ILO expresses concern about World Bank report on future of work

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World Development Report 2019

Following the publication of the World Development Report 2019 on 'The changing nature of work', the ILO questions the approach to some key issues addressed in the publication.

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The ILO has taken good note of the publication of the *World Development Report 2019: The Changing Nature of Work* . It covers issues that go to the heart of the priorities of the ILO itself and are of fundamental importance to the ILO and its constituents. As the multilateral system strives to achieve the Sustainable Development Goals (SDGs), it is important that multilateral agencies work together towards fair, inclusive and sustainable development.
We wish to acknowledge the opportunity created by the World Bank during the drafting of the WDR to provide feedback. Updated drafts of the report appeared regularly on the World Bank's public website with an invitation for comments. Not only did the ILO provide written comments to the WDR team, but at the Bank's suggestion we held a day-long meeting in Geneva to discuss the draft. The meeting provided a forum for exchanging candid views on a range of issues.

We appreciate that the WDR as published differs from earlier versions on some issues that we discussed. For example, the final version of the WDR places greater importance on the role of collective bargaining. Advocacy of profit-sharing in lieu of a minimum wage, which appeared in earlier versions, no longer appears in the report. We hope these revisions in approach reflect the discussions held with the ILO and other institutions.

Nonetheless, we remain concerned about the WDR's approach to labour market institutions, regulations, the informal economy and social protection, and its lack of consideration of the gender dynamics of the changing nature of work. In addition, where we may agree with certain observations in the WDR, we find that the analysis and policy solutions fall short of a comprehensive approach to reducing inequality.

New technologies, work and education

We concur with the WDR 2019's analysis that the anxiety about the sweeping impact of technology on employment is on balance unfounded. One of the most fundamental challenges to a just jobs transition consists in closing the critical gaps in skills and education requirements that rapid technological change creates. We therefore also agree with the World Bank report that traditional education and training systems have to undergo major adjustments to make the most of the evolving world of work. Failing to address this fundamental challenge risks leaving many workers behind and contributing yet more to the earnings and income inequality that has beset much of the world in recent years. While we agree with the importance of early childhood development and tertiary education, the WDR lacks a substantive discussion of the concept of lifelong learning and does not sufficiently address its importance and the urgency to change the current model. The report is also silent on the financing of lifelong learning and on the use of financial incentives to encourage the participation of individuals and employers in post-compulsory education and training.

The challenge of adapting our current systems of lifelong learning becomes all the more evident when we consider how the employment relationship itself is changing. Companies have the greatest incentive to invest in their workers -- because they reap the greatest gains – when workers remain with them over a long period of time. However, at the very moment when investing in worker training has become paramount, we may be facing a world in which workers switch more frequently among companies. The problem is exacerbated with growing numbers of workers in the platform economy and other workers with weak attachments to companies.

We therefore need to adapt and strengthen our lifelong learning policies. First of all, we urgently need to expand public funding to cover continuing training of the adult workforce. But government can't do this alone. We also need incentives for employers to co-fund training. Second, we need to adopt a rights-based approach to lifelong learning that gives everyone the possibility of training at any point of their working life. Third, rethinking lifelong learning requires a whole-of-government approach to coordinate a number of policy actions [1]: the implementation of labour market measures to support workers during their job transitions; strengthening relevant support systems (e.g. career guidance and childcare during training to enable parents to invest in their skills); targeting workers in SMEs and low skilled workers who are traditionally under-represented in training; and ensuring tripartite social dialogue and involvement of social partners in national, sectoral and local governance arrangements to make sure that policies are fair and are implemented. Unless we take these steps, rapid technological change stands to exacerbate inequality.

Thus, we believe that the WDR 2019 misses an important opportunity to address one of the most fundamental issues confronting policy makers in the future of work.

We suggest as well that the World Bank's new Human Capital Index may provide only a partial metric, because individual capability must be measured as a lifelong endeavour. Furthermore, a country's capacity to innovate depends on public strategies to help transform a society's knowledge base. Governments need to develop comprehensive learning strategies to foster a more creative and innovative workforce. Such learning strategies embrace learning in formal education and training, in families and communities, in professional and social networks, and in enterprises and industries. Positive labour market transformations in a context of rapid technological change thus fundamentally depend on the political will to enhance societal learning in all its dimensions.

