Protecting All
Risk Sharing for a Diverse and Diversifying World of Work

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Risk sharing policies build resilience.

• A vital clause in the social contract
• Supports inclusion and social justice objectives of the Welfare State
• Current institutions reflect norms and limitations of the 2nd Industrial Revolution
A period of change and disruption felt globally.

<table>
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<tr>
<th>Labor market</th>
<th>Technological change</th>
<th>Economic integration</th>
<th>Social change</th>
<th>Demographic change</th>
<th>Climate change</th>
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</thead>
<tbody>
<tr>
<td>Demand</td>
<td>Automation &amp; artificial intelligence Declining market transactions costs</td>
<td>Larger, deeper &amp; more contestable markets Global value chains “Premature” deindustrialization</td>
<td>Rising value of diversity</td>
<td>Health-care and… … longevity-support</td>
<td>Disruption to place-based and seasonal industries</td>
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<td>Supply</td>
<td>Declining travel costs (migration) Connectivity Telepresence &amp; remote work</td>
<td>Cross border migration</td>
<td>Women in market work Population flight or influx from conflict</td>
<td>Youth bulge Later entry into work Longer healthy life</td>
<td>Population flight or influx from natural disaster</td>
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<td>Market wide</td>
<td>Innovation Agglomeration</td>
<td>Fading distinction between “tradables” and “non-tradables”</td>
<td>From “Plan” to “Market” Changing norms and aspirations</td>
<td>Rise of the “active elderly” (ages 60-80)</td>
<td>Drought and soil erosion Rising sea levels Severe climate events</td>
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Prevailing policies assume most people are in standard stable wage & salary employment, yet work is diverse.
Diversity challenges the effectiveness, and ultimately the relevance of the prevailing model.
To remain relevant, foundational assumptions have to shift.

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<th>2nd and 3rd Industrial-era assumptions about work</th>
<th>4th Industrial challenge to those assumptions</th>
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<tr>
<td>Homogeneity (sole bread-winner, men ages 18-55, in full-time wage or salary employment)</td>
<td>Diversity</td>
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<td>Stability</td>
<td>Fluidity</td>
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<td>Intermediation between State and Citizen</td>
<td>“G2P” relationship between State and Citizen</td>
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<td>Payroll is most observable</td>
<td>Consumption is most observable</td>
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The world of work is evolving, yet institutions, regulations and interventions remain rigid.
More accessible, robust protection: Insurance assistance

Comprehensive package of protection

- Purely voluntary privately financed
- “Nudged”, incentivized & privately financed
- Mandated & individually financed
- Guaranteed minimum: Purely publicly financed from broadest tax base

Common losses:
- Most frequent
- Negligible external cost
- Some external social benefit

Non-trivial losses:
- Frequent
- Minimal external cost
- Some external social benefit

Large losses:
- Relatively frequent
- Some external social cost

Largest losses:
- Relatively rare
- High ‘external’ social cost
- Most acute market failures

Regulated market provision of secure savings & insurance; Micro finance saving and insurance.

Default opt-ins; Information.

Minimally adequate smoothing
- Notional/DC accounts;
- Actuarially-fair DB.

Minimum DB**
- Transfers;
- Subsidized premiums

Prevents poverty and catastrophic losses

Sufficient to ensure income above the minimum, safeguarding against moral hazard

Based on Ehrlich and Becker (1972); Gill and Ilahi (2000)

** Replaces contributory guarantees and tax incentives.
Current segmentation and exclusion.

a. Stylized state of social protection in a developing country

- Market insurance is scant, expensive and/or ineffective
- Social insurance opaquely combines actuarial and equity objectives with distortive effects
- Risk-pooling instruments for preventing poverty are tightly rationed, excluding many poor and vulnerable.

= social assistance
= social insurance (mandatory)
= market insurance (voluntary)
Policy actions that close gaps and extend coverage.

b. Policy actions to fill the current gaps in protection

- Encourage more supply and demand of voluntary insurance
- Ensure social insurance is actuarially fair
- Shift equity elements to financing from broader-based (general revenues financed)
- Expand beyond narrow poverty-targeting
- Eliminate exclusion

Level of protection

Income or consumption

= social assistance
= social insurance (mandatory)
= market insurance (voluntary)
Accessible, comprehensive protection, no matter where or how people earn their living.

c. Comprehensive insurance assistance

- Blue = social assistance
- Orange = social insurance (mandatory)
- Gray = market insurance (voluntary)
- Yellow = subsidized premia for insurance coverage

Level of protection vs. Income or consumption

- Taper-away assistance and subsidies from the top of the distribution, through tax system.
- Raise the relative importance of voluntary to mandatory instruments through nudging.
With accessible risk-pooling and saving in place, labor regulation could be less restrictive.

The Labor Regulation “Plateau”: To lower adverse employment outcomes, avoid the extremes.

Off the “plateau”: Minimum wages/mean & notification requirements for dismissals (number of countries)

Source: Adaptation from WDR 2013: Jobs
Shift efforts to protect people for change.

Greater effort is required to support reemployment, and deployed according to shocks.

- Re-skilling
- Entrepreneurial support
- Intermediation
- Search support
- Up-skilling (skills renewal)
- Re-skilling for redeployment & relocation
- “Trade Adjustment Assistance”
- Demand subsidy

Transient Systemic
Financial crises

Permanent Systemic
Trade & Tech displacement

Information & Coordination

Transient Idiosyncratic
Structural unemployment and churn

Permanent Idiosyncratic
Occupational transition, inclusion

Lots of knowledge. Deploy better.

More evidence & innovation required
More inclusive structures for dialogue, accountability and governance.

From “Tripartite” to “Pentapartite”? A diverse and diversifying world of work requires a more representative negotiating table.
Concluding messages for policy makers

1. The foundation of effective risk-sharing is poverty-prevention and subsidized protection from catastrophic losses, financed from broad-based taxes.

2. With robust protections from impoverishment in place, available to all people wherever and however they work, government mandates can be less distortive.

3. Rather than protect workers *from* change, governments can shift efforts to protecting them *for* change: supporting job transitions and re-employment.

4. Given daunting resource and capacity limitations in most countries, governments should prioritize the needs of the least-well-off first, before expanding coverage to other households (*progressive universalism*).

5. Digital technology can be harnessed to mobilize tax resources and to deliver protection more effectively, efficiently and equitably.
Thank you.

Download the white paper at
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