The Next Safety Net

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As advanced economies become more automated and digitized, almost all workers will be affected, but some more than others. Those who have what the economists Maarten Goos and Alan Manning call “lovely jobs” will do fine, creating and managing robots and various digital applications and adding lots of value in service sectors such as finance. Those who have what Goos and Manning call “lousy jobs,” however—in sectors such as manufacturing, retail, delivery, or routine office work—will fare less well, facing low pay, short contracts, precarious employment, and outright job loss. Economic inequality across society as a whole is likely to grow, along with demands for increased state expenditures on social services of various kinds—just as the resources to cover such expenditures are dropping because of lower tax contributions from a smaller work force.

These trends will create a crisis for modern welfare states, the finances of which will increasingly become unsustainable. But making the situation even worse will be the changing nature of employment. Twentieth-century social insurance systems were set up to address the risks met by people who worked in mass industrialized economies—ones in which there were generally plenty of jobs available for all kinds of workers. The basic assumption behind them was that almost all adults would be steadily employed, earning wages and paying taxes, and the government would step in to help take care of the unemployable—the young, the old, the sick and disabled, and so forth. Social insurance—provided by the state in Europe and by the market in the United States—was aimed at guaranteeing income security for those with stable jobs.

In twenty-first-century digital economies, however, employment is becoming less routine, less steady, and generally less well remunerated. Social policy will therefore have to cover the needs of not just those outside the labor market but even many inside it. Just as technological development is restructuring the economy, in other words, so the welfare state will need to be restructured as well, to adapt itself to the conditions of the day.

THE WORKING LIFE

The future of social policy will depend on how digitization changes the economy and employment. In the shift from the industrial to the digital economy, many jobs and activities are being destroyed, but new wealth is also being created. Robots are replacing humans in many situations, but new technologies and business models are generating a vast array of new goods, services, and applications, as well as the jobs necessary to create and operate them.

Technology doesn’t only allow old things to be done better and cheaper; it also opens up new potential business models and the means to satisfy previously unidentified needs. Those who can intuit and develop such models and satisfy such needs—entrepreneurs—are the kings of this new world, putting their talents to use in listening to customers, identifying their unmet desires, and creating businesses to serve them. In such efforts, digital technology is a means to an end, making businesses more scalable and customizable and increasing the return on invested capital. Software and robots don’t do all the work in such operations; humans continue to play a crucial role. But the nature of the human work involved often changes. Stable, long-term employment in routinized jobs is often no longer necessary; formal and informal collaboration on temporary projects is more the norm.

In twenty-first-century digital economies, employment is becoming less routine, less steady, and generally less well remunerated. A clear distinction between job and home life erodes, moreover, as work becomes ad hoc and can be done anywhere, even as the so-called sharing economy marketizes a range of direct peer-to-peer transactions outside standard corporate channels. People who can no longer find stable wage jobs look for ways to make ends meet with gigs offered on the huge platforms of the on-demand economy. As those platforms expand, everybody can sell things (on eBay), rent out a spare room (on Airbnb), perform a task (on Amazon’s Mechanical Turk), or share a ride (on BlaBlaCar).

So why the need for a new social policy? Why not just rely on entrepreneurial activity to redeploy the work force based on the new activities? Partly because various legal and regulatory barriers stand in the way of this brave new world, barriers erected precisely to avoid a situation in which all of life becomes subject to market operations—but also because there are plentiful dangers lurking, as well as opportunities. Innovation is the coin of the digital realm, for example, and innovation is routinely accompanied by failure. The dynamism of the digital economy is matched by its volatility. Few start-ups find a viable business model, let alone a sustained market. New companies emerge out of nowhere but often crash as quickly as they have soared. The entrepreneurs at the head of such operations may reap rich rewards during their brief time in the sun, but the same might not be true for their employees lower down on the food chain, who absorb much of the same risk and churn without partaking of the outsize benefits. So in the digital economy, a few lucky individuals will find significant or sustained income and security, while many more unlucky ones will see their employers go bankrupt and have to seek new ways to make ends meet. Many current social benefits, finally—such as pensions—are organized around the old economy, so people transitioning to the new one end up sacrificing a lot.

