World Bank Group

Risk Sharing Policy for the Diverse and Diversifying World of Work

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The prevailing risk-sharing policies- i.e. worker protection and social insurance – are designed around a 'standard employment relationship', namely, single, full-time, dependent wage or salaried jobs that are stable over a long term. This form of work, however, was never prevalent in developing countries, and is coming contested in developed countries where working forms are becoming as diverse. New forms of work are emerging and becoming more common, propelled by global drivers of disruption, leading the world of work to a 'new normal' - multiple, shorter-term and fluid forms of market engagement. Policy makers in all countries, at all levels of development, are now pushed to rethink risk-sharing policies to respond to this diverse and diversifying world of work. This note[1] takes a first step to suggest approaches to some of the questions in the search for an alternative risk-sharing model. Three guiding principles are highlighted: delinking protection from the workplace, adaptability, and neutrality.

1. Prelude: risk-sharing policy in the face of diversity and change

The prevailing risk-sharing system

The prevailing risk-sharing institutions and policies are designed for a specific form of job, prevalent in Europe and North America since the late 19th and well into the 20th century. In their countries of origin, these models for risk-sharing were developed in the late stages of the industrialization process, augmented in response to labor unrest and the deep recession during the interwar period, and further fortified in the decade after the 2nd World War. Intended to achieve a greater balance of power between workers and firms, and to correct many other market failures, the policy apparatus was designed to support the way that most people worked at that time. Thus, the policy and institutional framework rested on three foundational assumptions: that most people have a single economic activity; that most work full-time in a subordinate, salaried or wage relationship for a firm; and that their occupation and employment will be stable over a long term. Unionization and the strength of collective bargaining were based on well-defined and enduring occupational categories. Unemployment was a relatively rare loss for which workers and firms could insure with governments' help. Pension plans rewarded longer tenure. And the firm was assigned enormous responsibility for implementing social policy, including as a platform for skills development and career continuity.

Throughout the mid-20th century, low and middle-income countries adopted these models with the reasonable expectation that they would follow a similar path of economic development. In almost all pre- and early-industrializing economies, the risk sharing policies reflect an industrial-era model and many elements of the classical Welfare State, with employment-based social insurance, statutory minimum wages, limits on dismissals, provisions for severance pay and relatively comprehensive worker health and safety structures. This came as part of the fast-spreading expectations of economic development, across continents and in diverse country settings, which took hold of a surprisingly uniform aspirational norm of

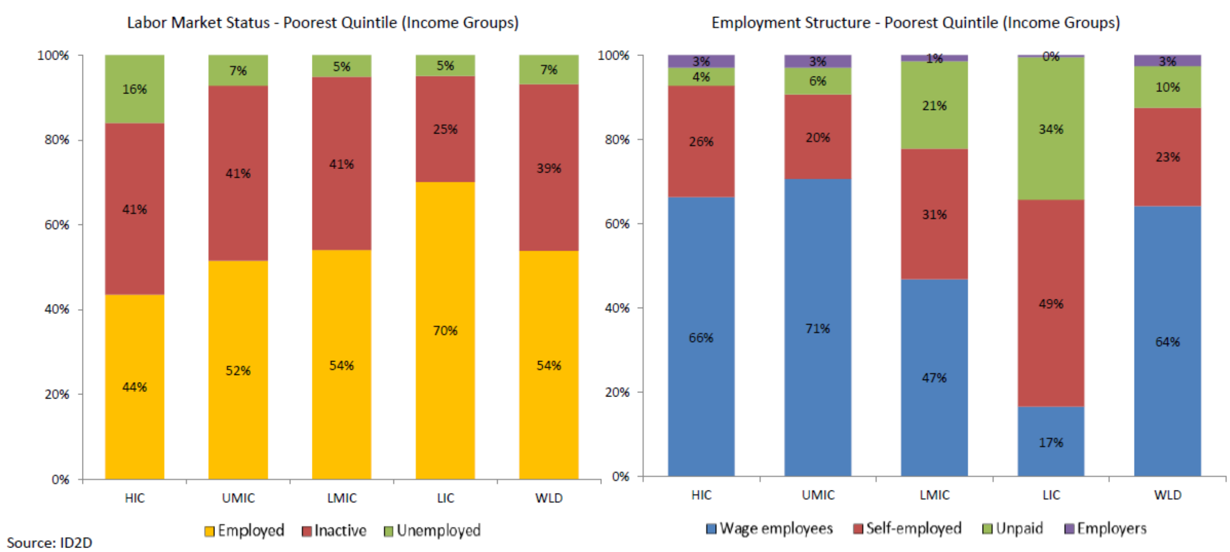
[1] The contents of this note are based on a draft of a paper prepared by a core team of the World Bank's Social Protection and Jobs Global Practice: Ugo Gentilini, Phillip O'Keefe, Truman Packard, Robert Palacios, David Robalino, Indhira Santos, Veronica Michel, Jose Romero and Arvo Kuddo. The team works under the supervision of Michael Rutkowski, Sr. Director and Head of Practice, Social Protection and Jobs, and Margaret Grosh, Sr. Advisor, Social Protection and Jobs. Professor Nicholas Barr of the London School of Economics and Political Science provided crucial guidance and expert advice to the team.

the *'good job'*: full-time, stable and subordinate wage or salaried-employment for a single employer, on a factory assembly line or behind a desk in a firm or government office. This standard employment relationship was the cornerstone on which the risk-sharing policy apparatus adopted from Europe rested.

However, for countries in the earliest stages of the industrialization process, these risk-sharing models were a particularly poor fit. In many low and middle-income countries, the segment of people whose work resembles the aspirational 'gold standard' and whose livelihoods are covered by worker protection and social insurance is small and relatively well-off (See figure 1). In many countries of Sub-Saharan Africa, this segment rarely reaches more than 10 percent of the working population. Most households rely on a wide range of subsistence and market activities for their livelihoods, including working for themselves. They live far from the sort of firms that can offer internal labor markets and career ladders, or that have the capacity to collect health and pension contributions. And even in countries where the structural transformation process has advanced sufficiently to create a critical mass of industrial firms, the limited ability of governments to enforce regulations means that the coverage of mandated worker protections and social insurance is quite limited. It rarely extends beyond the relatively small share of the population who work in the civil service, in state-owned enterprises, or in the larger (usually foreign-owned) firms of the private sector.

Figure 1. Most poor people depend on work for their livelihood, and work is very diverse

(Labor market status and employment structure of the poorest quintile, by country income group)



Source: Gentilini, Yemtsov, and Paul-Varghese (forthcoming) based on I2D2 data.

