



World Development Report 2019: World Bank's unhelpful contribution to debate on the future of work

The *World Development Report*, which the World Bank characterizes as one of its 'flagship' annual publications, has devoted its 2019 edition to ["The Changing Nature of Work"](#).

Contrary to the ILO and other institutions that have analysed the theme of the future of work, the WDR 2019 largely avoids identifying both the negative and positive impacts of the creation and application of new technologies. It also avoids discussing how public policy should attempt to control and guide them. Instead, the report presents a generally benign view of expected transformations, accuses those concerned by phenomena such as increasing inequality of being deceived by false perceptions and puts forward a view of technological determinism. Governments should accept and adjust to the impact of new technologies on workers and the public as they are implemented by private interests, even concentrated mega-firms, and not attempt to control or regulate them.

The benign view, as pointed out below, is frequently constructed on partial and selective data. Where information clashes with the view, it is briefly mentioned in passing, if at all, and then ignored, especially in the policy recommendations. The overall policy approach is that the private sector should be allowed to do anything that it considers to be in its best interests. Thus, "onerous" regulations on business should be dismantled, and private firms should be alleviated of obligations to, for example, contribute to the social protection of their workforce. Instead, governments would assume that responsibility and finance the cost by prioritizing sources of revenue that affect firms the least, notably consumption taxes. While the report defends the need for greater public investment in health and education, including the hiring of community health workers and investment in early childhood education, it presents a one-dimensional view of the role of education in society and does not offer realistic solutions for financing these services other than increasing regressive forms of taxation.

Increased inequality: "Unfounded perception"

One particularly striking assertion near the beginning of the WDR 2019 is the dismissal of any concern about growing income inequality. It does this by claiming that in 37 of 41 developing and emerging economies Gini coefficients either decreased or remained "unchanged" (defined as increasing by no more than one percentage point) between 2007 and 2015. Besides the limited number of countries in the sample, the choice of the WDR to retain only eight years of data – starting with the beginning of the global financial crisis – is highly selective. Financial crises frequently begin with some very wealthy groups declaring huge losses. Various analyses, including by agencies such as the [IMF](#) and [OECD](#), have shown a long-term increase of income inequality in most countries, both developing and advanced-economy, starting in the 1980s. This is the case if the widely-used Gini coefficient is used as the metric and the increase is even more dramatic when one looks at the [share of national income going to the top ten per cent](#).

Those whom the WDR considers to be deluded by perceptions of increased inequality apparently include IMF managing director [Christine Lagarde, who in a speech](#) delivered 1 October 2018 noted that “since 1980, the top one percent globally has captured twice as much of the gains from growth as the bottom 50 percent”. Last May, an [IMF working paper](#) on the impact of new technologies concluded that without vigorous policy responses, “the labour share [of national income] declines substantially and overall inequality rises”.

The WDR asserts that concerns about increasing inequality are “unfounded”, and illustrates this by presenting data from Russia that show the top 10 per cent of income earners’ share falling from 52 to 46 per cent between 2008 and 2015. The World Bank’s Development Economics department, which oversees production of the WDR, evidently failed to inform the report’s authors of the dominant role that fossil-fuel production plays in the Russian economy and that ultra-rich oligarchs reap a large share of the windfall gains when prices are high. The price of oil fell by 58 per cent in inflation-adjusted dollars between 2008 (a [28-year peak for real oil prices](#)) and 2015, so it is not surprising that Russia’s top ten-percenters ‘suffered’ during this period. Oil prices have been on the rise again since 2016. It is unfortunately a common practice in various sections of this flagship report to make highly inaccurate generalizations on the basis of outlier examples without contextualization.

Deregulation, deregulation, deregulation

In a chapter on the changing nature of firms, the WDR acknowledges that labour share of national income has fallen in the majority of economies, both advanced and emerging, over a 37-year period, which is a major reason that income inequality has increased. But the link with inequality is not mentioned. Instead, through a strange twist in logic, declining labour share is used to justify the view that regulations on business should be eased.

The pro-deregulation message is a constant theme of the WDR 2019. Assertions are made throughout the report that business deregulation will lead to decreased informality, even when data presented in the report contradict this claim. Figure 0.5 shows a sharp fall in business start-up costs since 2005, and the accompanying text acknowledges that “despite improvements in the business regulatory environment” over the past two decades, “informality has remained remarkably stable”. Yet the WDR 2019, proving that ideology trumps factual evidence in this report, repeatedly puts forward the need to reduce regulations in order to cure informality, and several other economic ills.