Shannon Stapleton / Courtesy Reuters

A supporter of Airbnb holds a sign during a rally in New York, January 2015.

Unless social policy evolves, therefore, automation and digitization will aggravate inequality and leave many workers worse off than before. With proper innovations, however, new kinds of social policy can reduce inequality, protect workers, and even promote job creation. The digital work force can be enabled and empowered, firms can benefit from a more productive work force, and government can prove its relevance and effectiveness.

THE SEARCH FOR SECURITY

Some of the challenges future social policy will need to address are traditional, such as health care, old-age pension, and senior care. Others will have a new twist. Affordable housing, for example, is likely to become an increasing concern, as the digitization of the economy concentrates economic activities in major cities, aggravating the scarcity of real estate there. As the economist Enrico Moretti suggests in *The New Geography of Jobs*, the real estate market in Silicon Valley offers a glimpse of how difficult it will become for most people to find decent housing close to the dense innovation clusters where new jobs will be located.

The greatest challenge, however, will be dealing with mass intermittent employment, as most of the work force will have to switch jobs relatively often and face temporary unemployment in between. For many today, the concept of intermittent work carries with it a sense of dread or shame, but that is only because it is approached with attitudinal baggage from the old economy. In the twenty-first century, stable, long-term employment with a single employer will no longer be the norm, and unemployment or underemployment will no longer be a rare and exceptional situation. Intermittence will increasingly prevail, with individuals serving as wage earners, freelancers, entrepreneurs, and jobless at different stages of their working lives.

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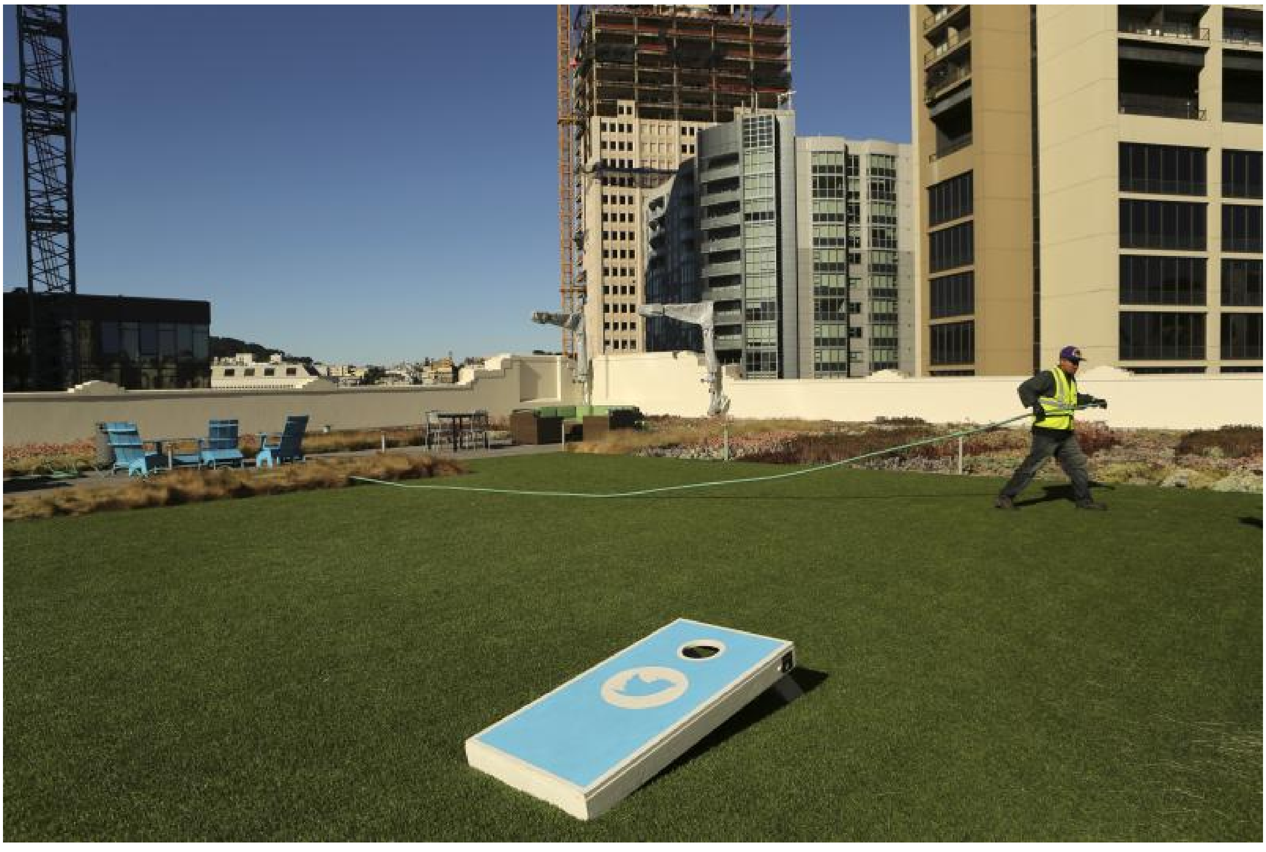
With twentieth-century social policies, such a career pattern would be a disaster, because many benefits would be tied to certain kinds of jobs, and workers without those jobs might fall through the gaps in the social safety net. The task of twenty-first-century social policy is to make a virtue of necessity, finding ways to enable workers to have rich, full, and successful lives even as their careers undergo great volatility.

