

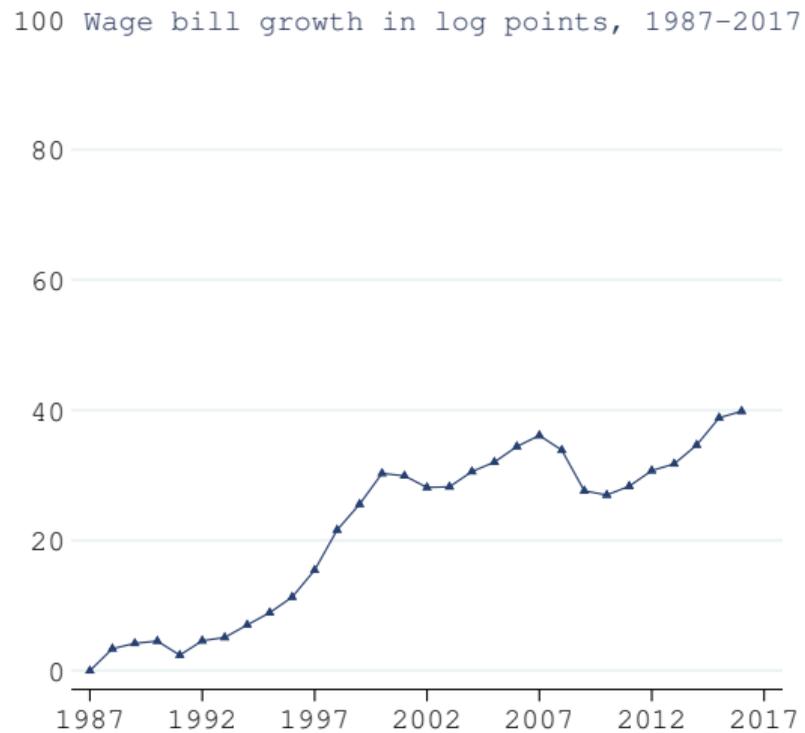
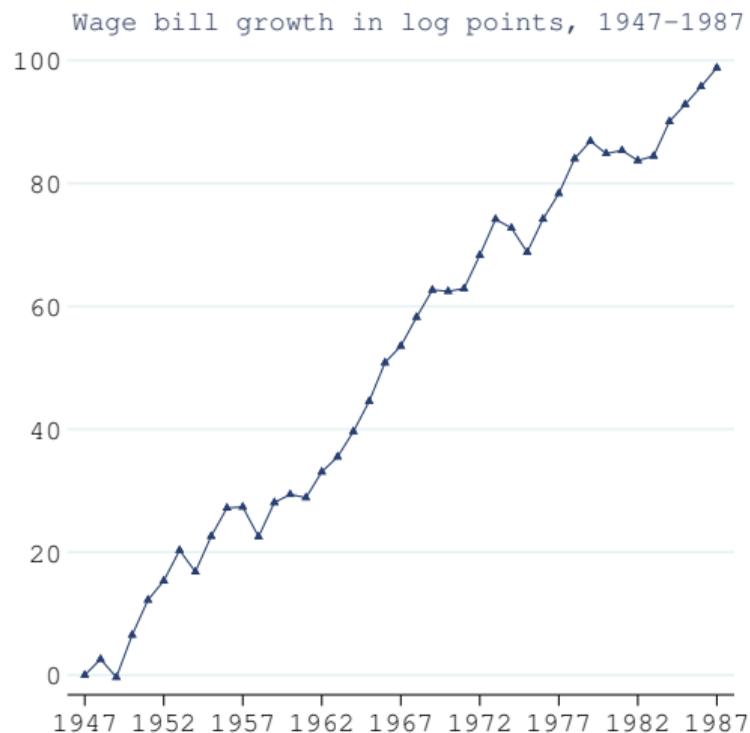
# Remaking the Post-Covid World