Labour market institutions, regulations and the informal economy

Future disruptions in the world of work are likely to reveal labour market imperfections and possibly create new forms of imperfections and, as a result, labour regulation will continue to play a critical -- and perhaps even more critical -- role. The real issue is how to adjust labour regulation to the new reality, instead of resorting to a path of de-regulation or under-regulation as suggested by the WDR 2019. Moreover, both efficiency and distributional aspects need to be considered in evaluating the impact of labour market regulation on employment and decent work. This would be a better way of organizing our policy debates, shifting away from a deregulatory drive towards a more balanced approach. Well-designed labour market institutions are useful tools for labour protection. Minimum wages, for example, remain a useful instrument of labour protection and ensure that workers are paid at least minimally decent wages.
The WDR 2019 advocates increased flexibility on the labour market to adapt more easily to the rapid changes on the labour market. ILO research, however, shows that innovation at firm level does not require increased flexibility[2]. Furthermore, while there are advantages of more flexible work arrangements, the WDR 2019 does not assess their potentially negative impacts on workers, enterprises and societies. ILO research[3] provides a more balanced view on the issue; while some workers might benefit from more dynamic labour markets, others might face greater insecurity of employment and income, or have increased difficulties in reconciling work with family and other personal responsibilities.

The view articulated in the WDR 2019 that labour market institutions are a fundamental obstacle to the formalization of the informal economy is a generalization that is unsubstantiated by empirical findings. The evidence reveals that there are many different drivers of informality, including the inability of the economy to create enough formal jobs, weak enforcement systems, lack of transparency and accountability of public institutions, low productivity, as well as lack of worker voice and representation. Drivers vary according to countries and to groups of workers and economic units concerned. An inadequate or absent regulatory framework is also a driver of informality. The issue is not whether to regulate or deregulate, but how to reform ill-designed regulations to arrive at a good balance between under- and over-regulation. Such a country-specific balance will encourage formalization of economic units and employment and provide workers with adequate rights, obligations and protections.

Strengthening social protection

We agree with the WDR 2019’s call for strengthening social protection systems. However, many elements of the World Bank’s proposal would in effect lead to the weakening of social protection systems, in particular by undermining public social insurance.
The ILO welcomes the strong focus on universalism, as promoted under the Global Partnership for Universal Social Protection (USP2030) launched by World Bank President Kim and ILO Director-General Ryder in September 2016. The WDR’s focus on progressive universalism and expanding social assistance, calling for a guaranteed social minimum financed from the general budget, shows the importance of strengthening access to at least a basic level of social protection, that is, a social protection floor.

However, the ILO is concerned that the WDR advocates the weakening of fundamental elements of social protection systems. Achieving redistribution and inclusive growth exclusively through social assistance is illusory in the absence of a strong mix of labour market regulation and public social insurance schemes that relieve the pressure on social assistance. The ILO's approach, agreed by all governments, employers' and workers' organisations, emphasizes that, while a social protection floor represents a necessary and fundamental element of social protection systems, it needs to be complemented by schemes that provide an adequate level of protection to large groups of the population, including the middle classes. This is usually achieved through social insurance schemes.

The WDR 2019 lacks substance on how the extension of coverage and benefits to the broad majority of the population, including the working and middle classes, will be achieved in developing countries. While advocating for a Universal Basic Income (UBI) model, the report does not provide sufficient detail on benefit levels, financing and design to show how a UBI would guarantee a social minimum. In particular, the report does not present a convincing argument as to how developing countries could move from a limited safety nets approach to a full-fledged UBI that would be sufficiently high to prevent poverty, given their often limited tax base. We caution against a one-size-fits-all approach and emphasize the need to seek the most effective and efficient combination of benefits and schemes as determined in each national context in line with ILO principles and standards.

The report presents social insurance as an instrument of the past, which has lost most of its pertinence given the "changing nature of work". Yet for over 100 years, both developed and developing countries have successfully developed different social insurance models, adapted to national and regional contexts (including, for example, the Beveridge model and its different adaptations, and the Nordic model of combining universal tax-funded schemes with social insurance, as well as different adaptations in Latin America, Africa and Asia).

The WDR 2019 wrongly associates social insurance with higher informality. A recent study on the prevalence of informal economy entrepreneurship[4], covering 142 countries, rejected the hypothesis that informality was mostly associated with high taxes and state interference in the market. Evidence also shows successful extension of coverage in middle- and low-income countries[5] with high levels of informality, including Algeria, Argentina, Brazil, China, Ecuador, Jordan, Morocco, South Africa, Thailand, Uruguay, Viet Nam, the significant innovations in extending social protection coverage to those in the informal economy, and facilitating their transition to the formal economy.[6]

In addition, the WDR 2019's claim that social insurance is unsuitable for covering workers in non-standard employment relationships is unfounded. These relationships pose complex challenges that require more thorough and detailed analysis to support policy makers.[7]

The WDR's proposal for "minimum social insurance", achieved through cuts to employers' contributions, would result in increased levels of inequality and endanger the sustainability of social protection systems. Reduced contributions would also undermine coverage and benefit levels, which would result in hardship and increased poverty, especially for low wage earners. Decoupling social insurance from work, cutting employers' social insurance contributions or introducing very low ceilings for insurable earnings would severely undermine social security systems by constraining their inflow of resources.

