



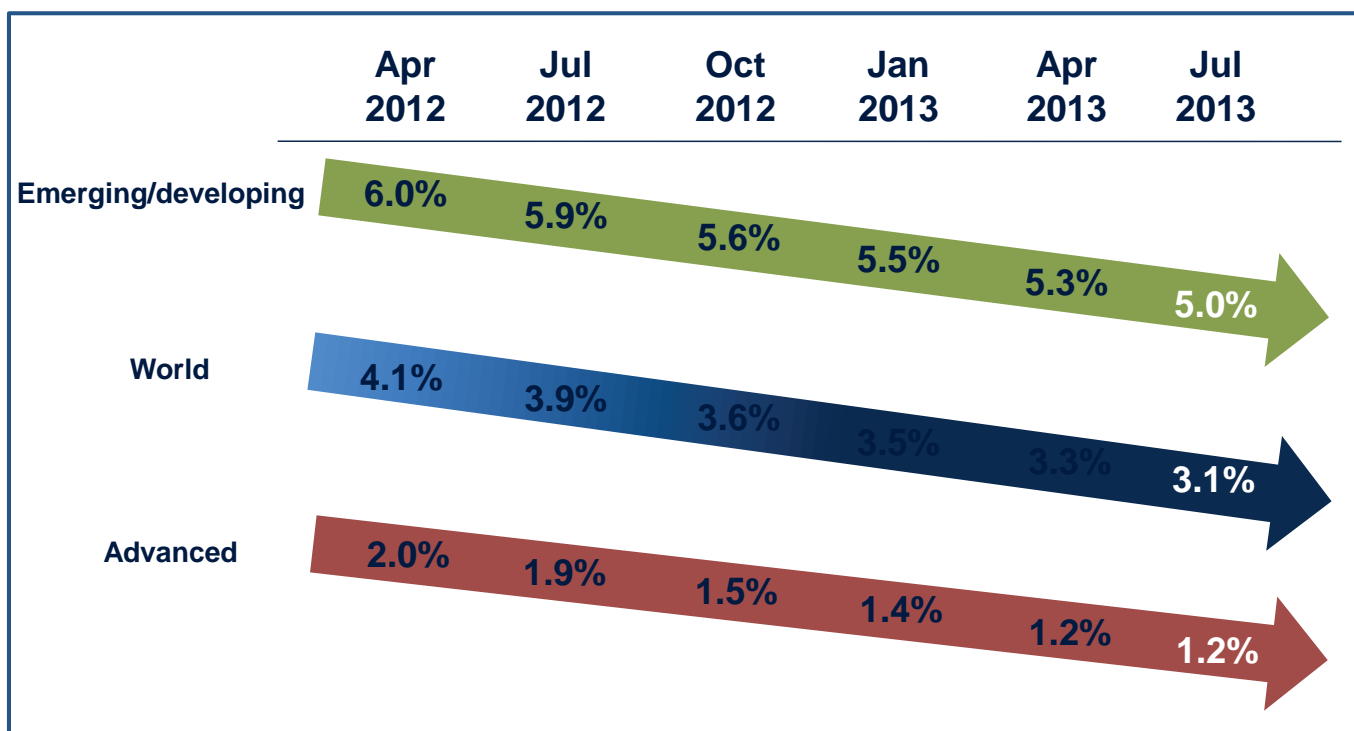
# In search of increased aggregate demand, sustainable growth and development:

## *The role of labour market policies*

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### Prospects for economic growth are below trend

Forecast GDP growth for 2013 has continued to deteriorate over the last 12 months



# Investment growth rates are below pre-crisis levels in most regions and countries

## Average quarterly growth rate of gross fixed capital formation, by region and selected countries

| Averages of regions and selected countries | Impact      | Recovery                |
|--|-------------|-------------------------|
|  | Q2 09-Q2 08 | Q4 12-Q4 09             |
| European Union (27 countries)              | -4.01       | <b>-0.18</b>            |
| Developed East Asia <sup>1</sup>           | -2.38       | <b>0.31</b>             |
| South Africa                               | -0.36       | <b>1.08</b>             |
| United States                              | -4.1        | <b>1.09</b>             |
| Latin America <sup>2</sup>                 | -3.55       | <b>1.36</b>             |
| India                                      | -0.67       | <b>1.58</b>             |
| South East Asia and Pacific <sup>3</sup>   | -0.75       | <b>1.74</b>             |
| Russian Federation                         | -4.13       | <b>1.88</b>             |
| China <sup>4</sup>                         | 5.29        | <b>2.54<sup>5</sup></b> |