Daron Acemoglu

based on joint work with Pascual Restrepo

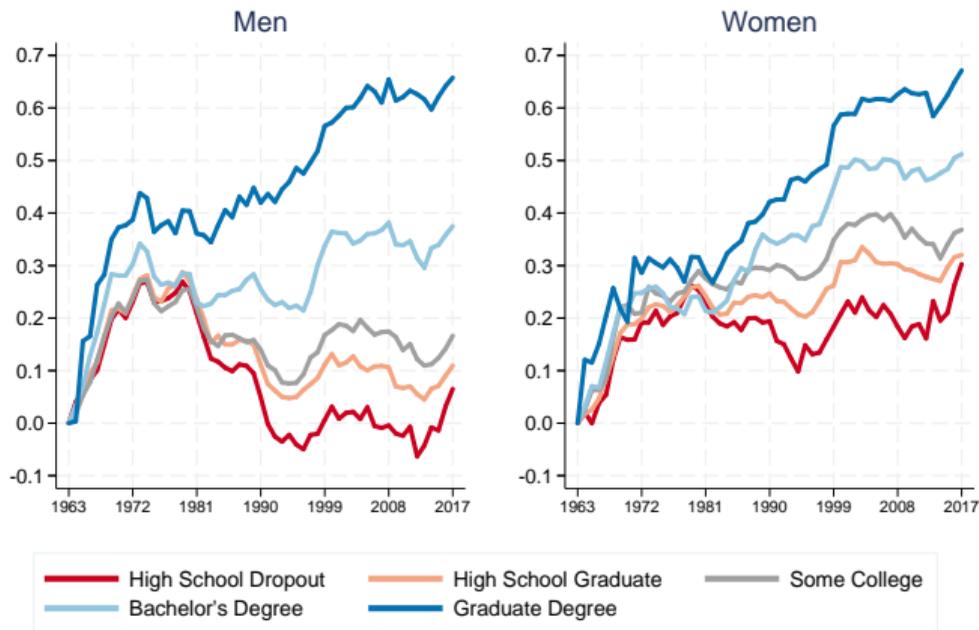
August 2020.

# What Happened to Labor Demand?



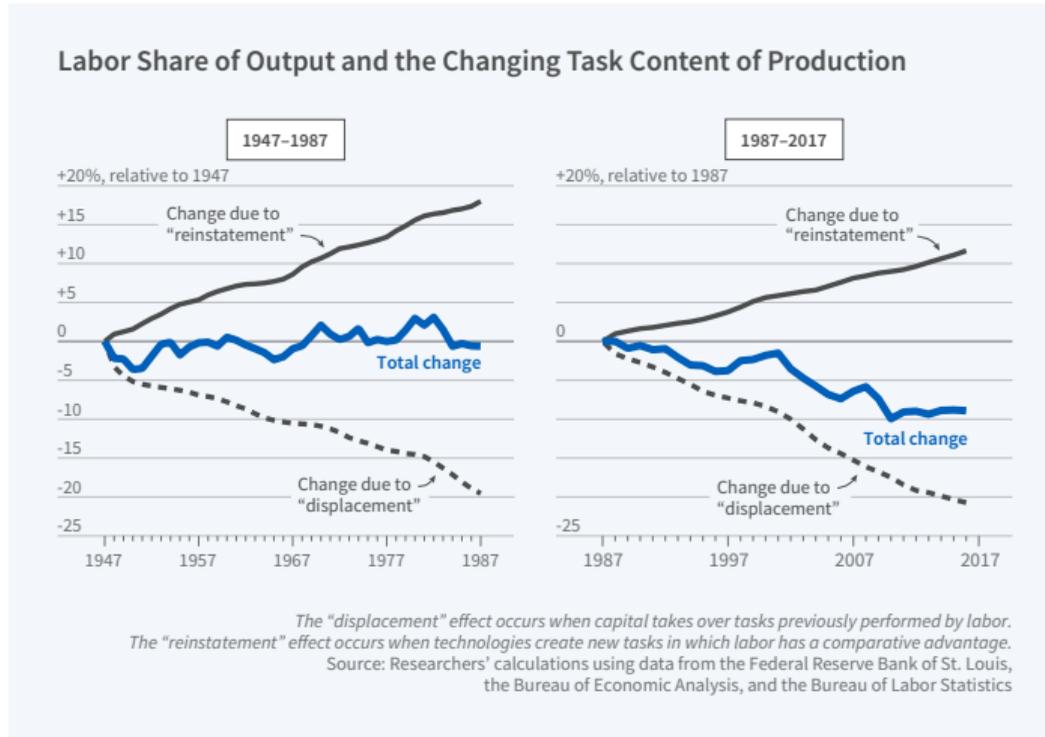
# Consequences of Sluggish Labor Demand

Cumulative Change in Real Log Weekly Earnings 1963 - 2017  
Working Age Adults, Ages 18 - 64



