

Commentary

THE BUFFIN FOUNDATION

SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

The Changing Nature of Work

According to the World Bank's 2019 World Development Report, advances in technology provide opportunities to create new jobs, increase productivity, and deliver effective public services, while generating new economic sectors and new kinds of tasks. As a result of these developments, automation and innovation are significantly influencing the nature of employment. Transformative technologies are expected to bring immense economic opportunities, including new and better jobs, and higher living standards. Some features of current technological progress are noteworthy; in particular, digital transformation provides firms with the ability to scale up or down relatively quickly. New business models are evolving rapidly from local start-ups to become global behemoths.

However, concerns about the future of work are more pronounced today than ever before. Individuals living in advanced economies are anxious about the sweeping impact of technology on employment. There is a widely-held view that rising inequality, compounded by the advent of a new economic paradigm in which organizations contract with independent workers for short-term engagements, will produce deteriorating working conditions. The transition to this new paradigm will create significant challenges for individuals, businesses and governments. This new kind of economic environment poses policy questions regarding privacy, competition, and taxation. Policy responses and international cooperation can help to ensure that the ensuing benefits of the technological transformation are widely shared across all segments of the population. The G20 group of nations has previously endorsed a number of policy options to harness technology to strengthen growth and productivity, support people during transitions, address distributional challenges, secure sustainable tax systems, and ensure that the best possible evidence informs decision-making.

Investing in human capital is the highest priority for gaining the full potential ben-

efits of this evolving economic opportunity. Certain types of skills are increasingly important in labor markets, including advanced cognitive skills such as complex problem-solving, and socio-behavioral skills such as teamwork and adaptability. Building these skills requires strong human capital foundations and lifelong learning commitments. Creating more quality jobs is important to deliver the benefits of technological change. Investments in infrastructure are also needed, including a basic need to provide universal internet access. Major infrastructure development plans will be essential for many developing countries so as to provide considerably greater capacity in available roads, ports, transportation, communications and other areas on which governments, firms, and individuals will depend to utilize technologies to their fullest potential.

Social assistance and insurance systems should be adapted to the changing nature of work. The current social contract is broken in most emerging economies and appears increasingly out of date in many advanced economies. Traditional provisions of social protection based on the assumption of steady wage-related employment, specific definitions of employer and employee, and traditional concepts of retirement, are now becoming increasingly obsolete. Adjusting to the new economic environment requires new approaches to social protection. About 80 percent of people in developing countries receive no social assistance; about 60 percent work informally and consequently do not have any insurance coverage. In many developing countries, informality has remained high over the last two decades, notwithstanding improvements in the business regulatory environment, reaching as high as 90 percent in some emerging economies. Even in advanced economies, the payroll-based insurance model is being increasingly challenged by working arrangements outside standard employment contracts. A potential solution would be for a mandated universal minimum level of protection that provides support independent of employment.

A universal basic income is a widely-discussed option, but this concept is untested and may be fiscally prohibitive for emerging economies. To respond to the challenges of the changing employment environment, governments could implement a number of policy initiatives including: investing in disadvantaged groups and early childhood education and developing the skills needed in the modern economy; enhancing social protection, supplemented by reforms in labor market rules; and upgrading taxation systems to provide fiscal space for public financing of human capital development and social protection. Enhancing human capital requires initiatives to improve basic skills in literacy and numeracy as well as cognitive skills. Changes in the nature of work, compounded by rising aspirations, make it essential to increase social inclusion, placing equality of opportunity at its center, giving priority to the poorest people and increasing productive opportunities for youth. Providing economic opportunities for young adults is a critical element of social contracts. A wide array of programs exist for connecting youth to employment opportunities including public works, apprenticeships, internships, and mentoring, as well as wage subsidies, entrepreneurship grants and asset transfers.

There is a real need for a new social contract centered on larger investments in human capital and progressively universal social protection, but this requires the expansion of fiscal space and provision of adequate tax bases. Most of the required fiscal resources are likely to be found in improved capacity in tax administration and systems of value added taxation and excise taxes.

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