Remaking the Post-COVID World

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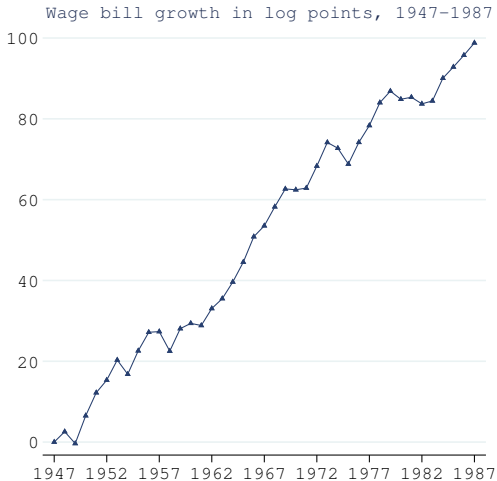
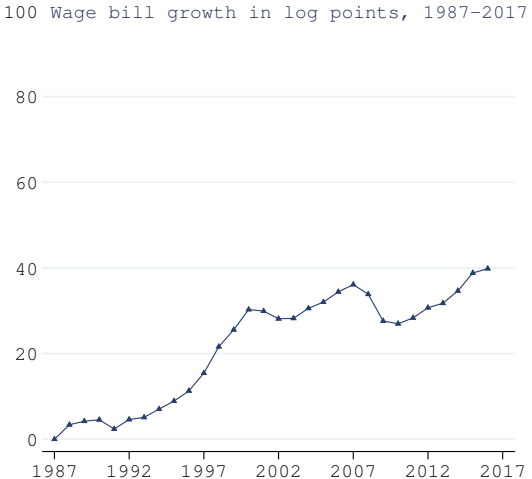
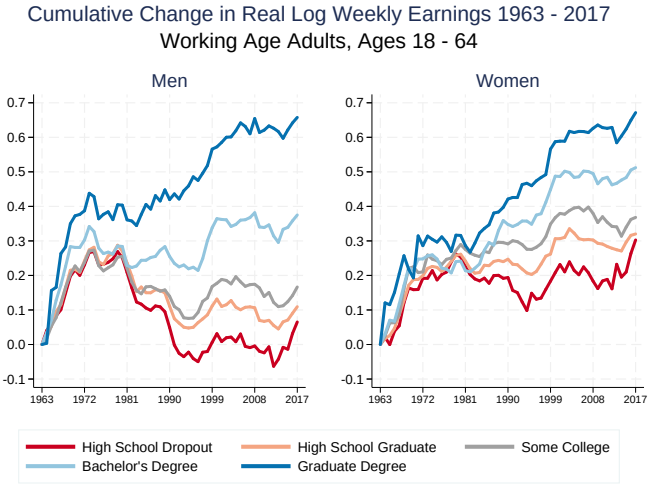
November, 2020.

What Happened to Labor Demand?



