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"The Crisis of Jobs and Why We Should Think Longer Term"

I. Confronting concurrent realities

Economic policy is on uncharted terrain. COVID-19 is a huge challenge, but we are really faced with three realities at the same time.

We have the immediate challenge of a public health crisis and economic recession, both of global scale. But tackling this is complicated by the second reality, of a new future that is already unfolding before us, for which we have to regear ourselves. The structure of demand is changing, supply chains and the organization of work are changing, and with them the shape of the job market. COVID-19 and the fear of future pandemics have created a new normal that we must adapt to.

Third, we inherit legacies, now made more challenging by the COVID-19 crisis: the prolonged stagnation of incomes in the middle in many advanced countries, the polarization of job markets, a growing risk of pension gaps, and the ever more serious prospect of climate catastrophe.

It is these three realities interacting together that make this an immensely complex, dynamic and daunting time — for public policy, for society, and for politics everywhere. Focusing on today's problems in themselves, without addressing the problems we inherit as well as the need for structural changes in the economy and job market, will make the future even more challenging and fraught with danger.

I.A. The next phase of policy response

We have passed the first phase of tackling the economic crisis in most countries, where we were focused on avoiding the extreme downsides arising from COVID-19 and the multiple lockdowns around the world. We wanted to avoid mass unemployment and a large wave of bankruptcies, which would have led to a self-reinforcing spiral of declining incomes and confidence. We have mostly succeeded in doing so.

We are now at a transition point. We cannot protect existing jobs, firms and industry capacity to the extent seen in the first phase. Most countries do not have the fiscal capacity to do so. Strategically too, we have to let some of today's firms and jobs go, to enable future growth and more promising jobs to be created.

However, we cannot pivot policies too quickly into this next phase. We are still in the midst of recession in most economies, the virus is far from tamed, and there is risk of further lockdowns if it surges during the northern winter. Even on optimistic assumptions, it will take much more than a year to get back to full economic life, and back onto a normal path of output and employment.

There is another reason why substantial macroeconomic policy support for firms and jobs remains necessary over the medium term. Withdrawing support too quickly will not lead to efficient market restructuring — the rechanneling of labor, capital and other resources that lands us in a better place — in the way we would expect in a typical downturn. We are operating with little visibility of the future, hampering the ability of either policymakers or markets to discriminate between firms that are loss-making today but remain viable for the future and the zombies that limp along on life support. 'Creative destruction' without this visibility of the future will lead to too many good firms and jobs being destroyed.

The next phase of policy response must also consider the pre-existing trends and inequalities that COVID-19 has exposed and in fact accentuated. It must mean addressing the low rates of productivity growth in much of the advanced world, and the still limited convergence of productivity levels between the developing and advanced economies. Without better productivity growth, it will be much harder to achieve sustained middle-income growth or address inequalities. We must also make a determined attempt to grow out of the crisis and create jobs in a way that strengthens, and puts at the core, the sustainable economy.

II. The Central Problem: Jobs

Amidst complexity, we have to be clear about the central economic problem. The central problem is in creating enough jobs in the first instance, and in raising the quality of jobs for more people over time.

First, there is a real prospect of a prolonged period of high unemployment in many economies. It is not at all assured that we will get back to tight labor markets, even with traditional macroeconomic policy being properly applied.

Second, we have to counter the secular decline in productivity growth, to be able to tackle the stagnation in median incomes seen, with the exception of a few like Sweden and Singapore, in a whole range of advanced economies. Third, we have to address the trend towards a polarized job market — with more jobs being created at the high and low skilled ends of the labor market and fewer in the middle (Autor 2019), and the growth of an insecure, low-paid gig workforce, especially amongst the young (Haldane 2019; Boeri et al. 2020).

Each of these is a difficult challenge, and overcoming all three even more so. While employment recovered well in some major economies in the decade after the Global Financial Crisis, productivity growth weakened (and indeed was part of the reason why employment recovered) and job polarization became more severe.

There have been some periods in history where we were able to achieve all three objectives. One of the stylized facts of economic development, which Arthur Lewis and others highlighted, was about labor being shed from low-productivity sectors (originally agriculture) and taken up by sectors which had higher productivity such as manufacturing. That reallocation of labor is how low-income countries became middle income, and some middle-income countries became advanced.

But the experience of recent years in many advanced economies has been of a reverse Lewisian movement — where labor is shed from industries that are dynamic and are at the higher end of the productivity ladder, and channeled into lower-productivity, lower-wage occupations. In fact, the main engine of job growth in the United States and a range of other economies has been in lower-paid domestic and personal services — food services, cleaning, security, and a range of other domestic services.

However, COVID-19 has introduced a major disruption even with regard to this polarized job market. The bottom end of the barbell distribution is now itself diminishing. Remote work, telepresence — like how these Jackson Hole discussions are taking place — are shrinking the number of jobs in a whole range of domestic and personal services.

