Reshaping Economic Strategy After COVID-19

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COVID-19 will reinforcing pre-existing trends…

- From markets to states
- From hyper-globalization to nation-states
- From export-oriented industrialization to ... alternative growth models

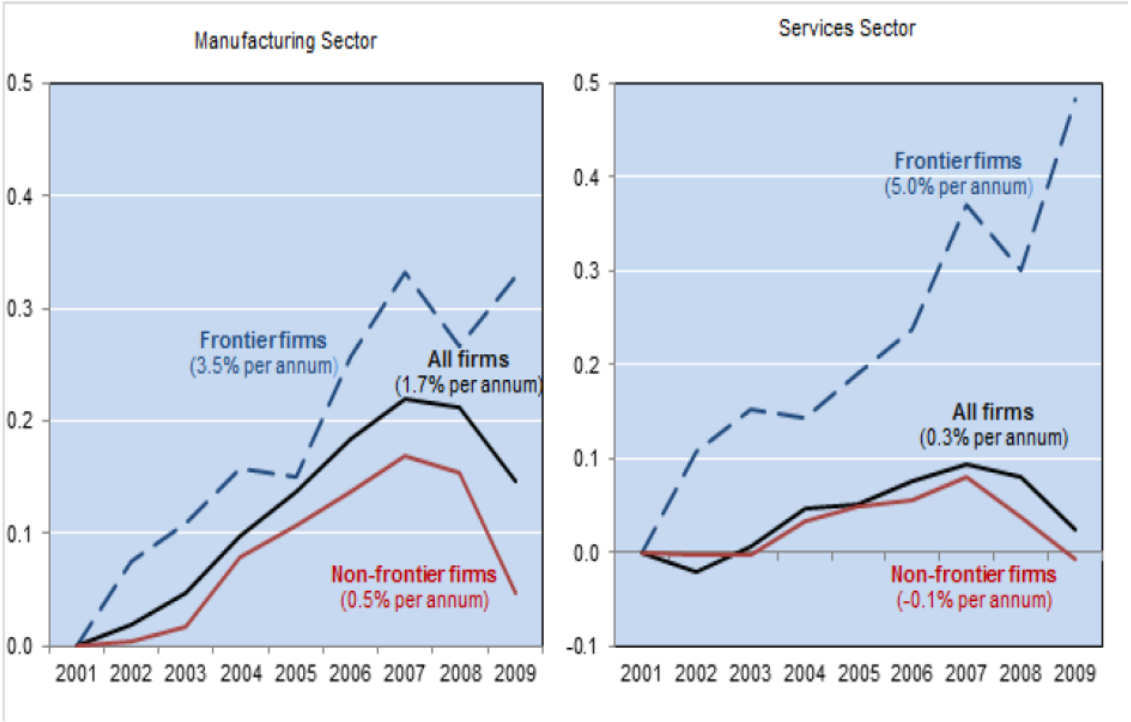
All three trends have a common root

- Deepening economic dualism within nations
  - stark divide between technologically advanced and globally integrated parts of economy/society and the lagging firms, sectors, and regions
- Producing:
  - inequality, economic insecurity within countries
  - backlash against hyper-globalism
  - premature de-industrialization and slowing down of the EOI engine

Slowdown in dissemination of advanced technologies and growing productive dualism

Figure 11. Solid growth at the global productivity frontier but spillovers have slowed down