In high income countries, patters of structural change are leading to forms of work different to the single, full-time standard employment relationship. Many developed countries are seeing increasing shares of temporary and part-time employment, mainly due to the shift in sectoral importance from manufacturing to services. In the services sector, part-time employment is typically more prominent and often taken on involuntarily. In high-income countries, above 20 percent of workers in the market services sector, and more than 30 percent among those in the non-market services, are in a part-time job[2]. In upper-middle

[2] International Labour Organization. 2018. *World Employment Social Outlook – Trends 2018.* Geneva: International Labour Office. ISBN 978-92-2-131536-0 (web pdf)

income countries, the incidence of part-time workers is higher in those sectors, and it is the highest in the agriculture sector (50 percent). Furthermore, between 10 and 35 percent of workers across all sectors engage in temporary work in high income countries. Across upper-middle income countries, this work arrangement accounts for more than 40 percent of the workers in agriculture and construction, and around one in four jobs in the service sector[3].

The pace and nature of the changes in the way that households and firms are engaging in the market present countries, at all levels of development, with a challenging paradox: at a time when risks and uncertainty are rising, the prevailing risk sharing policy models (worker protection and social insurance) are losing their traction. The relevance and effectiveness of the dominant policy model implicitly rests on a stable, long-duration employer-employee relationship. Yet this is the form of employment that was never widely available in low and middle-income countries, and may soon become a rarity in high income countries.

Maintaining a traditional social insurance model that is unlikely to serve a majority of the population can jeopardize achievements in risk management, equitable growth and poverty reduction. Factor and product markets about with market failures that can pose or augment risks of shocks. The market for risk management is incomplete and notoriously fragile. The rationale for state intervention is plain, particularly as uncertainty overtakes risk. Yet, if the state intervenes with policy instruments designed for a different context, and to cover forms of employment that only a few people hold, it can cause further distortions that constrain the growth potential of the economy. Failure to help people manage the risks that they encounter in labor and product markets, deplete public resources to fund contingent liabilities, direct resources away from more broadly beneficial services. Interventions that lack relevance for the people at the bottom 40 percent of the income distribution, are liable to fail in helping to prevent vulnerable people from falling into poverty and people in the poorest households from falling deeper into poverty. Moreover, inadequate risk-sharing policies can augment and even institutionalize inequality, by imposing obstacles to the movement of labor and talent, failing to safeguard the human and physical capital of the non-poor population, or to ensure that all enterprising people are able to grasp economic opportunities for advancement (World Bank, 2012).

If the assumptions about how most people work that lie at the foundations of prevailing risk-sharing policies no longer hold, are these policies any longer relevant? This question of *relevance* is being asked with greater urgency in countries at all levels of development. Since the crisis, concern was growing for how to sustain economic productivity, worker protection and social insurance in economies that were rapidly deindustrializing (Dasgupta and Singh, 2006[4]; Nickell, Redding and Swaffield, 2008[5]; and Matsuyama, 2009[6]). Since the nadir of the crisis, these concerns have spread from forums of discussion in high income countries to the debates on how to fire the engines of economic growth with ample job opportunities in

[3] Idem.

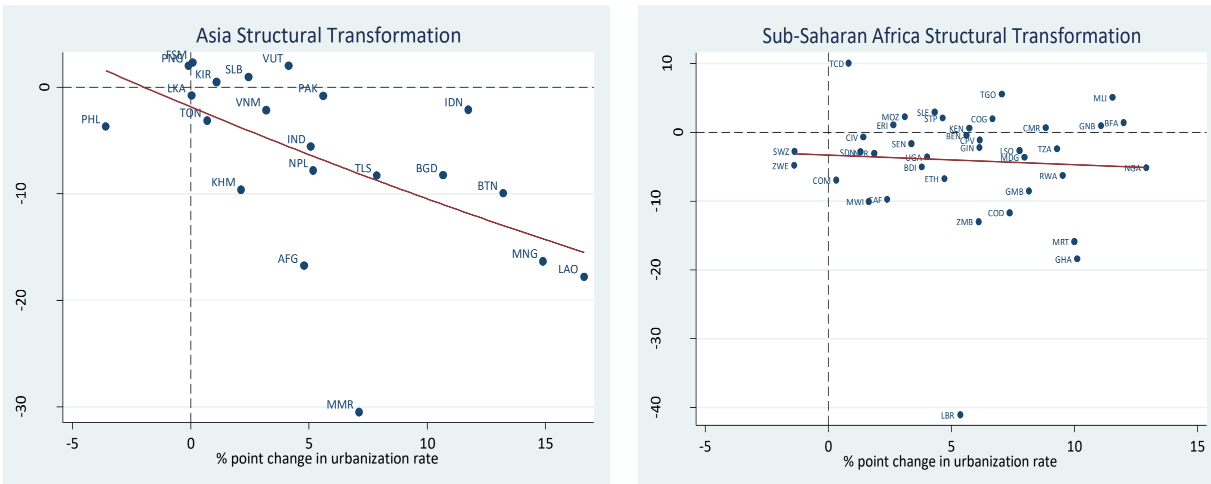
[4] Dasgupta, S. & Singh, A. (2006). Manufacturing, Services and Premature Deindustrialization in Developing Countries. *United Nations University – World Institute for Development Economics Research, Research Paper No. 2006/49*

[5] Nickell, S., Redding, S. & Swaffield, J. (2008). The uneven pace of deindustrialization in the OECD. *Center for Economic Performance, London School of Economics.*

[6] Matsuyama, K. (2009). Structural change in an interdependent world: A global view of manufacturing decline. *Journal of the European Economic Association, 7(2-3),* 478–486.

low and middle-income countries, where the pace and direction of structural transformation process is now questioned, and a 'premature de-industrialization' is underway[7] (Rodrik, 2015).[8] See Figure 2.

Figure 2. The path and direction of the structural transformation and economic development process does not appear as certain for African countries as it was for Asia.
(Percentage point changes in agriculture share of GDP and urbanization, Asia and Sub-Saharan Africa)



Source: calculations based on WDI data. Changes in agriculture and urbanization are from 2000 to latest available estimates.

The mismatch between these assumptions and the actual way that most people work, has been a challenge that many low and middle-income countries have been grappling with for years. This may be the basis of an advantage held by low and middle-income countries as new risk-sharing models are explored. Their advantageous position is derived from the same fact that the strong aspirational norm and standard employment relationship is still out of reach for most working people. A likely reaction to the pressures on prevailing regulatory structures brought by the global mega trends, is an increase of informal economic relationships (Perry, et al, 2007[9]; Loayza, 2016[10]). Policy makers in low and middle-income countries are very familiar with this problem of designing mechanisms to protect the parties to these informal working relationships. For this reason, fiscal and other adjustment costs of pursuing more appropriate risk-sharing policies to a diversely employed labor force, will be much lower than in the high-income countries. Legacy costs, including acquired rights, will present a less formidable economic and political barrier to change. The new challenge, however, is that more high-skilled, tech-savvy people could join the ranks of the informally employed and self-employed. This new constituency of informal workers is likely to be far more demanding of rights and protections, but also may be more likely to accept a greater burden of risk and responsibility in mitigating shocks to their wellbeing.

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[7] Rodrik (2015) presents 'premature deindustrialization' as the decline in the importance of the manufacturing sector as the provider of employment and engine of productivity growth, at much earlier stages of their economic development than in high income countries when these transitioned into mainly service economies.