The default option of deregulation also contradicts fleeting acknowledgments that a positive outcome of good job creation will only come about “if the rules of the game are fair”, that platform companies concentrate wealth and that technology can displace workforces in entire sectors. The WDR does not provide policymakers with tools to create fair rules of the game, such as just transition plans for displaced workforces, policies to ensure that platform workers are fairly compensated or an approach to trade in services which allows governments to regulate in the public interest. Instead, the report makes technology the protagonist, rather than the choices of companies and governments.

The report evades the fact that gig work for platform companies is a result of aggressive strategies to ignore, subvert and eliminate regulations such as employment relationship rules. The WDR argues that “changes in the nature of work caused by technology shift the pattern of demanding workers’ benefits from employers” to the State. This ignores the harmful strategy of many platform companies such as Uber to misclassify employees or transnationals such as Walmart to pay poverty wages, knowing that social assistance will fill the gap and subsidize their operations. The WDR does

recognize momentarily in the second chapter that “regulation becomes important if platforms provoke a race to the bottom in working conditions”, but this is forgotten in the concluding chapter on policy recommendations.

Opposition to employer/employee-financed social protection

The shifting of the responsibility of providing social protection away from private firms is another recurring theme in the WDR 2019. The report declares that systems that depend on contributions from employers and employees, for example to finance old-age security, are “not a good fit for developing countries”. It is suggested that, instead, the State should assume the financial burden of social protection. That *could* include a form of guaranteed basic income – although the report attempts to show that the costs would be prohibitive – combined with “basic universal social insurance” for health care, pensions and other protections. However, there is a catch in the ‘universal’ nature. The report argues for “progressive universalism”, which is in fact anything but universal. The report puts forward an iteration of the much criticized narrowly-targeted assistance schemes that the international financial institutions have supported for years, in some cases in replacement of existing universal programmes.

The WDR makes no mention of the extensive literature about the very high level of ‘exclusion errors’ associated with social assistance targeting mechanisms promoted by the IFIs in developing countries, such as the extensively-used [proxy means tests](#). Instead, the concluding chapter of the WDR 2019 gives considerable attention to measures governments need to take to avoid “inclusion errors” in assistance programmes and for eliminating “leakages” of assistance to those who are not in extreme poverty. In reading the WDR’s proposals one gets the impression that ‘progressive universalism’ means ensuring that the smallest number of beneficiaries possible has access to assistance.

Expand consumption taxes to finance social protection

After concluding that employer/employee-financed social protection has no future in developing countries, the WDR 2019 devotes several pages in the concluding section to financing the increased responsibilities for “social inclusion” that the State must take on. Earlier chapters make the point that the “increasingly digital nature of business only creates more opportunities for tax avoidance” and the “virtual nature of digital businesses makes it even easier to locate activities in low-tax jurisdictions”. Unfortunately, this appropriate identification of the potential for increased use of digital technologies, especially by large enterprises, to undermine tax bases even further is entirely forgotten in the recommendations chapter.

In the conclusions, the WDR pays lip service to the problem of base erosion and profit shifting – but none specifically by digital platforms – and tepidly consents to a role for progressive income taxes. However, it devotes far more space to what it defines as “a first line of reform for developing countries [and] a major source of revenue”: the value added tax. The report acknowledges the inherently regressive impact of the VAT in that it falls disproportionately on lower-income earners. Any discussion of how the expansion of VATs has contributed to income inequality is, of course, omitted since the WDR claims that inequality is decreasing. The report states that the regressive impact of VATs can be partially mitigated by exempting or taxing at reduced rates essentials such as basic food stuffs. But the WDR actually opposes correcting VATs’ regressive effect by stating its preference for “raising the value added tax thresholds in countries that already have it, closing tax exemptions, and converging toward a uniform tax rate”.

The production of a thoughtful and evidence-based report on “The Changing Nature of Work” by the world’s pre-eminent development finance institution could have added a valuable view to a debate that is taking place in numerous institutions and forums. Instead, the World Bank’s WDR 2019 fails on several fronts. It makes a bungling attempt to deny that challenges such as growing inequality exist. It endorses a simplistic programme of easing taxation and regulation of business that in some cases contradicts the report’s own findings. It does not even acknowledge the 2030 Sustainable Development Goals. Together, this excludes the WDR 2019 as a serious contribution to discussions on the future of work.

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