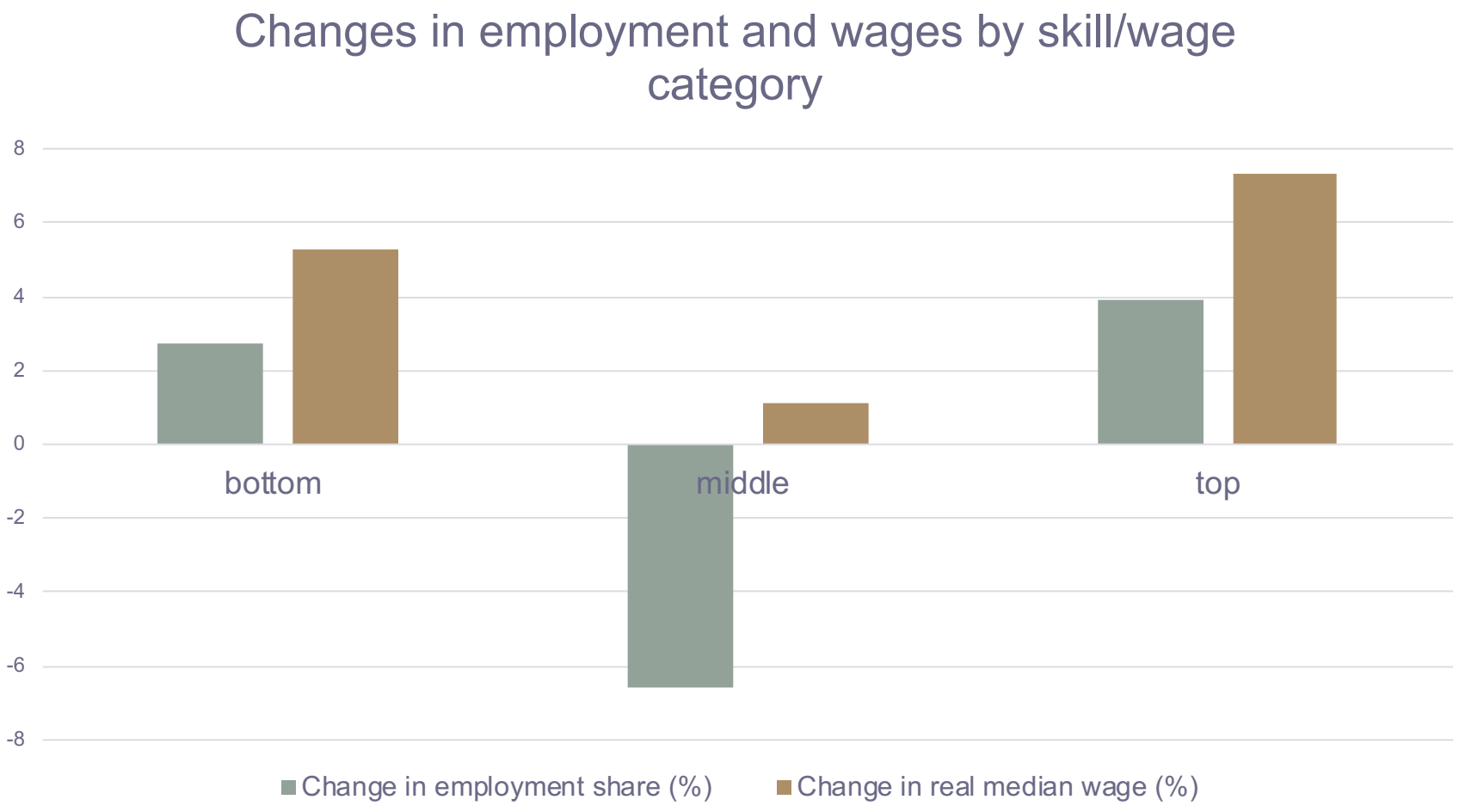
Labour productivity; index 2001=0



Notes: "Frontier firms" corresponds to the average labour productivity of the 100 globally most productive firms in each 2-digit sector in ORBIS. "Non-frontier firms" is the average of all other firms. "All firms" is the sector total from the OECD STAN database. The average annual growth rate in labour productivity over the period 2001-2009 for each grouping of firms is shown in parentheses. The broad patterns depicted in this figure are robust to: *i*) using different measures of productivity (e.g. MFP); *ii*) following a fixed group of frontier firms over time; and *iii*) excluding firms that are part of a multi-national group (i.e. headquarters or subsidiaries) where profit-shifting activity may be relevant.

