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BRING ON THE ROBOTS: AUTOMATION YIELDS ECONOMIC BENEFITS

Berenberg Macro Flash

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In economics, there are many myths that conceal reality. One such myth is that robots will one day replace so many workers so fast they will cause mass unemployment. It is common to hear statistics like, “robots will replace one-third of jobs by 2030”, or something to that effect. But the logic behind claims that an increasing prevalence of robots in the workplace will reduce total demand for labour is flawed. Despite the empirical evidence against such claims, they continue to prevail nonetheless. Whether it is robots or machines, workers have feared the effects of new technologies for over a hundred years. The destruction of machines at mills in 1811 by the Luddites – textile workers – is probably the most well-known British example of the manifestation of such fears. But the fact is simple: as we have become more technologically advanced, employment has risen, not fallen. In much of the developed world, employment today is at a record high and still climbing.

The rise of the machines: Since the First Industrial Revolution, we have been replacing human with machine labour to raise the efficiency of production. In farming, manual picking of grains is now done by motorised harvesters. In manufacturing, machine looms have replaced hand weaving. In services, photocopiers have replaced manual copiers. One could easily go on. But the key point is that most of the workers did not end up jobless and poorer. Instead, such workers found other work and ways to generate supply. The overall effect is that automation makes everyone better off, including the initially displaced workers.

Back to basics: Producers will only automate if doing so is profitable. For profit to occur producers need a market to sell to in the first place. Keeping this in mind helps to highlight the critical flaw of the argument: if robots replaced all workers, thereby creating mass unemployment, to whom would the producers sell? Because demand is infinite whereas supply is scarce, the displaced workers always have the opportunity to find fresh employment to produce something that satisfies demand elsewhere. Even fears of a modest decline in employment are exaggerated. Because the economic pie is not fixed, the effects of robotisation on employment are always temporary. As we automate production of the stuff we consume today, we free up human capital for the production of new types of goods and services. Since we do not need to compete with each other – or robots – for a share of the economic pie, as one job is destroyed another can be created.

Wait, there is a “but”. Does that mean that increased automation of production has not affected workers? No. While automation brings aggregate benefits, it creates concentrated costs for the displaced workers initially. The costs depend on the wealth and skill of the worker. A wealthy/highly skilled worker has a better means to find another job at a similar skill level to the one they lost, or instead pay for re-training to reach a higher productivity rate and wage level. The low-skilled, low-paid worker does not have such means. Sometimes, those workers are forced to take an even lower skilled job where they have to wait for their experience to rise over time in order to recapture their old wage. In recent decades, as the UK and other advanced economies have become more services based, a few highly skilled workers have benefited a lot, while many low-skilled workers have been left behind. But such adjustment problems are not a new phenomenon. Even at the same wage, low-skilled workers who are forced to change jobs still benefit from higher living standards that result from the cheaper and more varied goods and services.



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Look to economic policy instead of blaming C3PO: Policymakers can help smooth the adjustment to the new economy by taking a light-touch approach to regulation so that new products can be enjoyed sooner rather than later. They can also provide more opportunity and incentives for displaced workers to up-skill to take advantage of new opportunities. Still, a key point is worth outlining: in much of the developed world today, even those unfortunate to be close to the bottom still enjoy a standard of living that would have been unattainable for even the wealthiest just a few generations ago. Historically, higher quality, lower priced products have improved the living standards of all economic participants, especially those close to the bottom. It would indeed be better if all workers were better skilled. That way, economies would be even more productive. This should be a key aim for policymakers. However, the gains for the masses from automation will far exceed the costs without major policy initiatives. The benefits of the market economy come from what we consume (our ends), not what we produce (our means). From an economic point of view, this is the main thing that matters.

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