What this means is that the market receptacle for labor displaced from higher productivity industries has shrunk. It was a receptacle of lower-pay and less secure jobs, but what is even more unattractive now is the prospect of fewer such jobs.

We also face, in particular, the risk of unravelling some of the improvements in female labor force participation and self-determination that were achieved over decades. COVID-19 and the social distancing and other new protocols that we will have to live with for some years is hurting the human-facing jobs in the services sector, that women have been disproportionately represented in — brick-and mortar retail, food services, hotels, and the leisure industry. Compounding this has been the closure of childcare and schools during the pandemic, which has unfortunately translated into more women than men staying at home to look after their kids.

We have to apply ourselves now and over the next few years to this central economic problem of making sure we have enough jobs, and that people get into jobs that do not trap them in low skill, low pay work.

II.A. Policies for a wider distribution of good jobs

What are some of the initiatives that we have to focus on, or begin thinking about? I will touch on macroeconomic policy at the end of my remarks, but we have to focus increasingly on the microeconomic incentives we create, and on new forms of collaboration between government, business and communities. I highlight a few below, that are essential to tackling the jobs challenge.

First, we have to redesign fiscal support for firms and jobs, so as to provide strong incentive for new job creation as we gradually phase out subsidies for existing jobs. In other words, we should shift from subsidizing the stock of existing jobs towards incentivizing the flow of new jobs. Singapore is doing so with our new Jobs Growth Initiative (the state pays employers up to 50% of wages for new additions to the firm's workforce over the first 12 months), as we step down the significant subsidies for existing jobs that our Jobs Support Scheme provided in the first phase of the crisis.

Second, we have to put great energy into getting people who are displaced back into jobs, and avoiding as much as possible ill-fitting job matches that could lead to a permanent reduction in their wages, as well as in average productivity.

We must do all we can to avoid people being detached from work for an extended period, to prevent the depreciation of skills and morale that comes with that, and increased barriers to employment. What economists refer to as hysteresis will be a real risk in the coming months and years.

However, the aim of job matching cannot simply be about speed. It is not about getting someone any job as soon as possible, because that can mean losing the human capital they have accumulated. As much as possible, we have to find jobs with requirements that build on a person's existing skills and experiences. Finding those jobs with adjacent or complementary requirements, and moving swiftly to top up the skills job-seekers bring with them, is a key task. We cannot take too long to help someone secure a new job, but we have to try and achieve a good match with the human capital they have accumulated, so that they do not lose it, and society does not lose it.

Achieving this is not easy, because labor markets suffer from imperfect information. It requires coordination, and the joining up of career coaching, job matching and skills development programs. This is an altogether human enterprise, but is greatly aided now by advances in information and communications technologies and artificial intelligence. The most effective systems have tended to involve governments (or local authorities) playing an active coordinating role, working with employers, job-seekers, unions or other social partners, and training providers. Even neighborhood-based referral networks have been found to be useful in securing reemployment, especially for lower-paid workers (Hellerstein et al. 2019). However, in the context of the current uncertainties, significant state subsidies are also required to incentivize employers to recruit and train people. If we leave it to the market, we are going to see longer spells of joblessness and higher overall unemployment.

We also have to recognize, in the wake of the pandemic, that it will take time before hiring for permanent jobs or long-term contracts comes back on the scale we will need. We have to find ways to incentivize firms to take in people on traineeships, even if they cannot take on permanent hires. This means not just youth apprenticeships, but traineeships for mature workers in their 40s and 50s. It is going to be extremely important. We have to work with industry partners to curate traineeships, get people back into the workplace, and help them build on their skills and not lose touch. We must do all we can to avoid the long-term detachment from work.

Third, we have to invest more systematically in both education and life-long learning to tackle the more fundamental, pre-existing trend of job polarization. We have to go beyond the mantra of life-long learning to make it a practical reality for blue-collar and ordinary white-collar workers. All experience, even in northern Europe where the tradition is most established, shows that it has been much harder to get this going for ordinary workers than for high-skilled professionals, which only accentuates existing inequalities. This has to be a critical area of public policy and coordination, with assured public-private funding, quality training programs that both firms and workers find relevant to their future, and technologies and outreach programs that make learning convenient for workers when they are not on the job. It also requires increased agility in the system, to enable firms and workers to develop news skills quickly as technologies change.

Fourth, again to create enough good jobs and avoid continued job polarization, we have to ask ourselves questions about incentives for different kinds of automation. Tax policies today incentivize automation in almost every form and everywhere, even where labor markets face significant long-term slack. Should we incentivize automation that augments labor, creating new tasks in which humans have a comparative advantage, rather than simply displacing labor (Acemoglu and Restrepo 2018)?