Source: OECD (2015)

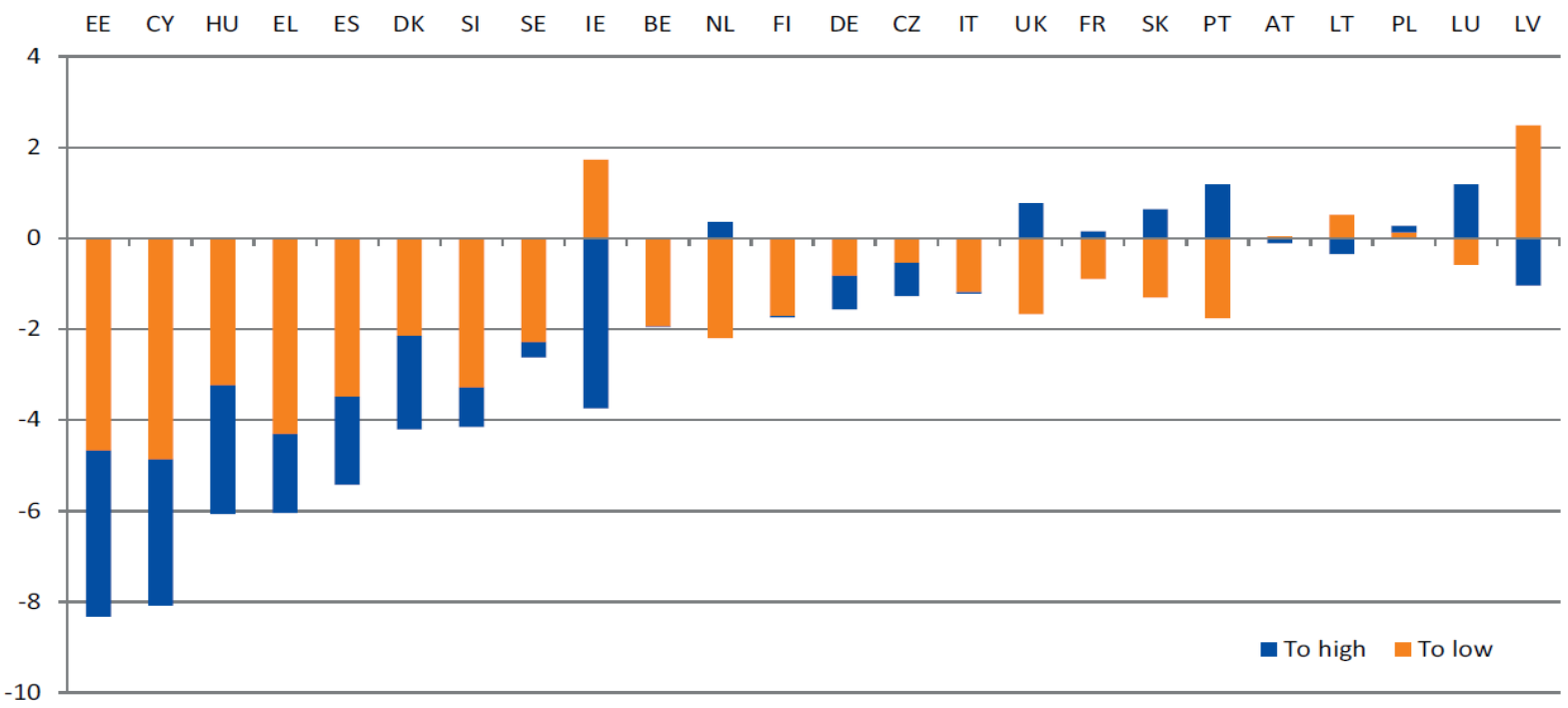
Polarization in the labor market



Source: MGI (2020). Average for France, Germany, Japan, Italy, Spain, Sweden, United Kingdom, and United States.