[8] Rodrik, D. (2016). Premature industrialization. *Journal of Economic Growth, 21(1),* pp 1-33. https://doi.org/10.1007/s10887-015-9122-3

[9] Perry, G.E., Maloney, W.F., Arias, O., Fajnzylber, P., Mason, A.D., & Saavedra-Chanduvi, J. Informality: exit and exclusion. Washington, D.C: The World Bank, 2007.

[10] Loayza, N.V. (2016). Informality in the process of development and growth. *The World Economy, 39(12),* pp 1856-1916

The same mismatch is quickly becoming a fundamental problem of risk-sharing policies in industrial and post-industrial economies, but the challenges will be rather new to them. The drivers of disruptive change - sometimes called 'megatrends'- are pushing the high-income economies out of their post-industrial equilibrium when most people worked in a standard employment relationship, and are forcing many governments to make their best guess as to what the future of work will look like. Technological advancement, economic integration, demographic change and social transformations are disrupting economies, diversifying the world of work, and challenging norms. This makes it difficult to predict how people will work and how much work there will be when the global economic system reaches its next equilibrium. Paradoxically, high income countries and low-income countries are finding convergence in terms of their social protection and insurance systems being under great strained.

Drivers of disruption are reinforcing the receding relevance of the prevailing risk-sharing system

Four drivers of disruption are reshaping the market for labor: regional and global economic integration, advancing technological change, population aging and social change (Table 1). First, the steady integration of the world economy has allowed fragmentation of production processes and the emergence of complex global value chains, leading to outsourcing of a growing range of tasks and jobs, both within and between countries. The rise of decentralized production models, as opposed to large vertically-integrated firms, is reinforced by technological advancements, which drive down the transactions costs of organizing production through markets of many small, specialized providers. As a result of these trends, trade in intermediate goods has come to dominate cross-border flows of goods and services, with businesses relying heavily on the ability to organize and frequently reorganize labor and human capital along with other inputs.

Ensuring people have access to effective risk-sharing is more important than ever, given the changing nature of risks and greater uncertainty created by the drivers of disruption.

Second, technological change and automation are also fundamentally changing the need for labor inputs and the task composition of jobs. Most technological innovations and digital tools that are spreading quickly in the workplace are labor saving. Rather than the full automation of jobs, these innovations automate many tasks, resulting in more changes in skills composition of workforce rather than changes in total employment (Akerman, Gaarder and Mogstad (2015)[11]; Gaggl and Wright (2014)[12]. Digital technologies redefine the task content of occupations away from manual and routine work towards more non-routine and cognitive work (figure 3). This shift has enormous implications for the employability and wages of many people, constraining the jobs and earnings potential of those with a basic level of education. Furthermore, while technological advances have introduced new forms of market engagement, such as free-lancing on digital platforms, and flexible work arrangements, these forms of working are further challenging traditional employer-employee models and the institutions that have been built around these models.

[11] Akerman, A., Gaarder, I. & Mogstad, M. (2015). The Skill Complementarity of Broadband Internet. *NBER Working Paper 20826*

[12] Gaggl, P. & Wright, G. (2014). A Short-Run View of What Computers Do: Evidence from a UK Tax Incentive. *Economic Discussion Papers, University of Essex.*

Table 1. Even in industrialized and post-industrial economies, the standard employment relationship is losing its primacy

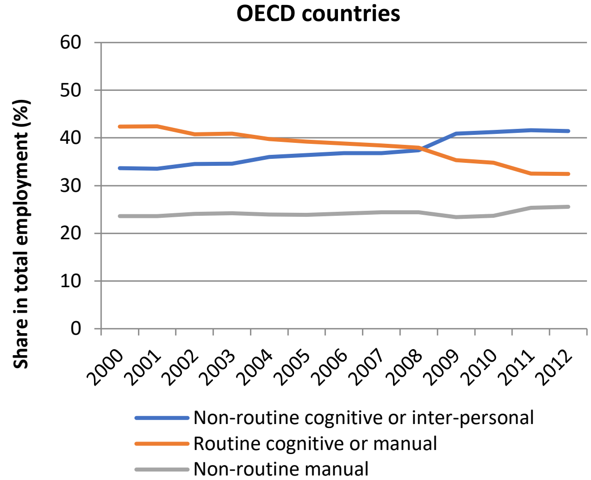
(Four drivers of disruption that impact on the standard employment relationship)

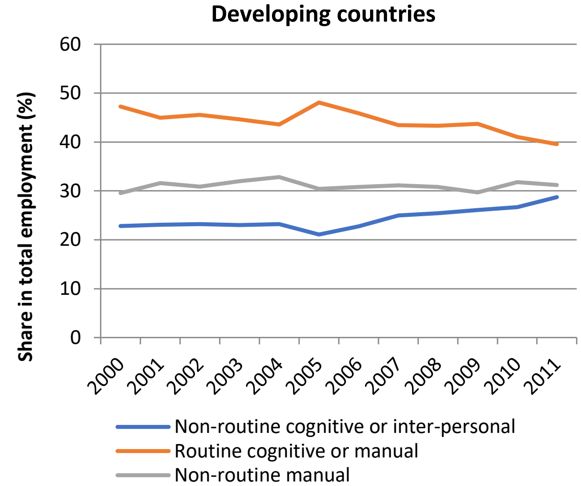
Technological change	Economic integration	Social change	Demographic change
Urbanization	Bigger more contestable product and factor markets	Women's participation in the labor force (the strong demand for flexible working forms)	Falling fertility
Agglomeration and ever-narrower division of labor/specialization	Multi-country production chains	New norms and aspirations of labor market 'success', particularly among young people	Later entry into full time work
Decline of TC's and the rationale for the Firm ('Marshallian atomization')	Growth of trade in intermediate goods	From plan to market	Longer life
Connectivity	De-industrialization & growing dominance of the services sector	From conflict to non-conflict	Longer period of life in work
Automation & Artificial intelligence	Fading distinction between 'tradable' and 'non-tradables'	From majority poor, to majority 'middle-class'	

Source: Based on Katz and Krueger (2016)[13], Autor (2015)[14], Rodrik (2015)

Figure 3. As more technology is adopted, the work that people do is becoming more intensive in non-routine skills, both cognitive and interpersonal.

