

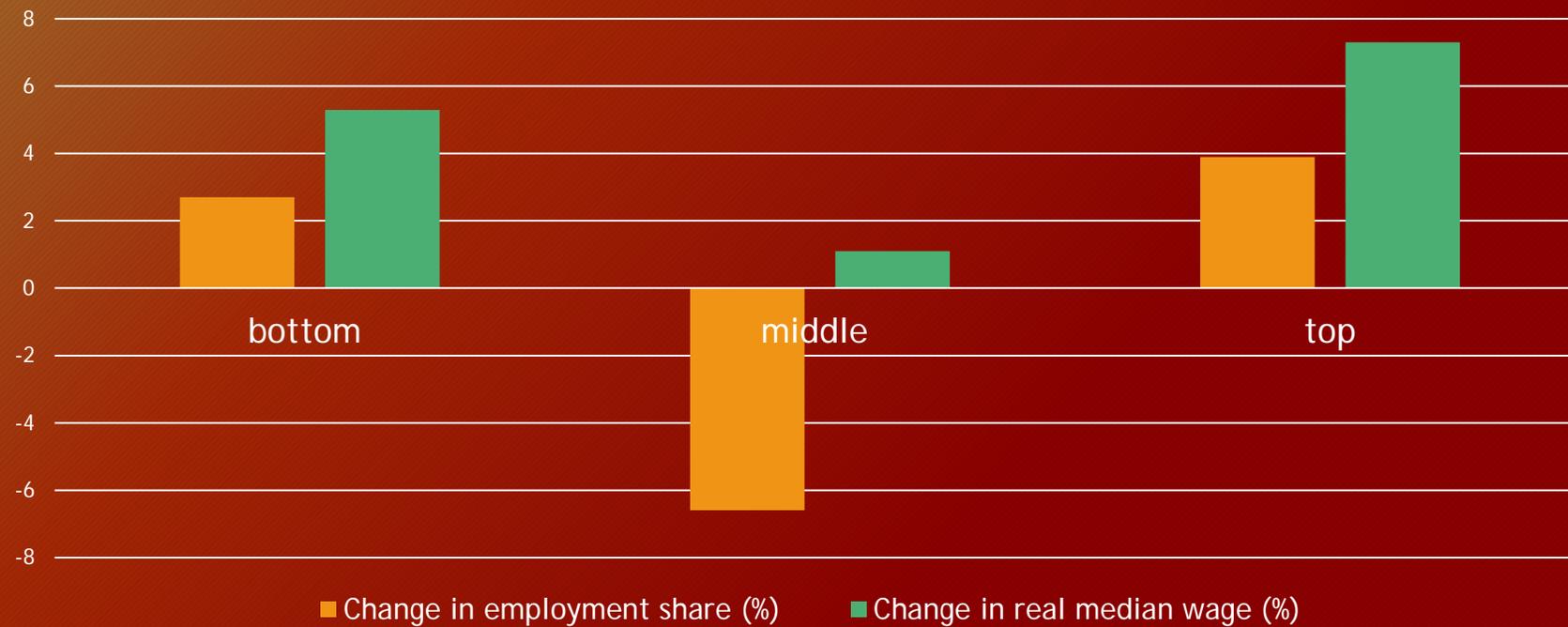
Economic Policy Beyond the Welfare State

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Key dislocation: polarization in the labor market

