand for labor and the quantity and quality of jobs. They contribute to national and global long-run efficiency and more arguably, to long-run equity at a global level.

But along with these benefits, policymakers must acknowledge and address the displacement that results from the use of new technology. Without appropriate policy frameworks to manage these changes, fears about the short-run job losses will trump the longer-run benefits of technology adoption.

In the last few years, the International Monetary Fund's (IMF) policy advice is increasingly geared toward balancing the efficiency and equity effects of labor market developments. The evolution in its thinking and advice has three aspects, and is pertinent to how policymakers deal with labor market impacts of new technology.

First, more so now than in the past, the IMF is paying attention to the distributional consequences of economic developments and policies. Second, its framework for thinking about labor market policies is one that increasingly recognizes that many policies need to strike a balance between promoting efficiency and protecting the basic needs of workers. Third, the institution has tried to elevate the importance of job creation in policy discussions with a 'two-handed' approach – one that recognizes the importance of both aggregate demand and aggregate supply, and advocates policies to boost both.

This evolution bodes well for the IMF's ability to offer good advice on employment, including how to manage the effects of technology on the quantity and quality of jobs.

Evolution in IMF thought

1. Who gets what: paying attention to distribution

The focus of traditional macroeconomics has been on growth rather than distribution; on the size of the pie rather than how it is split up among people. Partly, the rationale is that distributional issues are less vexing when the pie is growing; and partly it is that in a market economy, some degree of inequality is unavoidable, and perhaps even desirable. This outlook supports capital-intensive investments in technology irrespective of their impact on employment.

Over the past decade, however, issues of distribution have become prominent in macroeconomics, with even the IMF acknowledging the adverse effects of inequality on economic growth. Ostry et al. in their widely cited work show that increases in inequality can lower the durability of growth. They also find that redistribution, unless extreme, does not inhibit growth.[1]

IMF research has also looked into the impacts of developments and policies on inequality. One study found that a decline in unionization is associated with increases in inequality.[2] Loungani et al. also show how capital account liberalization and fiscal consolidation are both associated with increases in inequality.[3] This does not mean that these policies may not be desirable or necessary in some instances. But policymakers have to be aware of the efficiency-equity tradeoffs they entail. This is also true for technology adoption.

2. 'Protect workers, not jobs': Labor market flexibility

The second evolution in IMF thought is on the role of labor market policies. A paper by Blanchard, Jaumotte and Loungani suggests that a purely market fundamentalist approach will not provide enough protection to workers; the role of labor market policies is thus to promote efficiency, but not at the cost of jeopardizing adequate protection of workers.[4] This is particularly pertinent in light of the churn that technology brings.

Blanchard, Jaumotte and Loungani distinguish between two types of flexibility that labor markets need. The first is "micro flexibility" the reallocation of workers to jobs as comparative advantage shifts. According to the authors, generous unemployment benefits combined with employment protection that is not excessive should ensure this. Generous unemployment benefits cushion workers and their families from the immense costs of job loss and allow workers time to find a job for which they are suited. Trying to support workers through excessive employment protection is counter-productive: it prevents the required reallocation and overtime, it leads to the setting up of dual labor markets – one consisting of workers with protection and the other consisting of those without.

Economies also need "macro flexibility", which is the ability of the economy to make adjustments in response to large national-level shocks. Here collective bargaining institutions play a key role. Initially the authors were somewhat prescriptive on what form these collective bargaining institutions ought to take. But subsequently the authors have acknowledged that trust among social partners is just as important in ensuring macro flexibility as the precise design of collective bargaining institutions, if not more.

3. Bring 'jobs' back on to the policy agenda

The third aspect of the evolution is to elevate the importance of labor market issues, particularly job creation, in policy discussions. In 2011, the IMF organized a landmark conference with the International Labor Organization in Oslo to show that the two institutions had a common appreciation of the importance of jobs to the economic and social fabric of countries. In 2015, the IMF partnered with the JustJobs Network in Ankara to draw the attention of G20 policymakers to the need to balanced wage growth and competitiveness.