(Employment Composition (simple cross country average by type of occupation, 2000-2012)





Source: WDR 2016 team, based on ILO KILM data. Skills classification follows Autor (2014)[15]

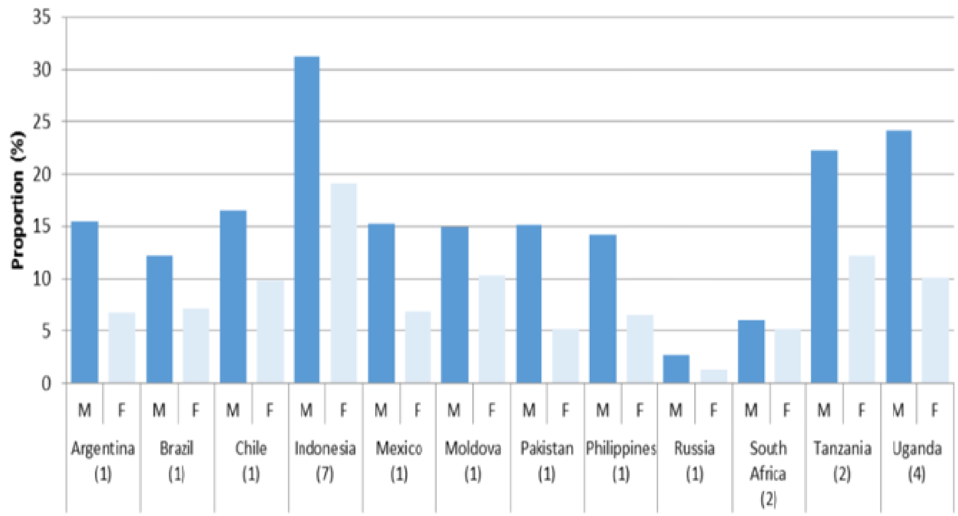
[13] Katz, L.F. & Krueger, A.B. (2016). The Role of Unemployment in the Rise in Alternative Work Arrangements. *NBER Working Paper 22667*

[14] Autor, D.H. (2015). Why are there still so many jobs? The history and future of workplace automation. *Journal of Economic Perspectives 29(3),* pp. 3-30

[15] Autor, D.H. (2014). Skills, Education, and the Rise of Earnings Inequality Among the "Other 99 Percent". *Science 344(6186),* pp 843-851

Third, changes in economic imperatives as well as social preferences are leading to more frequent livelihood disruptions. People are moving within and across industries, in and out of occupational categories in greater numbers. Career change, occupational fluidity and holding a '*portfolio of incomes*' rather than just one, full-time job, is becoming the 'new normal' for many people and setting new aspirations, particularly for young people in cities. The data shows that a significant share of workers change labor status in a given year, particularly among men (Figure 4). The ILO's *World Employment and Social Outlook* (WESO) for 2015[16] and the World Bank's *World Development Report 2016: Digital Dividends*[17] point out how these forces are causing a decline in the prevalence of the standard employment relationship.

Figure 4. Transitions across employment forms, in and out of the labor force are becoming more likely
(Proportion of workers who changed labor status in a given year.)

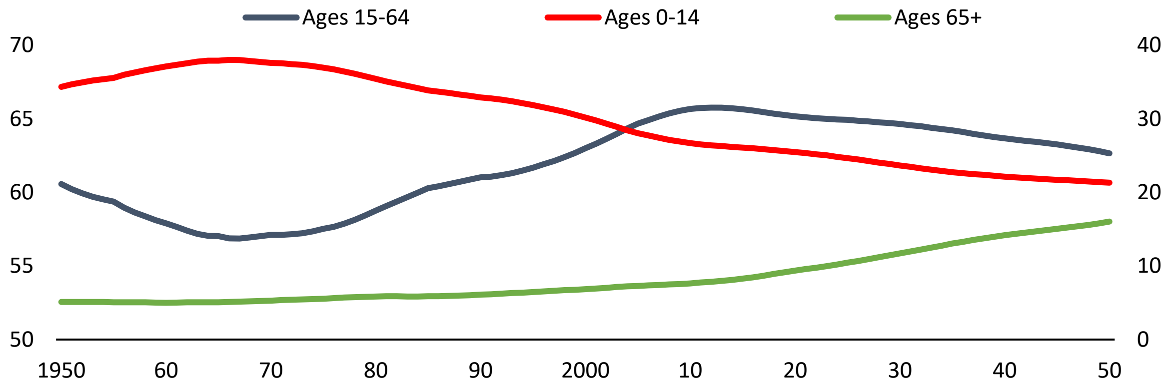


Source: Cho, Robalino and Romero (2014)[18]

Fourth, while the disruption caused by population ageing has been unfolding over a much longer period, it is no less impactful on the way people need and want to work. The world has reached a critical and consequential demographic milestone: the share of the population of working age has started a steady decline (Figure 5). Fewer births and longer, healthier lives present an imperative for productivity, economic growth and for fiscal sustainability: that people must remain economically active for a greater (and growing) portion of their lives. This imperative challenges the social constructs of 'working age' and 'retirement' and consequently is straining policies and firm structures. It pushes to make reconsiderations on professional seniority and how it is remunerated; on having market withdrawals glide instead of being determined by abrupt retirement threshold; and on finding new ways to harness the comparative advantages of older people, and ways of working that suit their preferences.

[16] International Labour Organization. (2015). *World Employment and Social Outlook.* Geneva: International Labour Office.
[17] World Bank. *World Development Report 2016: Digital Dividends.* Washington, D.C: World Bank, 2016.
[18] Cho, Y.Y., Robalino, D. & Romero, J.M. (2015). Entering and Leaving Self-Employment: A Panel Data Analysis for 12 Developing Countries. *IZA Discussion Papers No 9358*

Figure 5. The global share of working age population has begun a steady decline
(Global population shares by age cohort (percent), ages 15-64 on left axis, ages 0-14 and 65+ on right axis)



Source: UN 2015

2. Extending risk-sharing beyond the workplace

The prevailing risk-sharing models are built on the assumption of stable employment relationships, rely on the workplace as a platform for risk-management, and delegate enormous implementation responsibilities to employers. When state-organized social insurance was conceived, governments' administrative capacity was limited. For this reason, it became appealing to assign the firm with enormous responsibility for implementing social policy. Governments did not yet have extensive administrative and delivery systems, and had to rely heavily on firms. Employers had the best data on how many people they employed and the families of their workers. They could monitor and report when employment began and ended and under what circumstances. Wages were more observable than other taxable flows. Governments around the world delegated agency to employers for them to become the financing channels, monitor and report on eligibility conditions and carry out administrative arrangements of social insurance systems designed to protect people from losses such as death, disability, old age and eventually unemployment.

The assumption that the workplace was a viable platform for risk-sharing and that employers were a reliable agent to help implementing social insurance, is reasonable when the majority of the population workers for long periods in factories and firms. Although a reasonable expectation when risk-sharing systems were adopted, the assumptions of how quickly economies would develop in this direction, proved wide of the mark. Despite the prevalence of contributory social insurance as a policy model, in most places the share of the population that contributed and were covered seldom reached the levels expected[19]. The most recent coverage data from low and middle-income countries shows little if any improvement over time[20] (Figure 6). In India, for example, the percentage of workers who contribute to pensions has increased at

[19] Outside of the industrialized countries -including those in North East Asia - the proportion working age people that contributed rarely climbed above 50 percent. The few exceptions were mainly in the Southern Cone of Latin America. Meanwhile, lower income parts of the former Soviet Union have seen coverage rates fall dramatically. In other low and middle income countries, the employment-based, contributory social insurance model has never covered most workers.