Technological advances have historically both displaced labor and increased the demand for labor in new tasks — either within the same industry or indirectly in the rest of the economy — enabling society to stay fully employed. But that is an empirical regularity, not a law. Serious economists, as well as business and technology leaders themselves, have differing views on whether the current generation of new technologies, left to market forces, will lead to the same outcomes or a permanent state of higher joblessness. We will not know in advance. It is not too early to consider how public policy — applied to promoting skills development and automation of the kinds that can complement one another — can increase the chances of a new era of widely-distributed good jobs.

Fifth, we need collectively-determined solutions to ensure that growth of labor compensation does not trend below productivity growth, as has happened over the last few decades in several advanced economies. Studies show a range of market imperfections that could account for such outcomes. Institutional interventions, involving the state, are especially needed where the problem reflects the weakened bargaining power of workers (Stansbury and Summers 2020) or increased monopsony power of employers. These interventions should ideally be accompanied by efforts to develop new mindsets and more persistent norms in the labor market; norms can be observed to vary across countries, especially with regard to pay for women and low-skilled workers. There could be a role for monetary policy as well, as the late Alan Krueger suggested at Jackson Hole in 2018: if monetary policy can keep the labor market hot, it could help weaken the monopsony power of employers (Krueger 2018).

Sixth, we need strategies to ensure that the SME sector survives and upgrades, to avoid much larger job losses as well as greater wage inequalities. SMEs are disproportionately represented in the service sectors, where jobs have been most vulnerable to the impact of COVID-19 and national lockdowns (Bartik et al. 2020). They also face greater funding risk than large firms in an environment of uncertainty. While a churn of businesses is inevitable and will have its economic benefits, there is a real risk of a diminished SME sector as a whole and further increases in industry concentration in many economies. Besides its implications for long term generative capacity and economic vibrance, it will likely have an intangible impact on social capital.

Governments and central banks have been quick to move on loan guarantees and the like, to ensure near-term credit support for SMEs. But we have to look beyond this. There is no silver bullet here, but we do need to focus on broad-based economic vibrance as an objective of public policy, and be willing to experiment. Quite apart from updated antitrust policies, what form of cluster strategies can we get to work well, and enable better diffusion of innovation from the frontier firms to the rest? How do we incentivize test bedding of innovations in small firms themselves? How do we aggregate skills training for their workers, to address growing gaps in skill levels between large and small firms? How do we promote digital platforms — and especially inter-operable cross-border platforms — that small firms can plug into, so they can benefit from the scale economies of the digital economy?

III. Monetary and Fiscal Policy: Taking a Longer View

Governments have done right to pull out all the stops to save their economies and jobs amidst the pandemic. However, we face a different structural future, compounded by the long-standing structural trends we inherit, that make this much more than a sharp cyclical downturn. It requires a longer-term orientation in economic policymaking and in the way we organize ourselves to respond collectively. This is a major and complex theme, but let me make a few broad remarks here.

Monetary policy has succeeded in buffering economies and financial systems against a severe shock to confidence amidst COVID-19 and a seize-up in liquidity, including in the global funding markets. But its very expansiveness has brought us closer to the point of diminishing returns to monetary policy as a demand management tool in the advanced economies. Relying chiefly on monetary policy to get economies back to full health will be less effective over time and holding policy rates at or near zero over a prolonged period may have counter-productive effects.

Fiscal policy therefore has to play a more important role, and in concert with labor market and industrial policy reforms such as those I mentioned earlier. But it also requires a repurposing of fiscal policy. We have to repurpose the state to defy secular stagnation, to invest in the green economy, and to rekindle social mobility. The state has to go about achieving these objectives with a spirit of activism, guided by moral purpose, and always focused on achieving both equity and efficiency.

Expansive fiscal policies make sense in the short to medium term. But the real debate has to move from thinking about immediate stimulus effects, to how we achieve our longer-term goals through today's fiscal packages and beyond. We need a Keynesianism for long-term goals.

We have to refocus on public goods, which used to be a fundamental purpose of government budgets. They are now greatly underinvested in, not only in the emerging world but in many advanced economies. It is a huge opportunity around the world: investments to achieve broad-based quality in public education systems, including technical and vocational training; in more accessible and less costly healthcare; in universal broadband access; in upgraded water and transport networks; in R&D for clean energies, sustainable agriculture and the circular economy.

We will not be able to fund these investments on public balance sheets alone. Remember too that this pandemic is not the last we will face, and the next pandemic may very possibly be more challenging than what we are going through today. We do need, as we emerge from COVID-19, to rebuild fiscal space to deal with future shocks. It will require stronger revenue systems in many cases. But the redesign of fiscal strategy must also involve catalyzing private investment in public goods. There are many examples of how this can be done, including ways to achieve a fair sharing of the risks on such investments.

These are feasible reforms. They require the marshalling of public support around long-term goals. They are our best chance of achieving prosperous and cohesive societies, and an ecologically viable future.

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