The middle-class squeeze

Figure 27: Change in size of middle-income class, 2008–2014, and decomposition of change by income class of destination (percentage points)



Note: *Countries are ranked by the absolute magnitude (in percentage points) of the decline of the middle class from 2009 to 2014 (income referring to 2008–2013).*
Source: *EU-SILC.*

Source: Eurofound (2017). A negative blue (orange) bar represents the movement from the middle class to the high (low) income class. A positive bar represents an increase in the middle class associated with a movement from the corresponding (low or high) income class. This study defines the middle class as people whose household disposable income is between 75% and 200% of the median disposable income in each country.

The crux of the matter: “good jobs” are becoming scarce

- Good jobs
  - stable employment that enables at least a middle-class existence, by a region’s standards, and comes with core labor protections such as safe working conditions, collective bargaining rights, and regulations against arbitrary dismissal.
- Underlying drivers: technology and globalization
- But these are not exogenous processes outside our control!

Stating the problem…

- Employment and innovation decisions affecting labor demand produce significant externalities – “good jobs” externalities
- These “good jobs” externalities are pervasive and have serious effects on social and political life
  - social costs: broken families, drug abuse, crime
    - W.J. Wilson 1996, Autor, Dorn, and Hanson 2018
  - political polarization and rise of populist parties
    - Autor et al. 2017, Dal Bò et al. 2018, Colantone and Stanig 2016, 2017, Guiso et al. 2017
  - authoritarian values
    - Ballard-Rosa et al. 2018, Colantone and Stanig 2018
- As well as on possibilities of dissemination of productive technologies
  - which happens through labor absorption in “advanced” sectors
- Implying a merging of agendas of social inclusion and economic growth

And the remedies…

- Policies that increase supply of good jobs
  - increasing productive employment capacity of existing firms
  - increasing the number of firms with productive employment, through entry or attraction from other jurisdictions
  - workforce development policies that target the capabilities of local labor force
- National and enterprise-level interventions that redirect innovation in a more labor-friendly direction
  - encouraging labor augmentation (rather than labor replacement)
  - increasing the range of tasks lower-skill workers can performs
- "Modern" industrial policies, targeting good jobs
  - based not on the traditional arms' length, principal-agent model of regulation, but on a model of iterative, strategic collaboration
    - provisional goals, interactive, monitoring and learning, revision
    - see Rodrik and Sabel, "Building a Good Jobs Economy" (2019)

How proposed good-jobs policies differ…

- From traditional conceptions of welfare state policies, traditional and updated
- From conventional understanding of relationship between technology and labor markets
- From conventional (economists') approach to how governments regulate and intervene in markets (state-market interactions)

- Will say a few words about each

		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
What kind of inequality do we care about?	bottom			
	middle			
	top			

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What kind of inequality do we care about?	bottom	endowment policies (health, education); UBI	minimum wage; job guarantee;	transfers (e.g., EITC); full-employment macro policies
	middle	public spending on higher education	“good jobs” policies; industrial relations & labor laws; sectoral wage boards; innovation policies	safety nets, social protection
	top	inheritance/estate taxes	regulation, anti-trust	wealth taxes

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The welfare state model

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OECD Future of Work report (2019): emphasis on "adult learning" and "social protection"

The limits of the welfare state model

- Traditional welfare state model presumes good/middle class jobs are available to all with adequate education, hence focuses on social spending on education, pensions, and social insurance against idiosyncratic risks (unemployment, illness, disability)
  - These are pre-production and post-production policies in terms of the above matrix
- Inequality/insecurity is today a structural problem: inadequacy of good/middle class jobs is driven by secular trends (technology, globalization)
  - When technology (and globalization) hollow out the middle of the employment distribution we have a structural problem that exhibits itself in the form of permanent bad jobs and depressed regional labor markets. Needs a different strategy that tackles good-job creation directly. Traditional welfare state policies are inadequate and address at best symptoms of the problem.