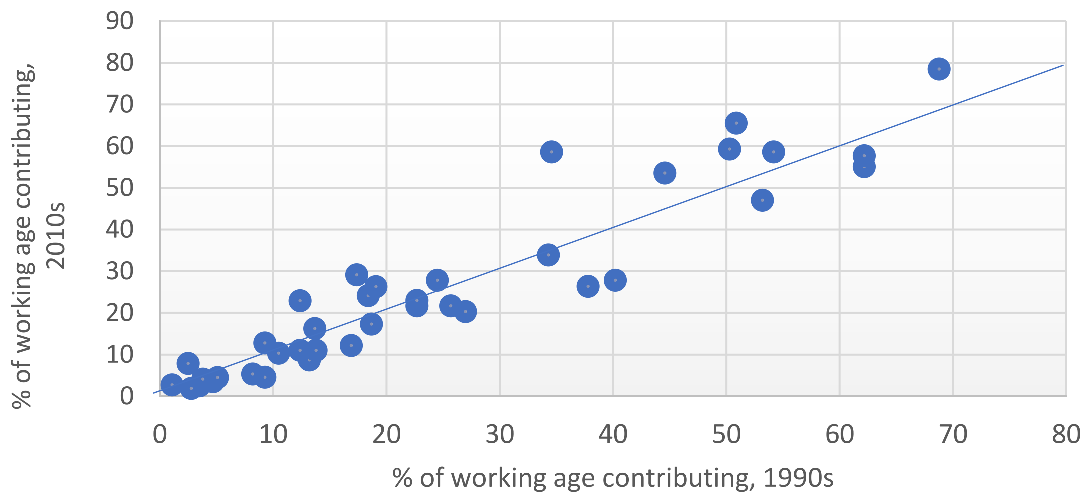
[20] An important exception not included in the figure is China. The government provides matching contributions to the rural pension scheme and pays a social pension to the elderly parents of contributors in a unique combination of contributory and non-contributory pensions. This has raised coverage dramatically.

the dismal rate of one percentage point per decade since the 1950s, barely reaching ten percent today. At that rate, universal coverage would not be achieved until the end of the 21st century.

The stagnation of worker participation in social insurance reflects the diversity of work that always existed in pre- and early industrial countries. It also reflects a failure to increase the share of the economy that is observable by the state, subject to regulation and taxation -the formal sector- in most low and middle-income countries. As suggested earlier, the drivers of disruption have thrown further doubt on the aspiration of full (or even majority) coverage of the workforce, given how these drivers are diversifying working forms even within the regulated and taxed portion of the economy. Keeping the traditional contributory social insurance means that the share of uncovered people will increase over time.

Figure 6. Coverage of contributory programs remains low as the share of participating workers stagnates in low and middle-income countries

(Percentage of working age population contributing to mandated pension programs, 1990s and 2010s)



Source: World Bank pension database

The diverse and diversifying nature of work creates a new imperative: to be effective, risk-sharing institutions have to be accessible no matter how people engage in the market. Ensuring this degree of access implies that the risk-sharing provides coverage no matter where or how people work. This implies providing a foundation of publicly-financed risk-pooling to prevent poverty. Achieving such objective will require to harness digitally augmented delivery systems and administrative capacity that many countries aspire to and which it is reasonable to expect they can achieve. The diverse and diversifying work is challenging the reliability of the employer as an implementing agent and the firm as an implementation platform for risk sharing policy (the channel of financing, monitoring, information management, enforcement, among others). Any implicit or explicit limitations on access to risk-pooling instruments that receive some subsidy from the state, based on where and how people work, will be distortionary and could become regressive. In countries where participation to contributory pensions is less than 70 percent, the lack of viability of this model was always apparent and a source of exclusion, distortion in the labor market and inequitable fiscal spending. In countries where the participation is between 70 and 90 percent, the viability is coming into question.

3. Designing risk sharing institutions to be structurally adaptable

Sustained or increasing diversity of working forms, has profound implications for risk sharing policies that were designed for -or that anticipated- a more stable and homogenous world of work. Disruption to people's livelihoods - from involuntary separations (cyclical and structural), geographical or occupational mobility – becomes the "new normal". Many (and in some places, most) working people are in multiple, fluid, and short-term forms of market engagement. It is no longer odd in most places that a person's earnings come from a portfolio of activities, including selling labor and receiving profits from capital at the same time. Neither is it unusual that an individual changes status from employee to employer to contractor, to sole-trader (in any order or combination) in a span of ten years. Economic and other drivers are leading people to steer with fluidity and diversity, but the prevalent institutional framework for risk-sharing policies assumes that most active people are working full-time, in a long-term, subordinate standard employment relationship. The problem is the past assumption of stability, and the consequent structural rigidity of most of the parameters of these institutions. A prime example is a fixed retirement age. An alternative that better fits the dynamic human system, is to build-in adaptability. In this spirit, leading thinkers in pension policy have long advocated a longevity-indexed pensionable age.

The multifaceted and uncertain challenges associated to a diversifying work, call for increasing adaptability of institutions to safeguard all types of workers and jobs. The drivers of disruption have influenced labor market dynamics and induced changes in both labor demand and supply. To address these, some proposals for policy adjustment, intensification or for new provisions have arisen with an impressive consensus -at least among specialists (See Box 1). However, the drivers of disruption also posed other kind of challenges for which there is much less policy consensus. Disruptors are sustaining or impelling diversity in working forms and this challenges the current institutional framework for risk-sharing policies by:

- Blurring the clear and crisp distinctions of time-use over the lifecycle, such as "study", "work", "unemployment" and "retirement";
- Reducing employers' incentives to invest in employees' human-capital (firm specific skills);
- Reducing the viability for firms of implicitly or explicitly offering internal labor markets for workers' career continuity and advancement;

BOX 1. GENERALLY-AGREED POLICIES TO MITIGATE DISRUPTIONS IN THE LABOR MARKET

- To mitigate the disruption from technological change: Give greater emphasis in primary and secondary school curricula to development of cognitive (including socio emotional) skills, and start intentional instruction at earlier ages (through purposeful play and other age-appropriate means) when key behaviors are more likely to form;
- To mitigate losses from greater economic integration: Provide labor market adjustment assistance in the form of retraining, psychological and placement support for people whose skills and experience are no longer sought in the labor market;
- To mitigate the impact of demographic change: Keep people economically active longer, by eliminating mandatory retirement thresholds, setting age-eligibility conditions for minimum financial support for the elderly to track changes in average life expectancy, formalizing less-than-full-time and other flexible contracting arrangements.

- Challenging the reliability of the employer as an implementing agent and the firm as an implementation platform for risk sharing policy

Moreover, the questioning to the current risk-sharing policy framework stands differently across countries and contexts, summoning policymakers to adapt institutions and schemes in accordance to the setting. It may not only be impossible but also inappropriate to try to come up with THE new risk-sharing model – indeed, just as inappropriate and potentially damaging as it was for the late industrial-era policy models from Europe to be established with little alteration to suit specific country contexts. For this reason, rather than using detailed policy prescriptions, a suggested pathway is to use conceptual frameworks that provide policy-relevant insights about the nature of a loss, what instrument or set of instruments is best suited to address the potential loss, and the degree to which the public sector should intervene. Furthermore, technological advancements can support the expansion of coverage to all forms of work (see box 2).

