Remaking the Post-COVID World

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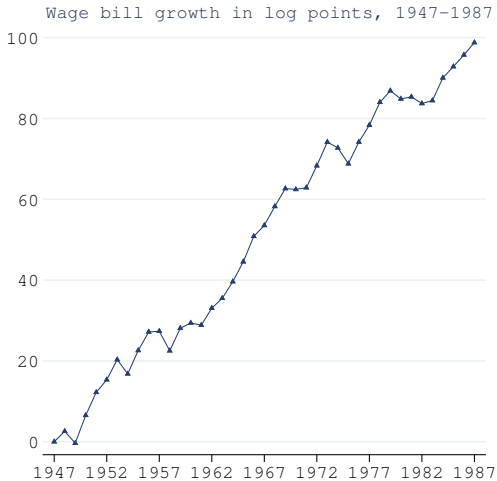
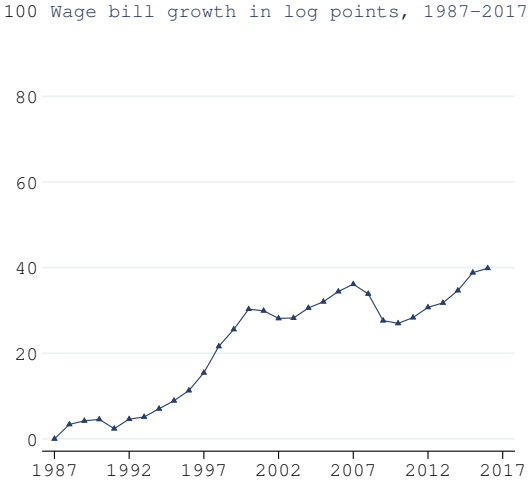
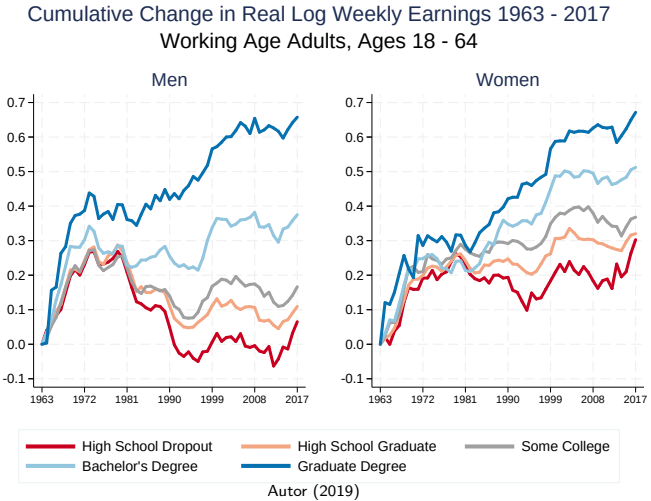
What Happened to Labor Demand?





Acemoglu and Restrepo (2019)

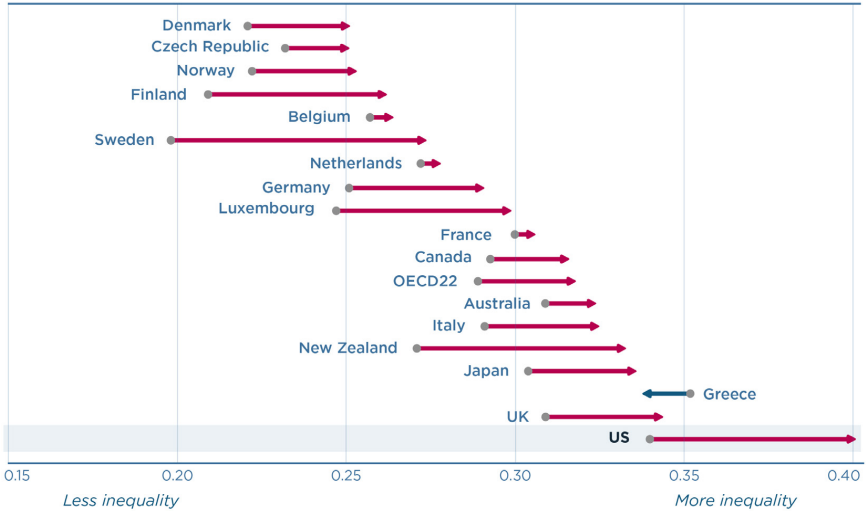
Consequences of Sluggish Labor Demand



- Huge social costs of inequality and falling real incomes of low-education men.