<sup>1</sup> Japan, Korea

<sup>2</sup> Argentina, Brazil, Chile, Mexico

<sup>3</sup> Australia, Indonesia, New Zealand

<sup>4</sup> Calculation based on annual growth rates data taken from the World Bank WDI

<sup>5</sup> Calculation based on last available data: 2011

Source: ILO's calculation based on OECD Statistics

## Prospects for employment growth are below trend

### Employment growth is projected to decline gradually over the medium term

| Average Employment Growth                                | 1992-95 | 1995-00 | 2001-05 | 2006-10 | 2011-15 | 2016-18 |
|--|---------|---------|---------|---------|---------|---------|
| <b>WORLD</b>   | 1.7     | 1.6     | 1.7     | 1.2     | 1.4     | 1.2     |
| <b>Developed Economies and European Union</b>            | 0.4     | 1.1     | 0.6     | 0.3     | 0.4     | 0.5     |
| <b>Central and South-Eastern Europe (non-EU) and CIS</b> | -0.3    | 0.1     | 1.0     | 0.8     | 0.7     | 0.0     |
| <b>East Asia</b>   | 1.4     | 1.1     | 1.0     | 0.5     | 0.7     | 0.2     |
| <b>South-East Asia and the Pacific</b>                   | 2.7     | 2.1     | 1.7     | 2.0     | 1.7     | 1.4     |
| <b>South Asia</b>  | 2.4     | 2.0     | 2.7     | 0.8     | 1.9     | 1.8     |
| <b>Latin America and the Caribbean</b>                   | 3.2     | 2.3     | 2.5     | 2.1     | 1.9     | 1.6     |
| <b>Middle East</b>                                       | 3.5     | 3.2     | 4.8     | 3.4     | 3.0     | 2.4     |
| <b>North Africa</b>                                      | 2.4     | 2.6     | 3.2     | 2.7     | 1.8     | 1.9     |
| <b>Sub-Saharan Africa</b>                                | 3.2     | 2.6     | 3.0     | 2.9     | 3.1     | 3.1     |

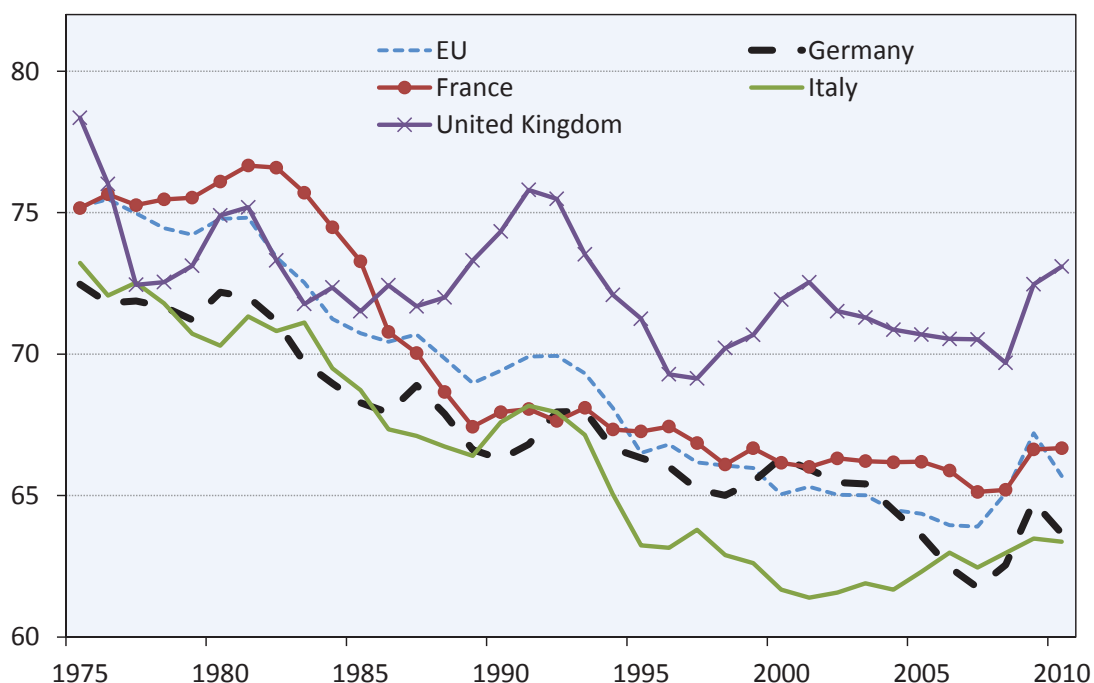
Note: Average employment growth rates per five-year averages.