4. An active but neutral policy stance for a diverse world of work

As economies move from or leap over the industrial and early-industrial equilibrium to the next production regime, more policy intervention will be required to counteract the already important and growing inequality. Two sources of inequality might become more forceful because of the disruption drivers: 1) the unbalanced participation of labor and capital in production, and 2) the diversifying forms of labor. Governments stand a greater chance of ensuring that work continues to be a path for advancement if the policies do not inadvertently influence the production choices of firms. Although policies that stand in the way of technological progress can constrain productivity and become a hindrance growth and prosperity, a policy stance that biases firms' decisions towards capital-intensity may accelerate and aggravate disruption in ways that is unfavorable to people who depend on work. Moreover, governments can influence levels and forms of market participation by adopting employment strategies that support all working people, regardless of where or how they need or prefer to work. Widening inequality calls for policy neutrality. Neutral over factors of production, but also across forms of work.

Policy neutrality implies active and focalized interventions. Neutrality does not mean retreat from intervention. Labor market imperfections and failures are particularly rife and cannot be ignored. Neutrality does not mean either to respond to labor market imperfection with policies designed for a homogenous world of work. Governments concerned with the inequitable opportunities and outcomes of labor market should craft labor regulation and other risk-sharing interventions that favor all working people, even if they work part time, work for themselves, or hire others to work with them.

Box 2. Harnessing technological advancements to augment policy responses.

In disruptions there often lie solutions. For policy makers, eager to offer more effective risk-sharing policy instruments, the digital age provides the opportunity to go beyond traditional identification, delivery and financing methods using data to mimic the progressive income tax that advanced economies use for redistribution.

Identification

- Technological advancements can help to adequately capture the diversity of working forms, underpinned by the ability to efficiently and accurately identify individuals through new monitoring instruments and data from the digital commerce.
- Linking various types of digital administrative data through unique personal identification numbers, can be used to identify subjects and amounts for contribution, where a low share of people's market engagements are formal and incomes observable.

Turkey's social assistance system includes automatic data collection on applicants from 21 different databases (civil registry, employment, vehicle, property, business registry, etc.), and entails obligatory home visits for data collection

Financing

- The unprecedented availability of data carried by the digital economy, combined with the technology that performs very complex computations, can push the frontier of probabilistic analysis. In this way, a greater number of "uncertainties" are becoming "risks" (i.e. shocks with some observed, measurable probability). In such an environment of more (yet, not full) information, markets are more able to contend and provide insurance instruments. This, in turn shifts the proportionate policy response: from one extreme of direct provision, to the other extreme of merely regulating market provision and "nudging" household demand.
- Digitally-enabled instruments, such as automatic enrolment mechanisms – potentially combined with fiscal incentives like limited matching contribution – could achieve reasonably high coverage and contribution rates.
- By making consumption visible and tying it to individuals through new civil identification systems, it will become possible to reach the people that are currently excluded from prevailing risk-sharing policy instruments.

In China, the shift away from cash transactions is exploding and it appears at an inflexion point in India where people can now even buy vegetables from a street vendor with their smart phone and *Paytm*.

Delivery

- **Digital commerce** offers multiple opportunities to move to a new model for pensions and insurance. The mobile money revolution that began with Kenya's M-PESA in Africa continues to unfold[1], and a second wave of smartphone based apps are rapidly changing the way people buy things, send money or receive government transfers. Combined with digital IDs that meet financial sector requirements for *know-your-customer* (KYC) requirements, it allows individuals to interact with banks, insurers and providers of credit cheaply and easily from any location with connectivity. Reducing transaction costs (by shifting away from the costly use of physical cash) is one of the key ingredients of financial inclusion, generally and long term savings and insurance in particular[1].

Both Thailand and Uganda, for example, allow for members of their social security funds to make contributions by mobile phone.

[1] Riley, T.A. & Kulathunga, A. Bringing E-Money to the Poor : Successes and Failures. Washington, D.C.: World Bank Group, 2017.

Neutrality over factors of production

Governments concerned about the quantity and quality of employment should set out to eliminate explicit or implicit incentives that systematically favor one factor of production over others. The employment based contributory model contributes to the relatively higher rate at which labor is taxed compared to other productive factors, property and wealth. Countries in Central Europe overtax salaried and wages. States in almost every country under-tax land. Globally, between 2004 and 2012 the burden of taxation shifted away from profits and toward labor earnings and taxes on labor are now the largest segment of the total tax rate (World Bank, 2013[21]). All else equal, using one set of tax revenue instruments more intensively than another can, at the margin, influence firms to invest in an additional unit of capital instead of an additional unit of labor. A more neutral tax structure with respect to factors of production can be designed borrowing from well-accepted (if not always applied) principles of taxation (Furman, 2008[22]; Pikkety and Saez, 2012[23]).

The drivers of disruption may have increased the severity of the declining participation of labor in economic output, making policy intervention all the more important. A labor's declining share is already associated with high and rising levels of inequality (Figures 8 and 9). There are myriad hypotheses for why what was once believed to be a stable share has been steadily declining. Capital-augmenting technological change and the mechanization of production (Zeira, 1998[24]; Acemoglu, 2003[25]; Brynjolfsson and McAfee, 2014[26]; Acemoglu and Restrepo, 2017[27]); the decline in the bargaining power of labor brought about by globalization of the labor pool, and surplus labor released by the automation of many tasks (Bental and Demougin, 2010[28]; Blanchard and Giavazzi, 2003[29]; and Stiglitz, 2012[30]); and industry concentration and the rise of mark-ups (profits), at time aggravated by market dominance of technology firms benefiting from network effects (Barkai, 2017[31]).

Even if it is unclear what the next equilibrium in the world of work is likely to be, labor-saving automation makes the argument against distortionary labor taxes even stronger. A relatively high-taxed labor creates strong incentives for firms to automate, particularly the most routine tasks, many of which occupied segments of the labor force with the lowest levels of education and training. There are two main sources for distortion that favors capital over labor: 1) payroll taxes that increase the wedge between total labor costs and take-home pay; and 2) subsidies to non-contributory insurance programs that create an, implicit, 100 percent marginal tax on formal jobs. To reduce the former, one possible road is to cease to utilize

[21] World Bank. Paying Taxes 2014. Washington, D.C: International Finance Corporation, Price Waterhouse Coopers and World Bank,2013

[22] Furman, J. (2008). The Concept of Neutrality in Tax Policy. *The Brookings Institution.*

[23] Pikkety, T. & Saez, E. (2012). A Theory of Optimal capital taxation. *NBER Working Paper 17989*

[24] Zeira, J. (1998). Workers, Machines and Economic Growth. *The Quarterly Journal of Economics 113(4),* pp 1091-1117.

[25] Acemoglu, D. (2003). Labor- And Capital-Augmenting Technical Change. *Journal of the European Economic Association, MIT Press, vol. 1(1)*, pp 1-37.