Inequality Is Not Just a US Problem

Figure 1: Change in Gini coefficient, 1985 to 2013



Automation is Not Just a US Phenomenon

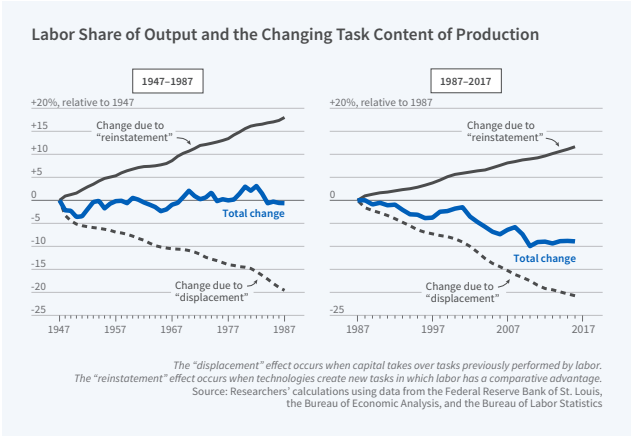
Not Just a US Phenomenon

Acemoglu and Autor (2011)

- The disappearance of good, "middle-class" jobs, especially for non-college workers.

Why Labor Demand Grew and Then Slowed Down

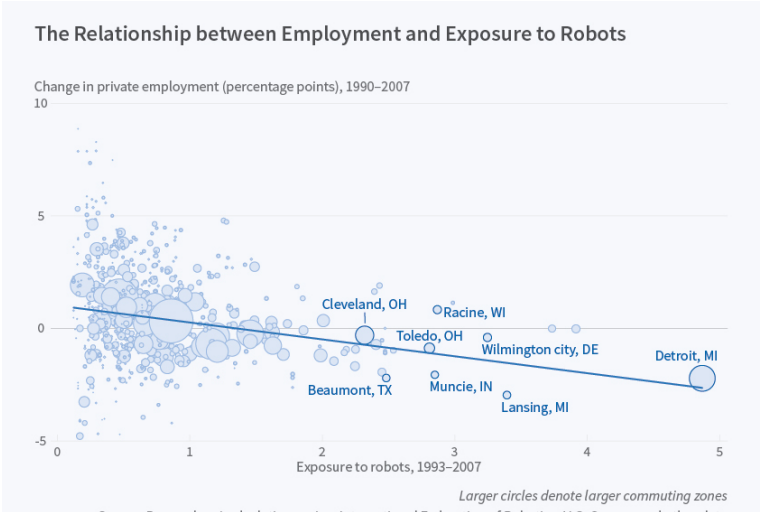
- Not one but many different types of technologies, with very different implications.



- Acemoglu and Restrepo (2019): Displacement of workers due to automation broadly counterbalanced with new technologies increasing human productivity and demand for labor ("reinstatement").

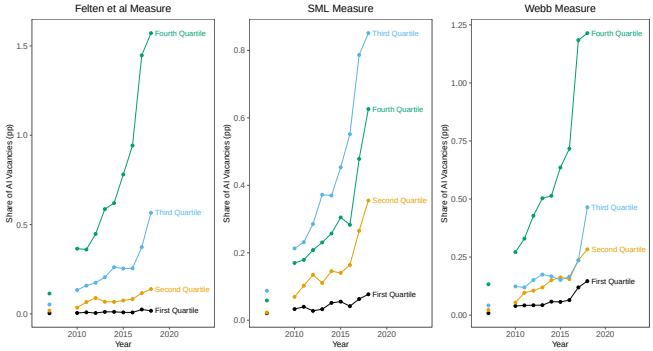
Automation in Practice: Industrial Robots

- Example of automation technology, illustrating potential negative effects (from Acemoglu and Restrepo, 2020).

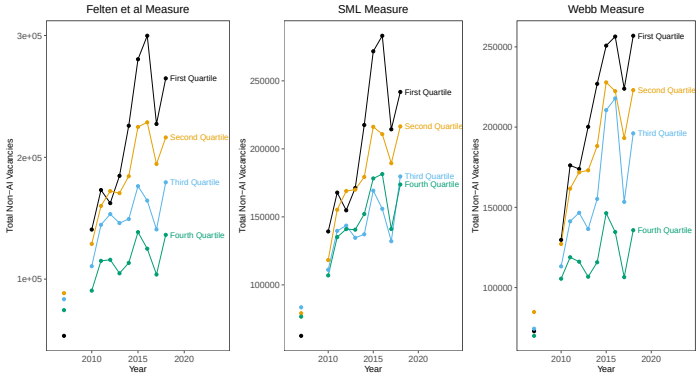


Is AI Different?

- Potentially yes because it is a broad technological platform that can be used for many applications, often increasing human productivity.
- In practice, no. AI adoption has so far been driven by the business model of big tech companies, targeted on substituting algorithms for humans.
- Define AI exposure using various measures, all related to task structure.
- AI surge driven by establishments with more AI-replaceable tasks.