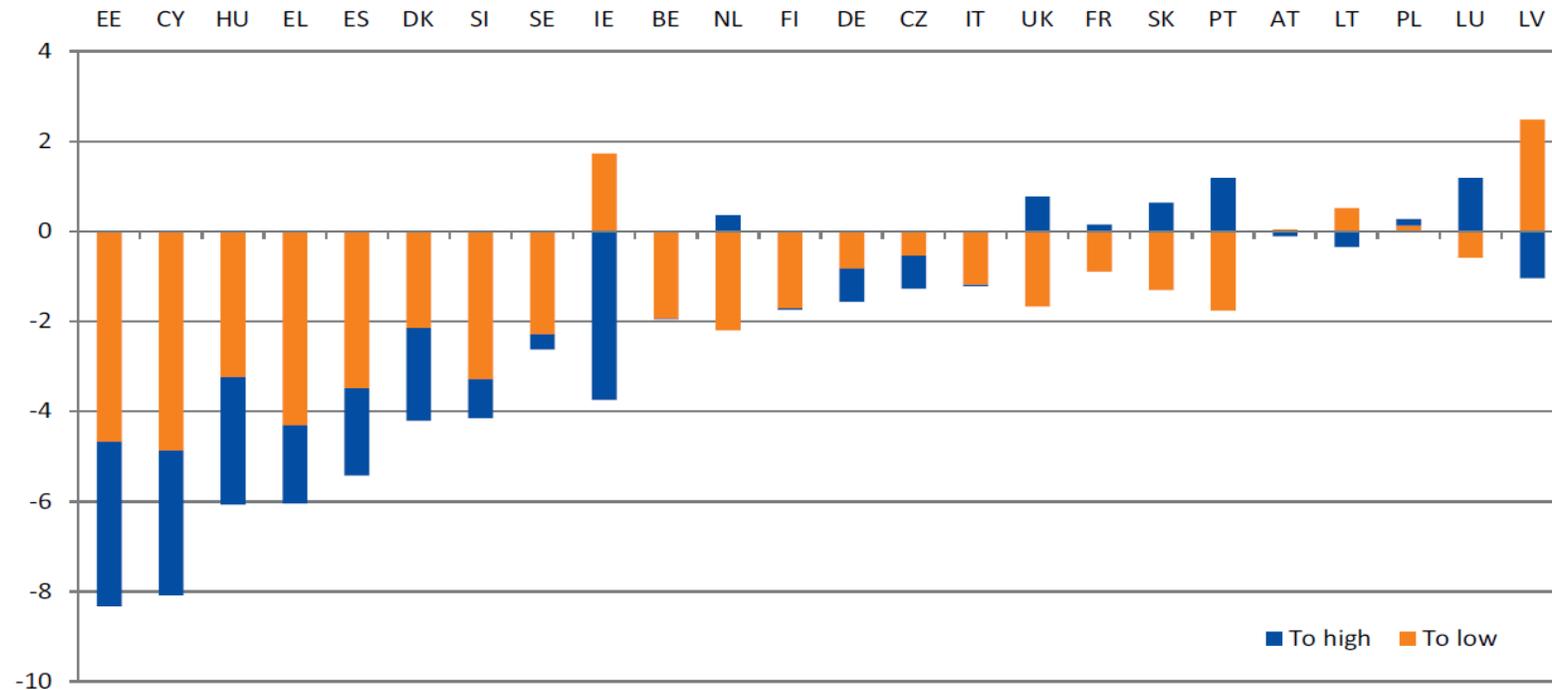
Changes in employment and wages by skill/wage category



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)