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The productivist/"good jobs" model

Rethinking relationship between technology and labor markets

- "Technology is rapidly changing skills needed on the job, and workers need to adjust through increased education and continuous training…"
- Treats technology as exogenous force
- But direction of technology responds to
  - incentives (e.g., taxes on K vs L, R&D subsidies,..)
  - norms (private, and public, embedded in innovation systems)
  - relative power (who gets a say in the workplace on what types of technology are developed/adopted and how they are deployed?)
- Possibility of a range of outcomes
  - augmenting versus replacing labor
  - increasing the range of tasks less skilled labor can do
- But requires conscious policies to redirect innovation in a more labor-friendly direction
  - cf. existing innovation programs/industrial strategies

How to apply these ideas?

- A new approach to “industrial policy”

A different type of "industrial policy"

type of IP	assumptions	practice	theory	policy dimensionality	evidence
Traditional	governments know market failures but prone to capture	ex ante selection of policy instruments and priority sectors (e.g., S. Korea)	well-defined externalities + principal-agent	low	cross-industry, cross-firm econometrics, augmented by IV, RD and "natural" experiments
Modern	market-failures unobservable ex-ante; requisite information widely dispersed; state capacity endogenous	identification of objectives & constraints through strategic collaboration with firms (e.g. Peru)	collaborative learning, cost-discovery, error-detection, PDIA	high	informal, contextual, portfolio evaluation against ex ante benchmarks

The quid pro quo of a “good jobs” strategy

- Firms need access to stable, skilled workforce, reliable horizontal and vertical networks (w/out holdup, informational problems), technology, contractual and property rights enforcement (many of these pose collective action problems)
- Governments need firms to internalize “good jobs” externalities
  - in employment, training, and technological choices, as discussed previously
- Deep uncertainty precludes simple remedies
  - such as Pigovian employment subsidies

But can it be done…?

These principles are already in application across wide range of domains

- U.S.: DARPA, ARPA-E
  - technological frontier; Azoulay et al. (2018); Goldstein and Narayanamurti (2018); Khosla and Beaton (2017)
- U.S.: manufacturing institutes
  - new manufacturing technologies; Block et al. (2018); Deloitte (2017)
- U.S.: Project QUEST
  - workforce development; Rademacher et al. (2001), Roder and Elliott (2019)
- Peru: sectoral roundtables
  - identifying and removing sectoral bottlenecks; Ghezzi (2017)
- Argentina: modern agriculture
  - "intense public-private collaboration," supported by Argentine Technology Fund (FONTAR) and the National Institute of Agricultural Technology (INTA) for finance, technology and legislation (Sanchez et al., 2011)
- "Smart" development banks
  - "search engines" for cost discovery; Fernandez-Arias et al. (2018)

Key advantages of the “good jobs” agenda

- Structuralist approach
  - shaping production, innovation, employment incentives and relationships in situ, rather than taking them as given
  - from “welfare state” to “productivist/innovation state”
- Breaks through institutional fetishism
  - traditional conceptions/distinctions of “markets” and “state,” and “regulation” no longer apply
  - collaborative, iterative rule making under extreme, multi-dimensional uncertainty
- Merging of equality/inclusion and economic growth agendas
  - growth possibly only through dissemination of advanced methods throughout rest of economy
- Opens up of a path of radical institutional reform from gradualist beginnings
  - avoids reform/revolution dilemma

To conclude: a new direction for policy…

- From (updated) welfare state model…
  - investment in education + social protection + flexible markets ("flexicurity")
  - (continuous) education and training to adapt workers to changing technologies
- To productivist/good-jobs model
  - direct interventions in employment, production, and investment decisions to expand supply of good jobs
  - redirecting innovation to needs of workers
  - collaborative, iterative model of cooperation with employers and other non-state actors