



# BUSTING ‘END OF JOBS’ MYTH

*Is universal basic income the answer to automation?*

PAUL KERIN



Two related concepts have received much more attention from the media and politicians than they deserve.

The first is the “end of jobs” myth — the claim that technological progress (in particular, robots) will cause permanent mass unemployment.

The second is the idea that governments should use taxpayer money to pay everyone a universal basic income (UBI) regardless of their circumstances (including wealth, other income and employment). They’re related because the first is used as the key rationale for the second. However, neither concept stands up to scrutiny.

The European Parliament will vote on a proposal likely to include UBI in February or March, following a recent recommendation from its Legal Affairs Committee that UBI be “seriously considered”.

Benoit Hamon, the French Socialist Party’s likely nominee (to be decided on January 29) for the presidential election, proposes that a UBI be implemented by 2022. Both the committee and Hamon believe the end of jobs myth.

However, in 3½ centuries since the Industrial Revolution began, we have witnessed many doomsday predictions, that various innovations — including steam power, weaving looms, electricity, assembly lines, computers and the internet — would spell the end of jobs. As they’ve all proved false,

each new doomsday scenario adopts a “this time it’s different” angle. However, they’re running out of angles.

For example, today’s robot doomsayers claim that it’s unskilled and semi-skilled workers who will lose job opportunities — the very same angle that *Time* magazine used in 1961 about other forms of automation. The subsequent half-century proved *Time* wrong.

Sure, enormous technological progress in recent centuries has made many jobs redundant, but it hasn’t caused permanent economy-wide excess supply of labour. Total employment has kept growing. Why? Human wants are unlimited, machines aren’t just substitutes for labour — they’re also complements — and markets adjust to change to ensure that demand matches supply.

Robots are capital assets. Capital has always been a substitute for labour, but a complement too. Capital investment raises labour productivity and therefore demand for labour.

Over the last century, capital investments sparked by innovations have boosted labour productivity, while wages, workforce participation and our overall standard of living have all risen substantially.

We now work fewer hours per week, but the labour productivity boost enabled us to make that voluntary choice. Technology didn’t cause mass involuntary unemployment.

Indeed, the first serious study of the economic impact of industrial robots by London School of Economics economists recently found that “robot densification” (increasing numbers of robots per million hours worked) has no effect on total hours worked. Countries that experience greater robot densification generate higher labour productivity, wage and GDP growth.

So the key rationale for a uni-

versal basic income is bunk. In any case, as the size of the UBI payment would need to be sufficient

to sustain those in genuine need, a UBI would require a massive tax increase even if it replaced all other welfare payments.

Our tax-and-transfer system already generates enormous and unnecessary “churn” — we simultaneously tax individuals and hand money back to them (particularly through middle-class welfare), rather than just tax them less in the first place. UBI would turbocharge churn.

Some claim that UBI would improve incentives to work (never mind the logical contradiction that there apparently won’t be any jobs anyway) and generate administrative cost-savings by making means-testing redundant and simplifying our welfare payment system. But more targeted policies

would realise these benefits at much lower cost.

Replacing our existing plethora of welfare payments with a single payment makes great sense, but that payment should be means-tested to minimise unnecessary churn.

It is true that high effective marginal tax rates under our tax-and-transfer system discourage workforce participation by unemployed or underemployed individuals and that UBI would help overcome that.

But more targeted policies, such as earned income tax credits (which opposition Treasury spokesman Andrew Leigh has rightly championed since his days as a star academic economist) and negative income taxes, would also do so without the downside of costly tax churn.

Even if we ignored the downsides of UBI and humoured doomsayers, it would make no sense to introduce UBI now. Let’s put this in perspective. Our entire world has less than two million robots, but well over three billion



jobs. Total global employment has risen by 36 per cent since 2000. Our unemployment rate is below the long-term average and heading down.

Even if there's a chance that the doomsday predictions might prove correct, there is high uncertainty as to whether and when they will. As a society, we need to make sensible decisions in the face of high uncertainty.

If we introduce UBI now, it will soon be regarded as an entitlement; if the end of jobs story turns out to be a myth, imagine the political difficulty in removing what would then be a very costly unnecessary program.

Consequently, we should wait and see.

UBI should only be considered in the very unlikely event that robots actually do cause permanent mass unemployment. In the meantime, governments should maximise labour market flexibility to help displaced workers find new jobs quickly.

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*Paul Kerin is adjunct professor,  
School of Economics, at the  
University of Adelaide.*

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**Doomsayers claim robots will cause permanent job loss and use it to argue for a universal basic income**