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

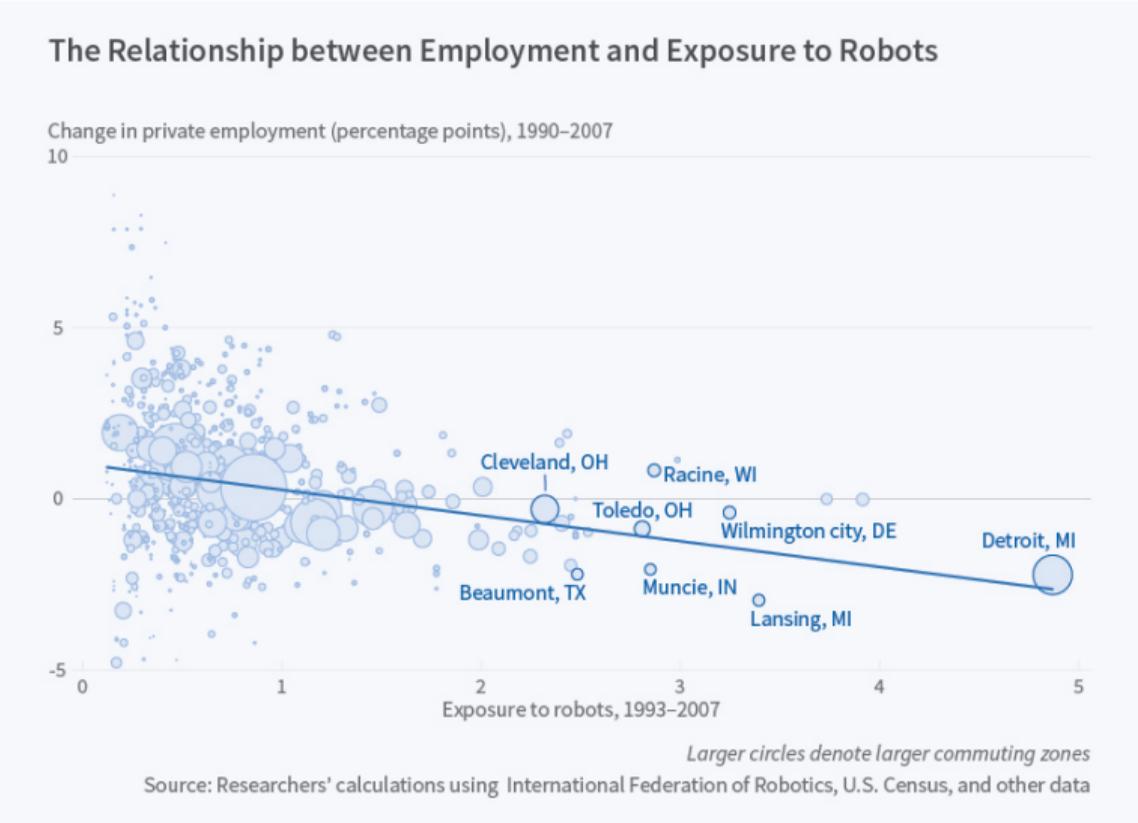
# Why Labor Demand Grew and Then Slowed Down



- ▶ Displacement of workers due to automation broadly counterbalanced with new technologies increasing human productivity and demand for labor ("reinstatement").
- ▶ Much more automation and much less of everything else after the 1990s.

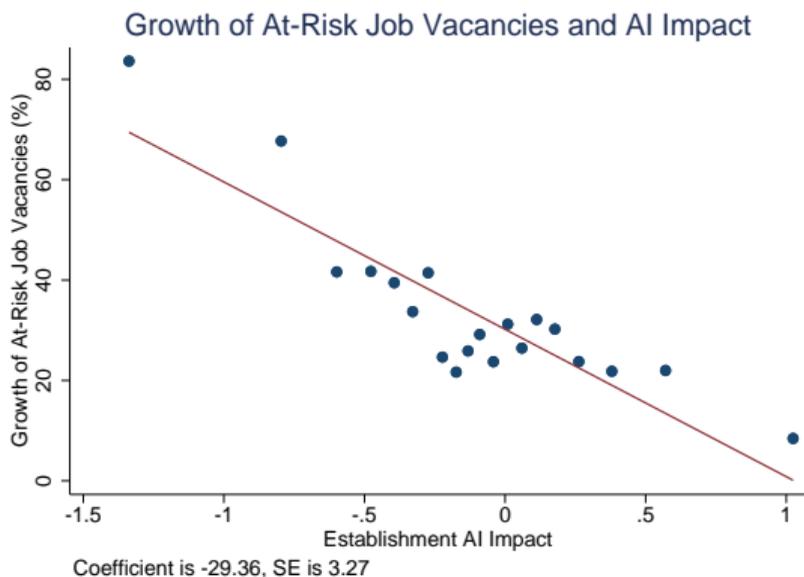
# Automation in Practice: Industrial Robots

- ▶ Example of automation technology, illustrating potential negative effects.