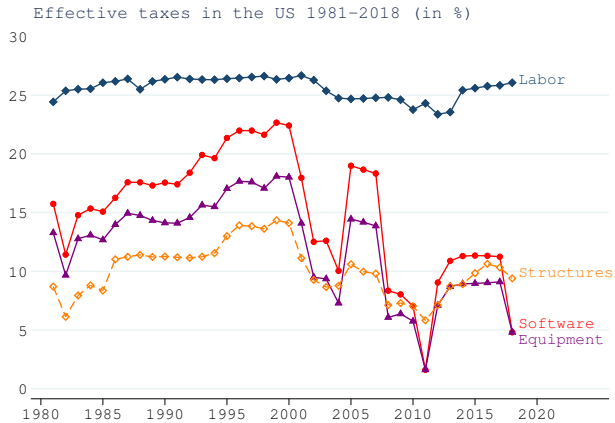
AI Negatively Associated with Establishment Hiring



- Acemoglu, Autor, Hazel and Restrepo (2021) show that this is a robust pattern of establishments hiring, especially with the Felten et al. and Webb measures of AI exposure.
- AI so far mostly focused on algorithmic automation of simple tasks.

Why This Bias Towards Automation?

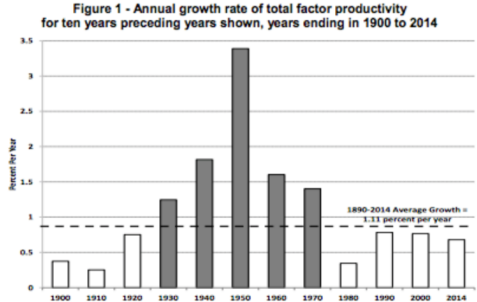
1. Global competition?
2. Business models and growing size of Big Tech?
3. Tax code?
4. Institutions?



Are We At Least Getting the Productivity Benefits from Automation?

- No.

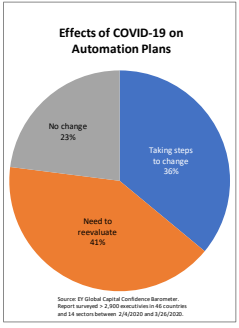
Reality Is Different



- Why not? Perhaps because of excessive automation.

The Post-COVID World

- Now one more factor encouraging automation:
  - Social distancing and vulnerability to the virus.
- What will it do to automation?



- Many robotics companies (such as Take Fetch Robotics, Brain Corp, Starship Technologies and Takeoff Technologies) are reporting soaring orders for robots.

Future Needn't Be Fully Automated: Technological Malleability

- In the short run, we depend on the digital technologies for preventing a complete meltdown of the economy while many work from home.
- In the medium-term, the pandemic is exacerbating trends that were already underway towards too much automation (and thus inequality and less good jobs).
- But this path is not inevitable.
- Technology is highly malleable, and the direction of technology is a choice. Companies and society, via government policies and regulations, decide how technology is used, its direction of change and who benefits from it. If there is excessive automation, then we should **regulate technology**.

- But, this would necessitate a new institutional framework to guide us.

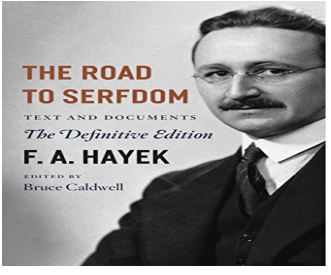
Inclusive Institutions in the Age of Robotics and AI

- In fact, it may well be that uncontrolled and excessively rapid automation is inconsistent with inclusive institutions.
- In *Why Nations Fail*, James Robinson and I define inclusive institutions as those that create incentives and opportunities for the broad cross-section of people.
- Throughout history the main barrier to inclusivity was excessive power of elites exercise via coercion and control of key assets.
- But excessive and pervasive automation will create a different failure of inclusion.
- The labor market is where most people have access to opportunities. Redistribution is central in modern societies, but not as a replacement for earnings in the labor market, but as a complement.
- If we destroy labor market opportunities, this will lead to the failure of inclusive institutions. So **regulation of technology** is critical—and this also involves empowerment of workers and civil society organizations.
- But caution: in history regulation of technology has often been disastrous.

Welfare State 3.0

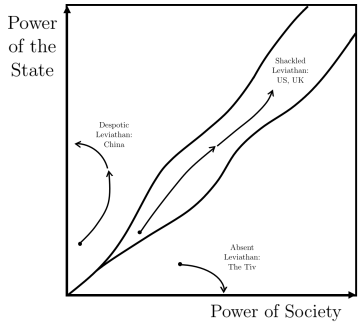
- New responsibilities for the state for combating inequality, climate change, pandemics, security, and contributions to international development.
- Better regulation and social safety net for the disruption created by automation and inequality.
- And most importantly, something new from the state: regulation of technology.

- Much greater burdens on the shoulders of the state, just like the Beveridge report articulated in 1942 for the UK.
- But what about keeping the state under control?
- This is what Hayek, then a recent émigré from Austria teaching at the LSE, worried about in 1942.



Why Hayek Was Wrong? The Red Queen

- Hayek's concerns did not come to pass. Why not?
- Due to what James Robinson and I called the "Red Queen effect" in our new book, *The Narrow Corridor*.
- Society becomes stronger as the state shouldered more responsibilities.



- Can we prove Hayek wrong again?