Source: ILO, Trends Econometric Models, July 2013

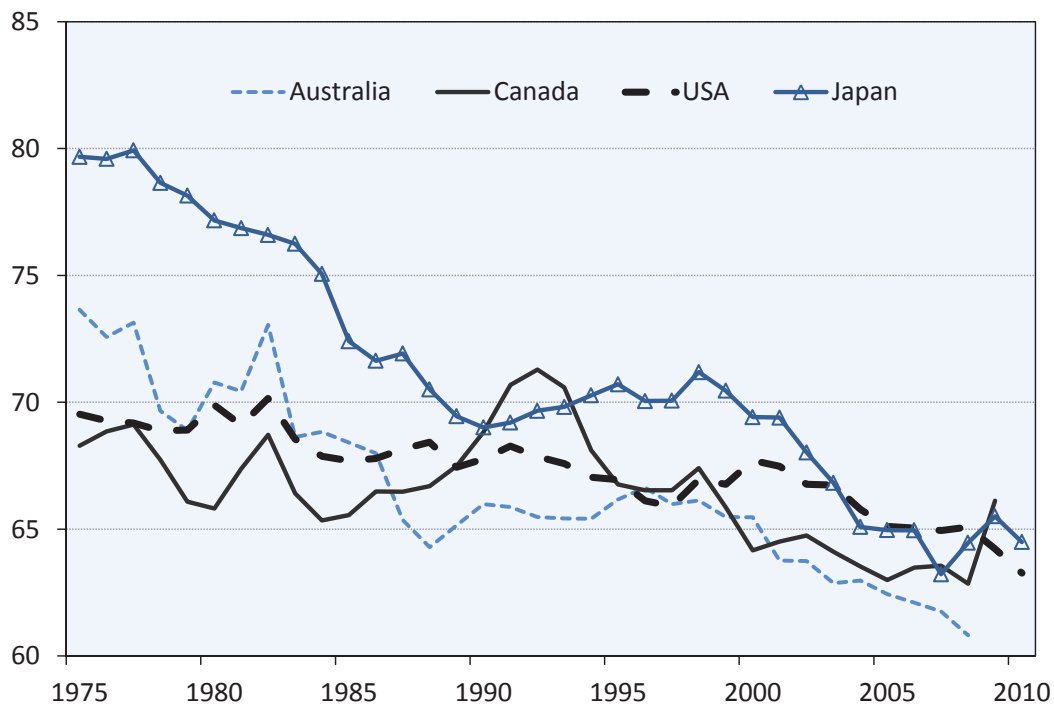
## Labour income as share of national income has declined, reducing aggregate demand

- I. Labour share of national income has declined over recent decades in all G20 countries with available data.
- II. Productivity growth has been higher than wage growth in most G20 countries.
- III. This has created a negative feedback loop from lower household incomes to lower consumption (except when temporarily boosted by unsustainable debt) and ultimately to lower aggregate demand.