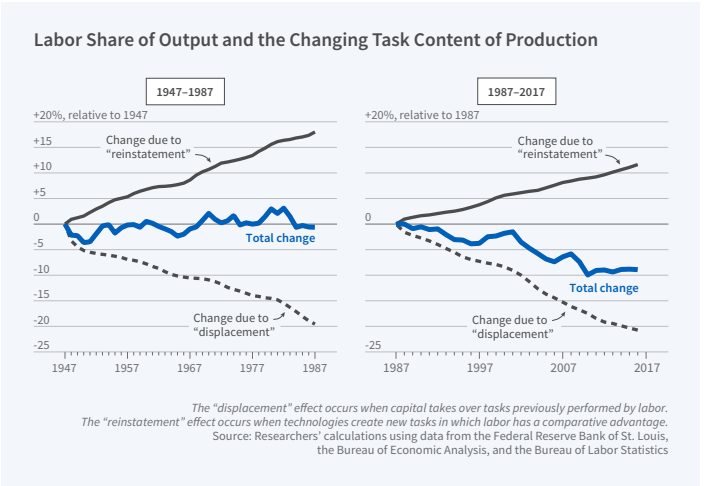


Consequences of Sluggish Labor Demand



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

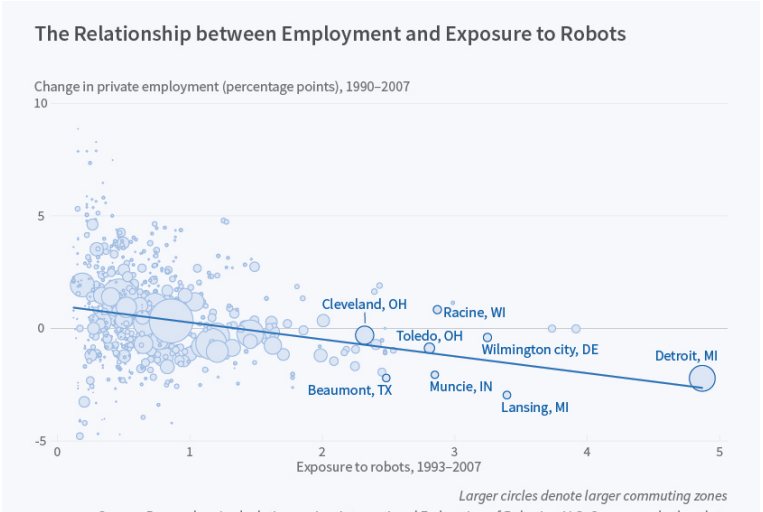
Why Labor Demand Grew and Then Slowed Down



- 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).

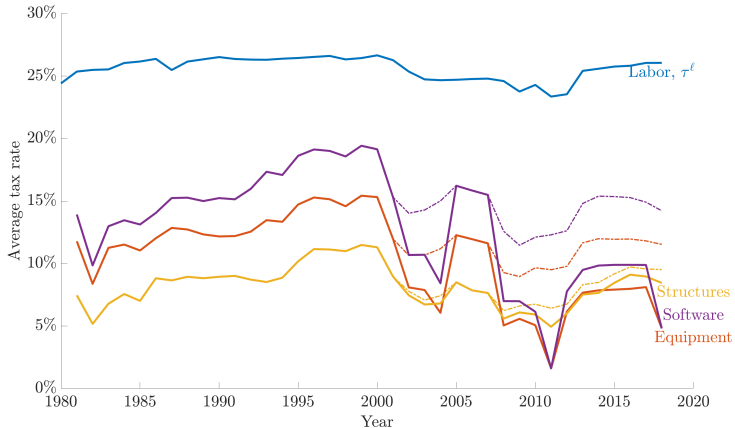


Is AI Different?

- 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.

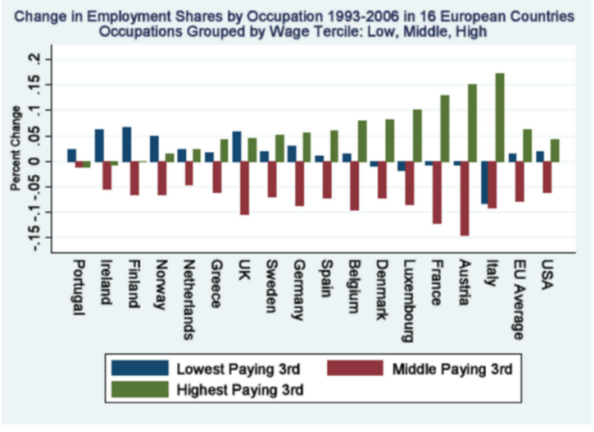
Why This Bias Towards Automation?

1. Business models of many large companies?
2. Global competition?
3. Our higher education system?
4. Our tax code?



Is Automation a Problem Just for the US?

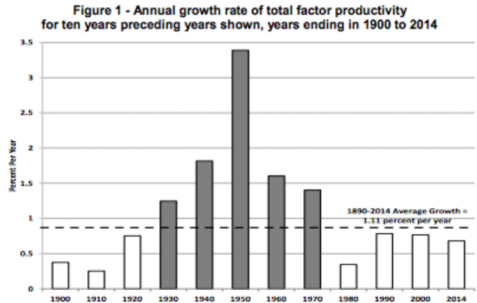
Not Just a US Phenomenon



Are We At Least Getting the Productivity Benefits from Automation?

- No.

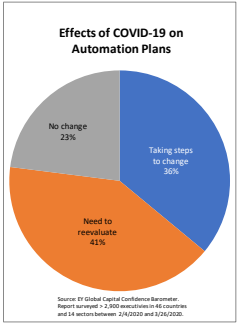
Reality Is Different



- 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.

