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

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A period of change and disruption felt globally.

<table>
<thead>
<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>
</tr>
</thead>
</table>
| Demand       | • Automation & artificial intelligence  
               • Declining market transactions costs  
               • Larger, deeper & more contestable markets  
               • Global value chains  
               • “Premature” deindustrialization  
               • Rising value of diversity  
               • Health-care and...  
               • ...longevity-support  
               • Disruption to place-based and seasonal industries |
| Supply       | • Declining travel costs (migration)  
               • Connectivity  
               • Telepresence & remote work  
               • Cross border migration  
               • Women in market work  
               • Population flight or influx from conflict  
               • Youth bulge  
               • Later entry into work  
               • Longer healthy life  
               • Population flight or influx from natural disaster |
| Market wide  | • Innovation  
               • Agglomeration  
               • Fading distinction between “tradables” and “non-tradables”  
               • From “Plan” to “Market”  
               • Changing norms and aspirations  
               • Rise of the “active elderly” (ages 60-80)  
               • Drought and soil erosion  
               • Rising sea levels  
               • Severe climate events |
Social insurance policies assume most people are in stable standard employment, yet work is diverse & fluid.

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Wage employees</th>
<th>Self-employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIC</td>
<td>66%</td>
<td>26%</td>
</tr>
<tr>
<td>UMIC</td>
<td>71%</td>
<td>20%</td>
</tr>
<tr>
<td>LMIC</td>
<td>47%</td>
<td>31%</td>
</tr>
<tr>
<td>LIC</td>
<td>17%</td>
<td>34%</td>
</tr>
<tr>
<td>WLD</td>
<td>64%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: International Income Distribution Database (I2D2)
To remain relevant, foundational assumptions of 1\textsuperscript{st} and 2\textsuperscript{nd} industrial eras have to shift.

<table>
<thead>
<tr>
<th>Industrial-era assumptions about work</th>
<th>Post-industrial challenge to those assumptions</th>
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<tbody>
<tr>
<td>Homogeneity (sole bread-winner, men ages 18-55, in full-time wage or salary employment)</td>
<td>Diversity</td>
</tr>
<tr>
<td>Stability</td>
<td>Fluidity</td>
</tr>
<tr>
<td>Intermediation between State and Citizen</td>
<td>“G2P” relationship</td>
</tr>
<tr>
<td>Payroll is most observable</td>
<td>Consumption is most observable</td>
</tr>
</tbody>
</table>

- The world of work is evolving and diverse, but institutions, regulations and interventions remain rigid.
More accessible, robust protection: Insurance assistance

Comprehensive package of protection

**Guaranteed minimum:**
- Purely publicly financed from broadest tax base

**Mandated & Individually financed**
- "Nudged", incentivized & privately financed

**Purely voluntary privately financed**
- "Nudged", incentivized & privately financed

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

Default opt-ins;
Information.

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

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

Largest losses; Relatively rare;
High 'external' social cost;
Most acute market failures.

Large losses; Relatively frequent;
Some external social cost.

Non-trivial losses;
Frequent;
Minimal external cost;
Some external social benefit.

Common losses;
Most frequent;
Negligible external cost;
Some external social benefit.

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

** Minimum DB**
- Transfers;
- Subsidized premiums

Prevents poverty and catastrophic losses

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

** 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 combines actuarial and equity objectives with distortive effects

Risk-pooling instruments for preventing poverty are tightly rationed, excluding many poor and vulnerable.

Level of protection

- "contributive"
- "non-contributive"

= 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)
- Eliminate exclusion
- Expand beyond narrow poverty-targeting

Legend:
- Blue = social assistance
- Orange = social insurance (mandatory)
- Gray = market insurance (voluntary)
Accessible, comprehensive protection.

- Social assistance
- Social insurance (mandatory)
- Market insurance (voluntary)
- Subsidized premia for insurance coverage

c. Comprehensive insurance assistance

- Level of protection
- Income or consumption

Raise the relative importance of voluntary to mandatory instruments through nudging.

Taper-away assistance and subsidies from the top of the distribution, through tax system.
With accessible risk-pooling and saving in place, labor regulation could be less restrictive.

The Labor Market Regulation “Plateau”: To minimize adverse outcomes, avoid regulatory extremes

Off the “plateau”: Statutory wage floors and notification requirements for employee separations

Source: Adaptation from WDR 2013: Jobs and Kuddo (2018)
“Flexicurity” revisited: Protect people for change.

Source: Indices by Packard and Montenegro (2017) using Doing Business and PCA methodology, World Development Indicators (WDI), The Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE)
Greater effort is required to support reemployment, deployed according to shocks.

- **Transient**
  - Systemic: Financial crises
  - Idiosyncratic: Structural unemployment and churn

- **Permanent**
  - Systemic: Trade & Tech displacement
  - Idiosyncratic: Occupational transition, inclusion

**Information & Coordination**

- **Hours banks**
- **Job sharing**
- **Retention subsidies**
- **Re-skilling** for redeployment & relocation
- **“Trade Adjustment Assistance”**
- **Demand subsidy**
- **Re-skilling** for redeployment & relocation & relocation
- **Entrepreneurial support**
- **Demand subsidy**

**Lots of knowledge. Deploy better.**

**More evidence & innovation required**
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 \textit{from} change, governments can shift efforts to protecting them \textit{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 \textit{(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
https://openknowledge.worldbank.org/handle/10986/32353