[26] Brynjolfsson, E. & McAfee, A. (2014). The Second Machine Age. Work, progress, and prosperity in a time of brilliant technologies. *W.W Norton & Company.*

[27] Acemoglu, D. & Restreppo, P. (2017). Robots and jobs: Evidence from US labor markets. *NBER Working Paper No. 23285*

[28] Bental, B. & Demougin, D. (2010). Declining labor shares and bargaining power: An institutional explanation. *Journal of Macroeconomics 32(1),* 443-456.

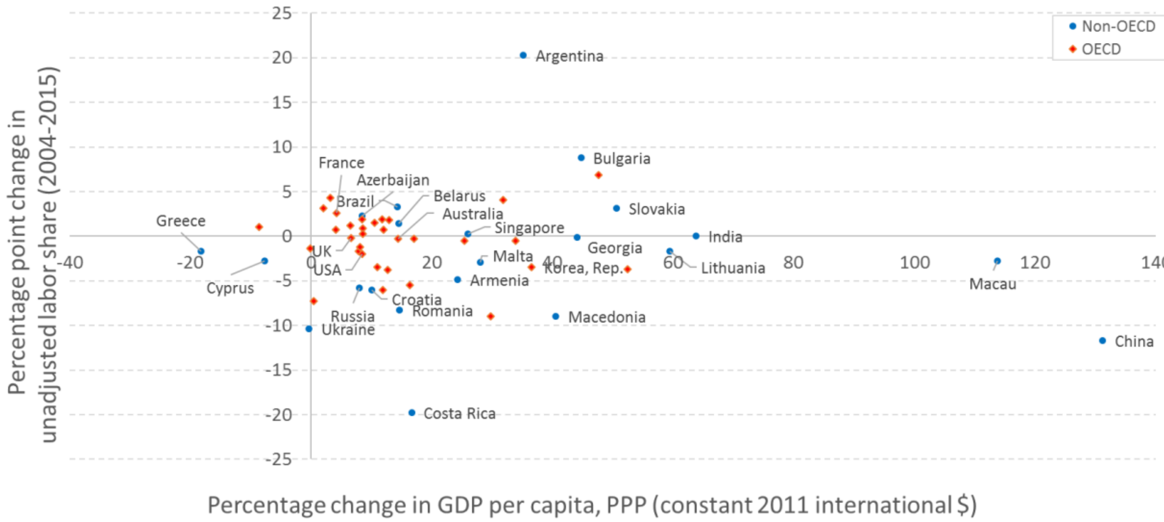
[29] Blanchard, O. & GIavazzi, F. (2003). Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets. *The Quarterly Journal of Economics, 118(3)*, pp. 879-907

[30] Stiglitz, J. (2012). Macroeconomic Fluctuations, Inequality, and Human Development. *Journal of Human Development and Capabilities: A Multi-Disciplinary Journal for People-Centered Development, 13(1),* pp 31-58

[31] Barkai, S. (2016). Declining Labor and Capital Shares. *Working Paper, University of Chicago*.

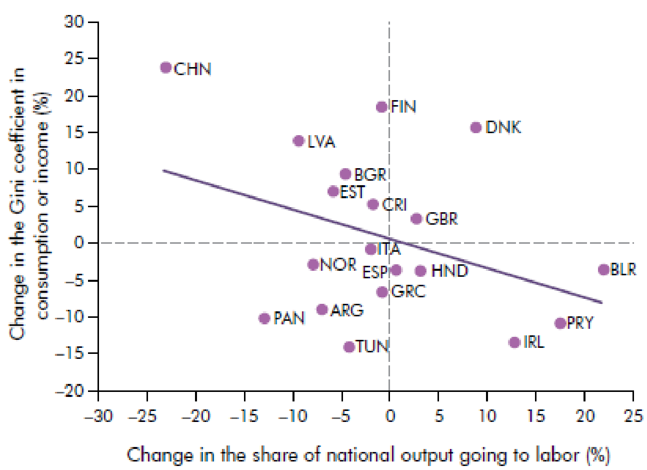
payroll taxes to finance social insurance benefits and other burdens resulting from redistribution policies[32]. To cut the second (implicit) tax, one could integrate contributive and non-contributive social insurance programs to replace the 100-percent marginal tax on formal employment by a lower negative income tax (i.e., as income increases workers forgo subsidies but at a lower rate). On the whole, seeking a more neutral stance between capital and labor requires to reconsider how redistribution objectives are being pursued.

Figure 8. A declining labor share is provoking debate about relevance of risk sharing policies
(Decline in the labor share of GDP and change in GDP per capita)



Source: ILO GWR, WDI, courtesy of V. Moreira
Note: Chart shows change over the period 2004-15 with the exception of: Brazil 2004-08, China 1999-08, India 1999-09, Romania 2009-15, Russia 2009-15, Singapore 2009-15, Georgia 2009-15, Armenia 2009-15, Azerbaijan 2009-15, Belarus 2009-15

Figure 9. Falling labor share in national income is associated with rising inequality
(Growth in the Gini coefficient, vs. growth in labor share, 1995-2010)



Source: Eden and Gaggl (2015)[33] in World Bank 2016

[32] The mingling of social objectives– enabling actuarial risk pooling, eliminating poverty and pursuing equity through wealth redistribution – embedded in the current system, will require more explicit distinction, probably different risk-sharing arrangements and financing channels.

[33] Eden, M. & Gaggl, P. (2015). On the Welfare Implications of Automation. *World Bank Group: Policy Research Working Paper 7487*

Neutrality over different forms of work

A neutral policy approach in the labor market would entail eliminating structural biases that may favor a particular sector or one form of work over others. A diverse and diversifying world of work is forcing a re-think of what will constitute an effective policy response to labor markets dynamics and risk-sharing needs. Models that structure the programing, financing and eligibility conditions of risk-sharing policies around a particular way of working may play against people in non-standard employment. Risk-sharing policy and implementing programs should be designed and pursued from a stance of neutrality with respect to where (i.e. place, sector, industry or firm) and how (i.e. occupational category or contractual form) people work. As a transitional step, governments should ensure all worker protections and benefits in the labor code are uniform across working forms, and proportional with respect to temporary or part time work.

Labor market regulations and interventions should serve all working people, and not unduly influence household or firm decisions in the labor market. Indeed, a neutral approach should consistently address all workers, not only across types of work, but also sectors and segments of the population (see Box 3). Yet, some of the most recent examples of labor market reforms in many low and middle-income countries -crafted to respond to the pressures of urbanizing populations- appear to assume a primacy of the standard employment relationship. Indonesia's 2003 labor laws places greater restrictions on the use of term contracts and labor from third-party agencies. China and Vietnam have similarly set in place or tightened labor codes assuming a labor force that will move mainly into full-time, subordinate, dependent employment. The Scandinavian countries are a prime example of government activism that achieves neutral stance. Their emphasis on protecting people rather than protecting employment—the so-called "flexicurity" approach— achieves a relatively unbiased, *neutral* stance toward managing labor market risks. In separating protection from where or how people work, these measures do not have to compromise the contestability of markets and efficiency.