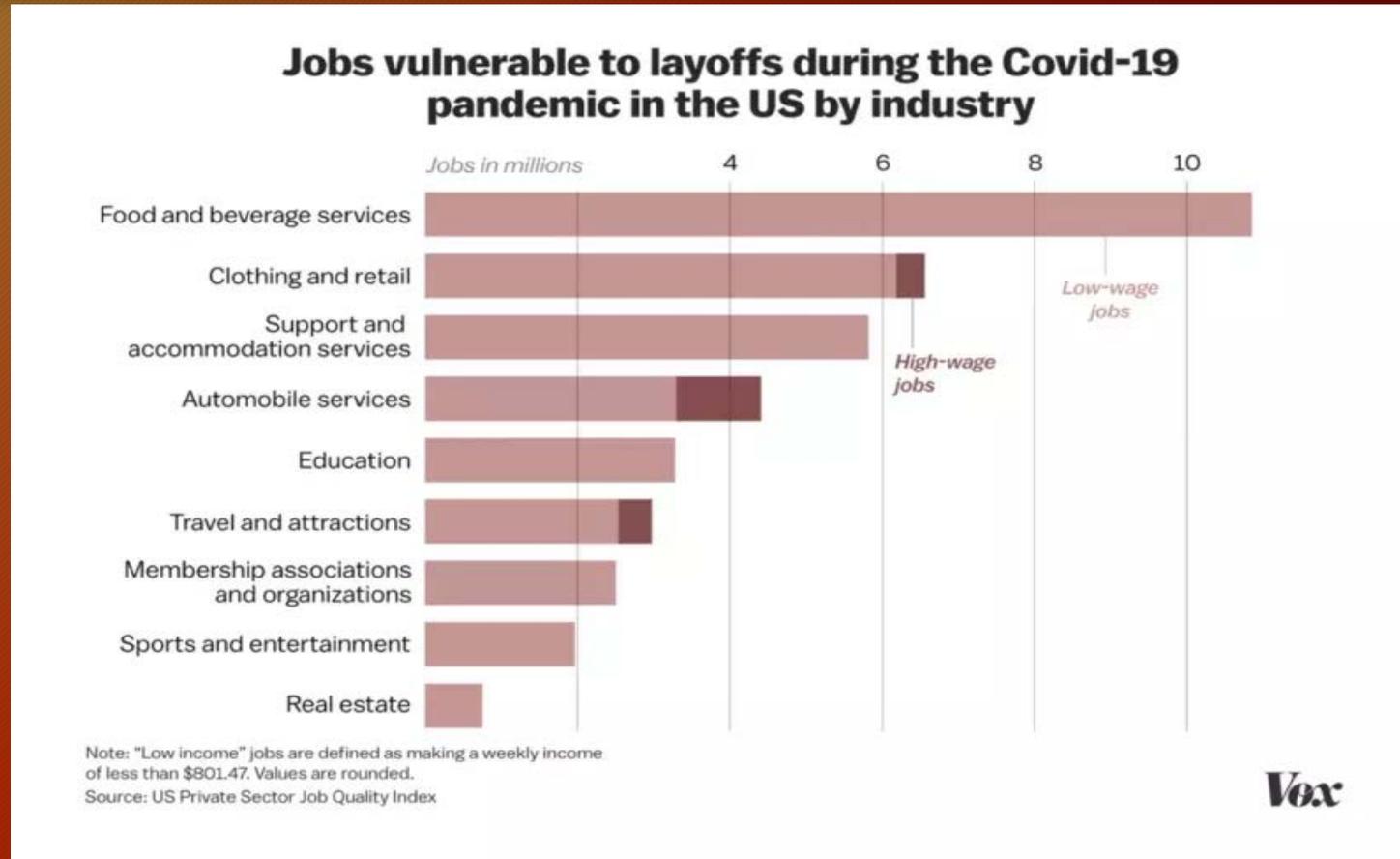


Note: Countries are ranked by the absolute magnitude (in percentage points) of the decline of the middle class from 2009 to 2014 (income referring to 2008–2013).

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.

Highly uneven jobs impact of COVID-19



How to respond

- Technology, hyper-globalization, and market-fundamentalist policies have produced domestic disintegration
- Reconstructing healthy polities requires a reintegration of society
- Moving beyond the welfare state towards a good-jobs strategy

		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
What kind of inequality do we care about?	bottom	endowment policies (health, education); UBI	minimum wage; job guarantee;	transfers; full-employment macro policies
	middle	public spending on higher education	industrial relations & labor laws; industrial & innovation policies	safety nets, social protection
	top	inheritance/estate taxes	competition policy	wealth taxes



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The welfare state model

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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What kind of inequality do we care about?	bottom	investments in education and training	minimum wage	transfers; full-employment macro policies
	middle	public spending on higher education	"good jobs" policies	safety nets, social protection
	top		competition policy	

The productivist/"good jobs" model

Good jobs policies

- Labor market regulation/standards is important, but not enough
- Absent productivity growth, there is trade-off between better working conditions and employment levels
 - e.g., youth unemployment in France
- Therefore good jobs for all possible only with wider dissemination of new technologies and innovation
 - i.e., good jobs require good firms
- But good firms do not internalize the social consequences of their employment decisions
 - social benefits of good jobs, problem of so-so technologies
- Hence the need for a quid pro quo between state and firms: provision of public inputs for productivity in exchange for commitments to expand good jobs

Good jobs policies: key elements

- Active labor market policies linked to employers
- Industrial/regional policies targeting good jobs
- Innovation policies directed towards labor-friendly technologies
- International economic policies that “protect” domestic labor/social standards

Connected by both a common objective (good jobs) and new form of governance (collaborative, iterative, experimental arrangements between private and state actors)

- a closer coordination of business & innovation incentives with labor market/training policies
- customized business services instead of ex ante tax incentives
- explicit targets for employment and job upgrading (“good jobs”)
- greater room for revision in light of changing circumstances
- more decentralized experimentation
- more intensive evaluation

A. Active labor market policies linked to employers

Successful sectoral training programs in the U.S.

	Project Quest	Per Scholas	Madison Strategies Group	Jewish Vocational Services	Wisconsin Regional Training Partnership
Location	San Antonio, TX	Bronx, NY	Tulsa, OK	Boston, MA	Milwaukee, WI
Target sector	Healthcare, business services/IT	Information technology	Transportation, manufacturing	Healthcare	Construction, manufacturing, healthcare
Target population	Low-income adult population	Young males, predominantly foreign born	Low income-workers, mostly male	Refugees, immigrants, welfare recipients	African American youths
Evaluation results	Year 9 earnings up by \$5,490 (20%)	Year 3 earnings up by \$4,829 (27%)	Year 3 earnings up by \$3,603 for the late cohort, w/ fading effects for earlier cohorts	Year 2 earnings up by 21%	Earning up by \$6,255 (24%) over 24-months

- close links with employers
- “wrap-around,” individualized services for trainees

Sources: Maguire et al. (2010), Roder and Elliott (2019), Schaberg (2017)

B. Industrial/regional policies targeting good jobs

- Instead of tax incentives, or open-ended subsidies
- Provision of customized public inputs through collaborative, iterative dialog with firms
 - w/ soft conditionality on employment quantity and quality
- Based on quid-pro-quo:
 - firms need access to stable, skilled workforce, reliable horizontal and vertical networks (w/out holdup, informational problems), technology, contractual and property rights enforcement
 - governments need firms to internalize “good jobs” externalities in employment, training, investment, and technological choices
 - deep uncertainty precludes simple remedies (such as Pigovian employment subsidies)

C. Innovation policies directed towards labor-friendly technologies

- “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 & narratives on innovation)
 - relative power (who gets a say in the workplace on what types of technology are developed/adopted and how they are deployed?)
- Requires conscious policies to redirect innovation in a more labor-friendly direction
 - AI and other technologies that augment rather than replace labor, and increase the range of tasks less skilled labor can do

D. International economic policies that “protect” domestic labor/social standards

- Shifting tax base back to capital, and away from labor
 - global information exchange, minimum national taxes, reining in tax havens
- A social anti-dumping clause
 - expanded safeguards clause that allows nations to uphold national social/labor standards when faced with imports from countries that violate fundamental labor or human rights

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