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Consumers or workers first?

Most economists have long equated a good economy with cheap goods. But there is an alternative view that values meaningful work and human dignity

What is an economy for? Since Adam Smith, economists have given a straightforward answer to this question: the economy increases our consumption possibilities. A well-functioning economy is one that provides a widening array of ever-more affordable goods and services, from food and consumer items to housing and transportation. A poorly-functioning economy is one of scarcity, where the goods and services consumers seek are either unavailable or too expensive.

This consumer-based view has traditionally been closely associated with academic economists and technocrats. But today it also pervades current thinking in progressive circles.

In the United States, the Democratic Party's opposition to President Donald Trump has coalesced around the theme of 'affordability' — a clearly consumerist perspective. Similarly, the 'abundance' agenda popularised by journalists Ezra Klein and Derek Thompson prioritises expanding the availability of goods and services, albeit across a broader spectrum than consumer goods, one that includes housing, transportation and renewable energy.

A jobs-oriented perspective

But there is an alternative perspective on the economy that emphasises a different side of human nature and human needs. People are both consumers and producers. We derive meaning, social recognition and life satisfaction as much from the work that we do as from the goods and services we consume — if not more so. Our jobs provide us with community, dignity and identity.

That is why job loss is associated with declines in individual well-being that are multiples of the income drop generated by unemployment. It is also why so much of our current social and political polarisation, and the

associated rise in authoritarian populism, can be traced to the scarring of labour markets in left-behind regions caused by de-industrialisation, austerity and globalisation. When decent jobs disappear permanently, the consequences extend significantly beyond the immediate losses in income and consumption.

These views of the economy – consumption versus jobs – imply very different policy frameworks and remedies. Consider long-term care, a large and growing industry that in the US today employs several times as many workers as the automotive industry. Much of the current discussion about this sector is framed in terms of the challenge of 'a shortage of workers'. That is a consumerist perspective: policy analysis focuses on the availability of cheap care services to seniors.

A good-jobs focus should make us more sympathetic to rules and regulations that sacrifice some efficiency if the outcome is better, safer, less precarious work.

The jobs-focused perspective states the challenge differently: as one of creating good work in long-term care services. The prospect of better jobs would attract more workers to the sector and increase supply alongside job quality.

Or turn to the renewables industry, such as solar panels and wind turbines. The cheapest way to expand deployment of renewables and accelerate the transition away from fossil fuels is to rely on imports from China, the world leader in the sector.

A jobs-oriented perspective, by contrast, would advocate a more balanced approach that seeks opportunities to generate domestic employment as well. Spain pursues this strategy — and leads Europe in both utility-scale domestic production of renewable power and the reduction of energy prices.

Finally, consider housing. Productivity in housing construction has stagnated in recent years in the US, in part because of safety regulations and union rules. A consumerist perspective, as in the abundance agenda, would focus on reducing the red tape.

Yet many of the regulations that slow down construction also reduce workplace injuries. Fatalities and non-fatal injuries in construction have fallen dramatically in the US since the 1970s, thanks to workplace-safety rules. How do we trade off the improvement in worker well-being these rules have enabled against the loss in housing availability to the population at large? A good-jobs focus should make us more sympathetic

to rules and regulations that sacrifice some efficiency if the outcome is better, safer, less precarious work.

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To improve living standards and personal dignity, policymakers must adopt both perspectives. The two approaches often offer conflicting remedies, but an economic strategy that promotes worker-friendly productivity enhancements can kill two birds with one stone.

In principle, organisational and technological innovations that increase productivity both improve working conditions and enhance the availability of goods and services. But in too many cases, workers reap only a small share of the benefits. Digital platforms and automated warehouses have increased labour productivity significantly, but the bulk of the benefits have gone to companies such as Uber and Amazon.

As a new paper by MIT economists Daron Acemoglu, David Autor and Simon Johnson argues, companies often face distorted incentives when they decide which technologies to adopt and deploy. They might prefer hierarchical, efficiency-focused systems that maintain tight control over workers and intensify the division of labour. But AI and other new technologies can also be used to enhance workers' autonomy, give them more responsibilities and allow them to perform a wider range of more sophisticated tasks. For example, in long-term care, decentralised, team-based service provision can enhance job quality while increasing productivity through reduced turnover and hospital expenses.

Policymakers need not make a stark choice between an economy that serves consumers and one that serves workers. Productivist policies that enhance workers' voice but also empower them through organisational and technological innovations can achieve progress on both fronts. But such policies do require a different mindset, one that balances the consumerist perspective with adequate attention to the importance of good jobs.

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