What can Labor Market Institutions Achieve?

- Some of the distributional problems are rooted in insufficient protection for low-wage workers, mainly in the US and the UK, but also in Canada.
- In the US, the real value of the minimum wage is down to 30% of what it used to be four decades ago.
- Collective bargaining power of workers has fizzled.
- It is important to redress some of this imbalance between capital and labor.
- But if the path of more and more automation, and nothing else on the technology front, continues, this won't help.
- Faced with greater minimum wages and unions, firms will automate even more.
- UBI will not deal with the fundamental problems (other than as an attempt to placate masses while business as usual continues) because they do not help create good jobs or bring humans back into the production process.
- We need something more comprehensive. A bigger institutional overhaul.

Does the Future Need to Be Fully Automated?

- A first step of this overhaul is technological.
- 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 may exacerbate trends that were already underway towards too much automation.
- But this path is not inevitable.

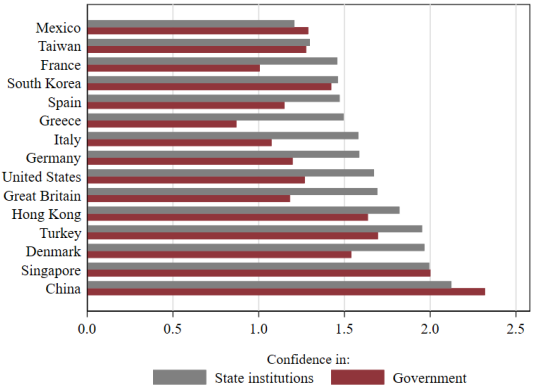
- Companies and society, via government policies and regulations, decide how technology is used, its direction of change and who benefits from it.

- But, most of all, we need a new institutional framework to guide us.

Can We Get There?

- Not very easy.
- We are in the midst of what James Robinson and I called a "critical juncture" in *Why Nations Fail*: Existing institutions are inappropriate for dealing with challenges, but the direction of change is uncertain and contingent, and will depend on existing institutions as well as agency.
- The pandemic has deepened our institutional fault lines. Huge mistakes and blunders, especially in the US. Why?
- Two factors:
  1. Erosion of expertise and autonomy in institutions, especially in this instance CDC (Central for Disease Control), but also more broadly.
  2. Collapse of trust in institutions.

Trust in Government and State



Average confidence by country: 0 is "None at all", 1 is "Not very much", 2 is "Quite a lot" and 3 is "A great deal"

- But a paradox for democratic governance: trust is often higher in authoritarian regimes (indoctrination and what Timur Kuran calls "preference falsification").

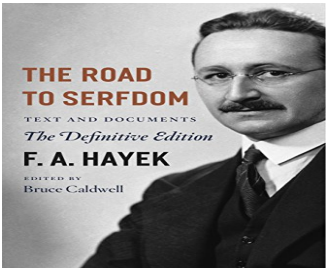
Four Different Futures

- **Tragic business-as-usual:** nothing changes, with even more disastrous consequences for the future.
- **China-lite:** wrong lessons from the crisis about the superiority of authoritarianism relative to democracy. Weaker media freedom, civil liberties and democracy, but cannot easily replicate Chinese bureaucratic efficiency.
- **Silicon government:** another wrong lesson, more power to corporations and less social safety net and regulation. A different version of business-as-usual.
- **Welfare state 3.0:** is it really possible?

Welfare State 3.0

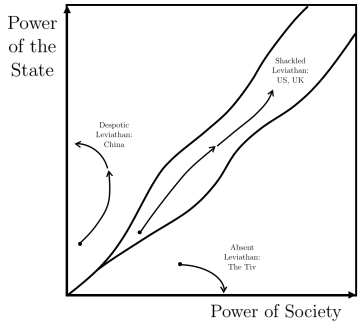
- New responsibilities for the state for combating inequality, climate change, pandemics, security, and contributions to international development.
- Better regulation and social safety net for the disruption created by automation and inequality.
- But even more importantly, something new from the state: regulation of technology (not only because of automation and wage inequality, but also because AI, democracy and our lives more generally).

- 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?