BOX 3. LABOR POLICY NEUTRALITY CAN HELP KEEP THE ELDERLY ACTIVE LONGER

Outside of Sub-Saharan Africa, the pace of demographic change and the wave of population ageing is likely to accelerate and roll over across low- and middle income country regions faster than it has in the high-income countries. Uruguay and Argentina already have demographically 'old' populations. They will soon be joined by Chile. China reported the first ever contraction of the working-age population in 2012. Brazil's dependency rate will start to increase in 2020. Yet, most the labor market and risk-sharing arrangements currently in place in some countries are likely to discourage longer working lives. Policies constrain the productivity of older people, or discourage formal forms of work that appeal to the elderly (part-time, irregular hours). Formal regulatory discouragements of longer working lives are most apparent in Latin America or Southern and Central Europe, where it often pays to withdraw from the labor force at an early age (Gill, Koettl, and Packard 2013[1]; Arias and Sanchez, 2014[2]). People in the lowest income countries work longer into old age, because they do not have any other choice. But as more countries move into middle income and regulations start to bind, under current policies that favor full time salaried employment, older people will be left only with the option of self-employment, whether they have an aptitude for entrepreneurship or not. This is a residual outcome, rather than an intent to harness the productive potential of an older workforce.

[1]Gill, I., Koettl, J. & Packard, T. (2013). Full Employment: a distant dream for Europe. *IZA Journal of European Labor Studies, 2(19) No 7663*

[2] Arias, O. & Sanchez-Páramo, C. Back to work: Growing with Jobs in Europe and Central Asia. Washington, D.C: The World Bank, 2014.

5. An extended policy response for the diverse and diversifying world of work

Ensuring the wellbeing of workers in all new forms of employment and in all states of nature goes beyond effective risk-sharing policies. Policies that protect workers from short-term fluctuations in economic activity, facilitate labor market transitions from unemployment/inactivity into a job or between jobs, and protect workers from abuse and exploitation, are as relevant as policies that guarantee a basic level of consumption. This section provides a (not extensive, but valuable) list of considerations to make Active Labor Market Policies, social insurance schemes and labor regulations more relevant and effective in a diverse and diversifying world of work.

Active Labor Market Programs (ALMPs)

Policies and programs that support people to manage employment and career (livelihood) disruption, and to navigate labor market transitions (e.g. information, intermediation, skills renewal), are as important as consumption support in the wake of shocks. In a world where labor market transitions are happening at a higher frequency, certain jobs are disappearing and new skillsets are in high demand, expanding the coverage of Active Labor Market Programs[34] (including to rural areas, informal workers and the poor) cannot come with delay. However, problems in terms of design and implementation have brought disappointing results. Only 30 percent of the evaluated programs demonstrated a positive impact, oftentimes small (Kluve et al., 2016)[35]. Looking forward, there are different propositions to improve their design and implementation, for which exploiting information and communication technologies (ICTs) will be important (see the box to the right).

- Moving from ad-hoc, self-standing, interventions to an integrated package of services that can be adapted to the needs of different populations.
- Adopting modern **identification** and monitoring and evaluation (**M&E**) systems to register and follow beneficiaries and track labor market outcomes.
- Adopting modern **profiling systems** to screen the constraints facing beneficiaries and appropriately price the package of services offered.
- Reforming contracting and payment systems to pay providers **based on performance.**
- Integrating ALMPs with "**demand-side**" interventions (sectoral/regional programs) to increase their impact.

Pursuing coverage expansion comes with a need to rethink the financing model for ALMPs. Free provision by the government for all individuals does not have an economic foundation. As any other redistribution program, subsidizing the services from ALMPs must be targeted. ALMPs can then be seen as a package with an expected cost for individuals, according to their needs. Access can be subsidized for those individuals who cannot afford the cost of the package.

[34] Includes training, job search assistance, counseling, intermediation, wage subsidies and different types of stipends. The "Graduation" programs, intended to support the poorest households to sustainably improve their economic conditions and escape extreme poverty and social exclusion, are also a s subset of ALMPs.

[35] Kluve, J, Puerto. S, Robalino. D, Romero. J.R, Rother. F, Stöterau. J, Weidenkaff. F, & Witte, W. (2016). Do Youth Employment Programs Improve Labor Market Outcomes? A Systematic Review. *IZA Discussion Papers No 10263*

Social insurance

Access to social insurance, pensions and other social security benefits must be delinked from the labor contract. Every individual should have the same rights and obligations with respect to access, regardless of where they work. In such a model, the government defines a package of benefits (unemployment benefits, health insurance, pensions, etc.) and associates a corresponding cost. Then, to ensure wide coverage and sustained financing, the following propositions could be considered:

1. **Linking social security contributions to benefits.** Contributions are paid according to the financing capacity of each individual, and benefits are proportional to these contributions. For those who cannot pay, contributions are subsidized.
2. Being **explicit and transparent** when pursuing redistribution objectives.
3. Financing these redistributive subsidies through **general revenues** (such as a raise in consumption taxes), or other specific taxes non-payroll related (such as real state taxes).

Labor regulations

As the disruption drivers propel distinct dynamics of the labor market, the costs of rigidity in the regulatory environment will likely rise. Employer, labor and collective bargaining institutions are more important than ever, given changes in information and market power. But these institutions require updating to reflect the diversity of enterprise, of working forms and the fluidity of transitions in the labor market. To reduce rigidity and promote an institutional framework that flows in the same direction to the market, four propositions can be considered at the forefront:

1. Allow firms to have more, but conditional, discretion in their management of human resources. In specific, give freedom to employers in relation to **dismissal procedures**, conditioned to proper advanced notice. At the same time, institute a dismissal tax that replaces severance pay, in order to impose a cost for job destruction. Importantly, this policy should be combined with a **well-designed unemployment insurance system**[36]. The state must preserve its role in sanctioning abuse and discrimination.
2. Cease the regulation of contracts. Instead, ensure that all contacts have the same rules in relation to access to social security and working conditions.
3. The diversity in working forms requires different institutional arrangements to monitor and enforce adequate **working conditions**. Inspectors and Ministries of Labor cannot do all the work efficiently and effectively. The civil society and non-profit sector, enabled by new ICTs, should take a role in managing independent and secure systems to detect and address grievances.
4. **Explore better instruments to ensure workers are paid fairly**. By and large, the minimum wage is misused as it has deviated from a purpose to protect the worker against exploitation, market power and abuse to pursue goals on redistribution and poverty reduction. If the objective is to ensure that value-added is better shared between the firm and workers, would it be worth considering the enforcement of rent/profit sharing arrangements and/or shared ownership structures between these two agents?

[36] Robalino, D., & Weber, M. (2013). Designing and Implementing Unemployment Benefit Systems in Middle and Low Income Countries: Key Choices between Insurance and Savings Accounts. *The World Bank. Social Protection & Labor Discussion Paper No 1303*