To compensate for the cutback of public social insurance to a "basic social insurance", the WDR 2019 proposes mandatory and voluntary privately-managed individual savings mechanisms, despite the evidence that these schemes are unable to provide social protection for large parts of the population. Pension privatization, implemented in about 30 countries, did not deliver expected results. Full or partial privatization underperformed: coverage stagnated, benefits deteriorated, gender inequalities compounded, administration costs increased, systemic risks were transferred to individuals and fiscal positions worsened significantly given the high transition costs. As a result, the majority of countries that embarked on pension privatization are reversing these reforms. Similarly, the introduction of unemployment savings accounts has not led to the expected results, as adequate levels of protection are achieved only for those with the lowest risks of unemployment while those who are most exposed to the risks, including most of the middle class, are being left behind.

Moving from collectively financed mechanisms to individual savings mechanisms results in adverse effects, particularly for women with non-linear working lives and disadvantaged workers, who are not in a position to build up sufficient savings to ensure adequate levels of protection. If the redistributive components of social security systems are eliminated with the introduction of individual saving accounts, those with low incomes, disrupted work careers or in non-standard forms of employment who have low savings will end up with correspondingly low pensions, thereby increasing inequalities.

The WDR's proposals to separate redistribution from risk-sharing and decouple social protection from employment therefore stand to undermine the fundamental principles of social protection systems in favour of an agenda for deregulation.

A flawed social contract

A world with deregulated labour markets combined with minimal social assistance and social insurance would have high human and economic costs. As indicated in these ILO remarks, the WDR 2019 model stands to provide only low levels of employment and income security for the broad majority of the population and would not be likely to achieve the objectives of poverty reduction, shared prosperity and inclusive growth.
Such a model cannot serve as the basis for a new social contract. While the WDR's proposals for taxing the largest corporations (particularly the big data firms), creating a strong regime of data protections, better investments in education, and job creation could be important elements, without a firm anchor in decent work which includes strong labour regulations and robust social protection the social contract proposed in the WDR will not lead to sustainable development and inclusive growth. Limited proposals to embed some element of fairness cannot substitute for the framework provided by decent work, founded on fundamental principles and rights at work and international labour standards that result from tripartite consensus and that the overwhelming majority of countries have embraced.

The absence of serious consideration of gender inequality throughout the report misses a further opportunity to address one of the key challenges to inclusive growth. The decent work agenda, which advances the 2030 Sustainable Development Agenda, presents a more coherent, balanced and equitable path to achieving inclusive growth and sustainable development.

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[1] Research on this issue identified three success factors for effective coordination: first, clarity of roles, responsibilities, decision making power authority and purpose; second, strong consultative mechanisms, including institutional ones; and third, influence over decisions about funding allocations. See ILO/UNESCO 2018. *Taking a Whole of Government Approach to Skills Development*. International Labour Office, Geneva.
[2] ILO. 2017. *WESO 2017: Sustainable enterprises and jobs* . International Labour Office – Geneva.
[3] ILO. 2016. *Non-standard employment around the world: Understanding challenges, shaping prospects* . International Labour Office – Geneva.
[4] Williams, C.C., Kedir, A., 2017. Explaining Cross-National Variations in the Prevalence of Informal Sector Entrepreneurship: lessons from a survey of 142 countries. Journal of Developmental Entrepreneurship.
[5] ILO. 2017. *World Social Protection Report 2017-19: Universal Social Protection to Achieve the Sustainable development Goals* . Geneva.
[6] ILO. 2014. Uruguay Monotax: Promoting formalization and protection of independent workers . Geneva; ILO. 2018. Innovative approaches for ensuring universal social protection for the future of work . Geneva.
[7] Such an analysis can be found in ILO, 2016. *Non-standard forms of employment: Understanding challenges, shaping prospects* . International Labour Office, Geneva.
Tags: future of work, economic and social development, ILO Director General

Key resources

1. ILO portal on the 2030 Agenda for Sustainable Development