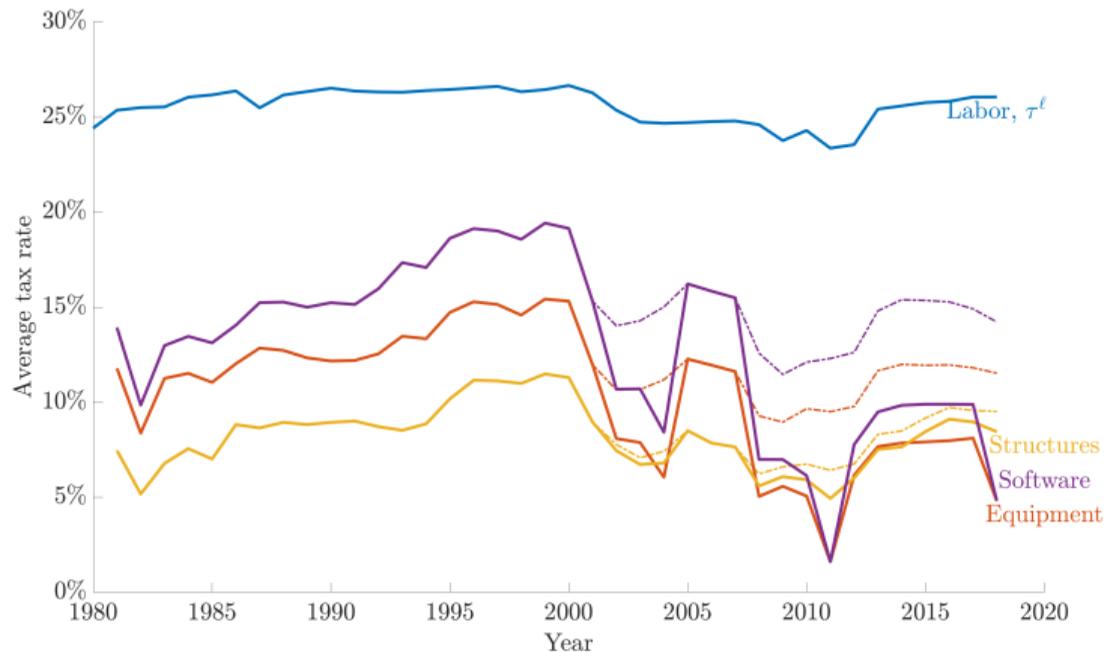
# Is AI Different?

- ▶ Potentially yes because it is a broad technological platform that can be used for many applications, often increasing human productivity.
- ▶ In practice, no. So far AI adoption has been associated with similar displacement.



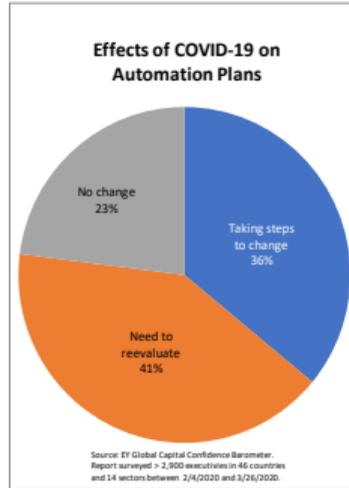
# Why This Bias Towards Automation?

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



# 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 increased 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.

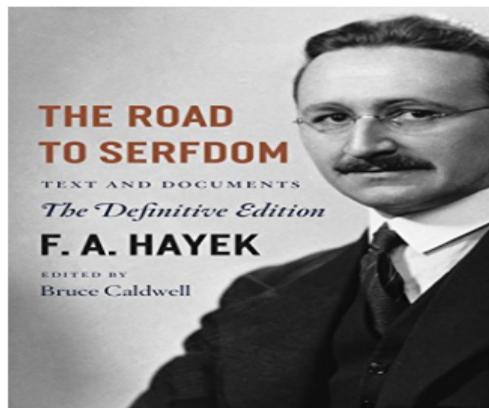
- ▶ Companies and society, via government policies and regulations, decide how technology is used, its direction of change and who benefits from it.



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

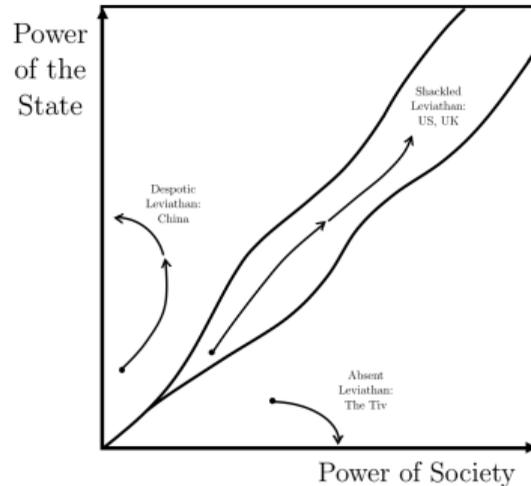
## Welfare State 3.0

- ▶ New responsibilities for the state for combating inequality, climate change, pandemics and security.
- ▶ Much more at stake in the regulation of technology (not only because of automation and wage inequality, but also because AI, democracy and our lives more generally).
- ▶ Better regulation and social safety net for the disruption created by automation and inequality.
- ▶ But what about keeping the state under control? This is what Hayek worried about after the 1942 Beveridge report.



# 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?