### Decline in the labour income share, 1975-2010 – EU G20 countries

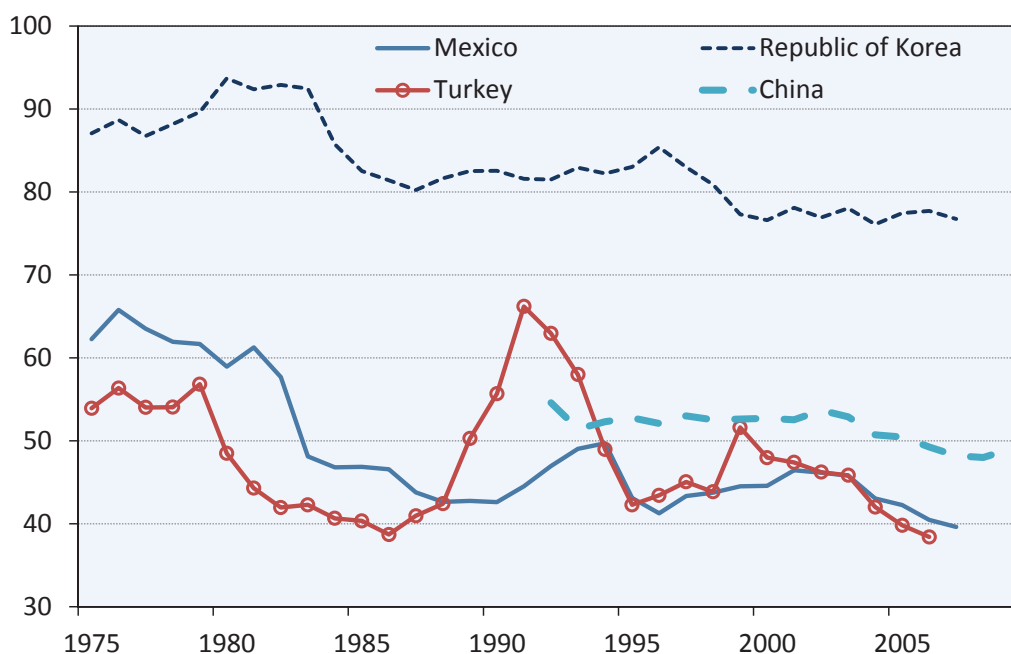


## Decline in the labour income share, 1975-2010 – Other high-income G20 countries



Source: ILO Global Wage Database

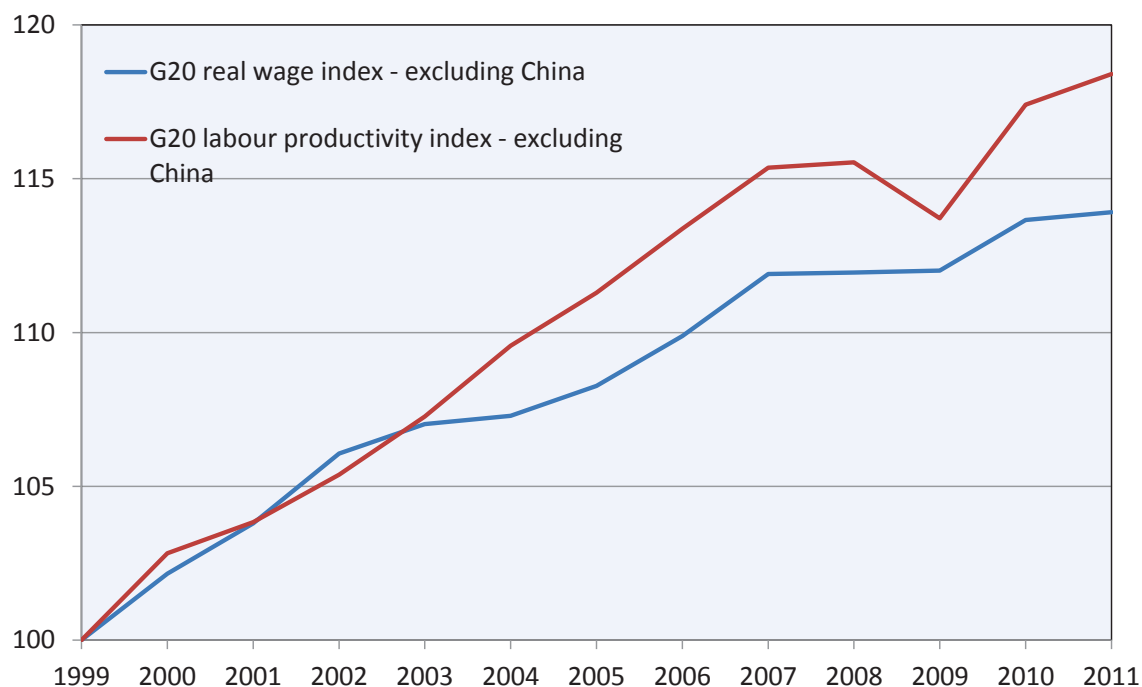
## Decline in the labour income share, 1975-2010 – Middle-income G 20 countries\*



\* Shown for countries with available data. China refers to new estimates from the National Bureau of Statistics, China Statistical Database.