One commonly touted alternative approach to social policy is government provision of a universal, unconditional basic income to all citizens. The idea, promoted, for instance, by the political economist Philippe Van Parijs, is to pay each citizen a basic income that would guarantee access to basic necessary goods. This would guarantee freedom for all, the argument runs, giving people the option of choosing the jobs and lives they truly wanted. Such an approach would be both extremely expensive and insufficient, however. It would ensure that everyone had some money in their pockets at the beginning of each month, but it wouldn’t ensure that they would choose or even be able to afford decent health care or housing. Simply adding money to the demand side of the market would not necessarily produce more or better results on the supply side. So while some form of increased assistance may well be a necessary part of the puzzle, a guaranteed basic income does not amount to comprehensive or effective social policy reform.



Robert Galbraith / Courtesy Reuters

A worker tends to the lawn on the roof of Twitter headquarters in San Francisco, California, October 2013.

Another possible approach is government provision not of incomes but of jobs. Public job creation was a major feature of the New Deal in the United States and similar programs elsewhere, and even today, there are some cases in which it makes sense for public authorities to at least finance the cost of collectively useful jobs—for example, in childcare, eldercare, education, and basic skills training. But governments have neither the means nor the agility to supplant most entrepreneurial activity in the private sector, inventing and deploying new business models that can trigger significant job creation in the digital economy.

Instead of attempting to replace or compete with entrepreneurs, governments should try to support and help them—by eliminating the legal barriers that often stand in the way of creating and growing the businesses that can provide jobs. In many places today, for example, existing fleets of taxis and taxi drivers cannot be replaced by masses of occasional, on-demand drivers working for companies such as Uber or Lyft because of government regulations that artificially limit the supply of transportation services. Modifying or abolishing such regulations could lead to a virtuous circle in which the availability of more drivers would create greater demand for more personalized or affordable services. And a similar process could take place in the health-care sector as well. In an increasingly digitized economy, many routine health-care tasks that under current law require doctors could in fact be accomplished by nurses supported by software and other technology. Regulatory reform could thus simultaneously lower costs, increase employment, and improve health-care outcomes.