The IMF has argued that the promotion of full employment requires a 'two-handed approach', one that stresses the importance of aggregate demand as much as aggregate supply. This view has led the IMF to policy positions in recent years that have surprised many:

- The IMF supported actions taken by the major central banks during the Great Recession to stimulate aggregate demand.
- It supported the coordinated global fiscal stimulus provided at the onset of the Great Recession and advocated a phased withdrawal of it according to the extent of economy recovery in various countries.
- It called for an increase in public investment, which can both add to aggregate demand in the short run and improve the economy's aggregate supply response over the longer run.

Dealing with the sharing economy

This evolution in IMF thought offers important insights for policymakers on how to address the labor market changes brought about by technology.

One theme in the JustJobs Network's flagship volume is how to address the digital economy's potential threat to jobs. Similar to their attitudes about trade, workers sometimes resist technology due to fear of the potential adverse impact it may have. Yet both trade and technology contribute to enhancing global and national efficiency and – more arguably – to equity also, in the long run.

Mainstream economists tend to advocate that instead of trying to resist these long-run trends, policymakers should put in place long-term solutions to create jobs for everyone. The frequently advocated solutions are education, migration and redistribution. But none of them is easy or offers a full solution. Migration and redistribution, in particular, also lack sufficient political support.

Education would allow the gains from technology to accrue to a broader base of the population than has been the case. This volume provides concrete examples of the actions that firms, trade associations and governments can take to foster the new skills needed to participate in the sharing economy. But education and skills cannot be acquired overnight and those displaced by technology will need some help to get by in the interim.

In principle, migration could function as an important solution to the challenge of global job creation. High-skilled workers from China and India could alleviate shortages in the United States. Nurses from other Asian countries could help take care of Japan's aging population. Migration remains at very low levels compared to what is desirable from an economic standpoint. But despite the considerable benefits that immigrants bring to home countries, the opposition to migration is strong and mounting.

To help those who could lose out—or not gain as much—from migration, as well as those displaced by technology, increased redistribution from those who do gain from these trends must be part of the policy response. And for displaced workers near the end of their working lives, redistribution may be a more practical solution than the acquisition of new skills. But despite concerns about increased inequality, redistribution does not appear to be gaining political traction in most countries.

In short, the recommendations by mainstream economists would not seriously deal with adverse consequences from technology for a number of people in the short- to medium-run. Policy advice should reflect some of the findings of the evolution in the IMF's research.

Concretely, this means:

- Policymakers should treat the unemployment that results from displacement due to technology as a serious development that poses grave costs for the individual, his or her family, and society.
- They should support adequate unemployment benefits or other forms of assistance to replace some of the lost income of those displaced. The long-run solution lies not in such benefits but in active labor market policies, including re-training. But the effects of these policies do not kick in immediately and the unemployed and their families need support in the interim.
- They should also recognize that even if supply-side remedies - such as provision of re-training and skills development - are the desired solution, these will not work well in an environment of weak aggregate demand. The best skills program will be a waste if the person is just waiting for too long in an unemployment queue.
- They should look not just at the aggregate or efficiency effects of the prescribed remedies but also at their distributional or equity effects. Policymakers should not be fearful of redistribution as one of the remedies to consider in order to compensate those who lose out.

It is important of course to research the precise impacts of technology. In case of the effects of the digital economy, that research is already being undertaken, as evident in many of the chapters in this flagship volume. The research can guide us to specific targeted steps that may be needed.

But the point this chapter makes is that there is a need for a broader change in mindset. Policymakers need to take seriously the job loss that occurs due to displacement from technology, or any other developments for that matter. Otherwise, they run the risk that fears about the short-run displacements from technology adoption will undermine the potential efficiency and equity benefits it can bring in the long term.

Endnotes

[1] Ostry, J. D., A. Berg, & Tsangarides C. (2014). *Redistribution, inequality, and growth*. IMF Staff Discussion Note 14/02. Washington, DC: IMF.

[2] Jaumotte, F. & Buitron C. O. (2015). *Inequality and labor market institutions*. Staff Discussion Note, SDN/15/14. Washington, DC: IMF.

[3] Furceri, D. and Loungani, P. (2015). *Capital account liberalisation and inequality*. Working Paper 243. Washington, DC: IMF.

[4] Blanchard, O. J., F. Jaumotte, & Loungani P. (2013). *Labor market policies and IMF advice in advanced economies during the Great Recession*. Washington, DC: IMF.