Source: ILO Global Wage Database

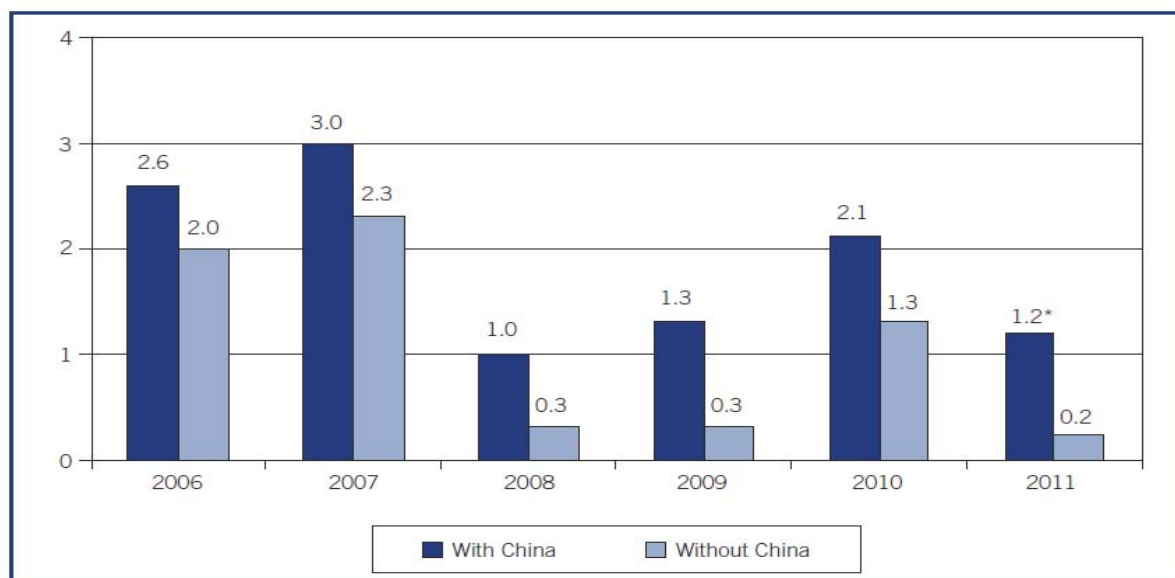
## Wages and productivity: Trends in G20 countries\* (excluding China), 1999-2011



\*China is excluded as an outlier due to very high wage and productivity increases. Argentina is excluded due to data issues. See endnote 12 of the *Global Wage Report 2012/13*. Labour productivity is measured as output per worker.  
**Source:** ILO Global Wage Database

## Wages growth has slowed further in most countries over recent years

(Global annual growth rate in real wages, % in 124 countries)



\* Growth rates published as "provisional estimates" (based on coverage of c. 75%).

Note: Global wage growth is calculated as a weighted average of year-on-year growth in real average monthly wages in 124 countries, covering 94.3 per cent of all employees in the world (for a description of the methodology, see Appendix I).

Source: ILO Global Wage Database.

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Source: ILO's calculation based on OECD Statistics

## What are the policy tools for increasing the labour share?

- I. Minimum wage policies
- II. Collective bargaining, which can better link productivity increases to wage increases and narrow wage dispersion
- III. Financial and tax incentives for productive investment, disincentives for short-term compensation, etc.
- IV. Beyond the primary distribution, social protection, transfers and taxation have an important impact on household income and consumption

## Social protection systems should receive more attention as factors in aggregate demand

- Private precautionary savings may be high in countries where income security systems are limited, depressing domestic demand.
  - Social transfers including pensions and unemployment insurance supported consumption and aggregate demand during the crisis. Recent cuts in some countries may depress consumption.
  - Income inequality and poverty have been reduced and household consumption increased through public employment guarantees, as in India and Argentina, or cash transfers, as in Mexico and Brazil.
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