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Plenary on Item 4:
Interdependence: Towards new patterns in global growth

Speaker: ILO

Tuesday, 17 September 2013

*Not checked against delivery **

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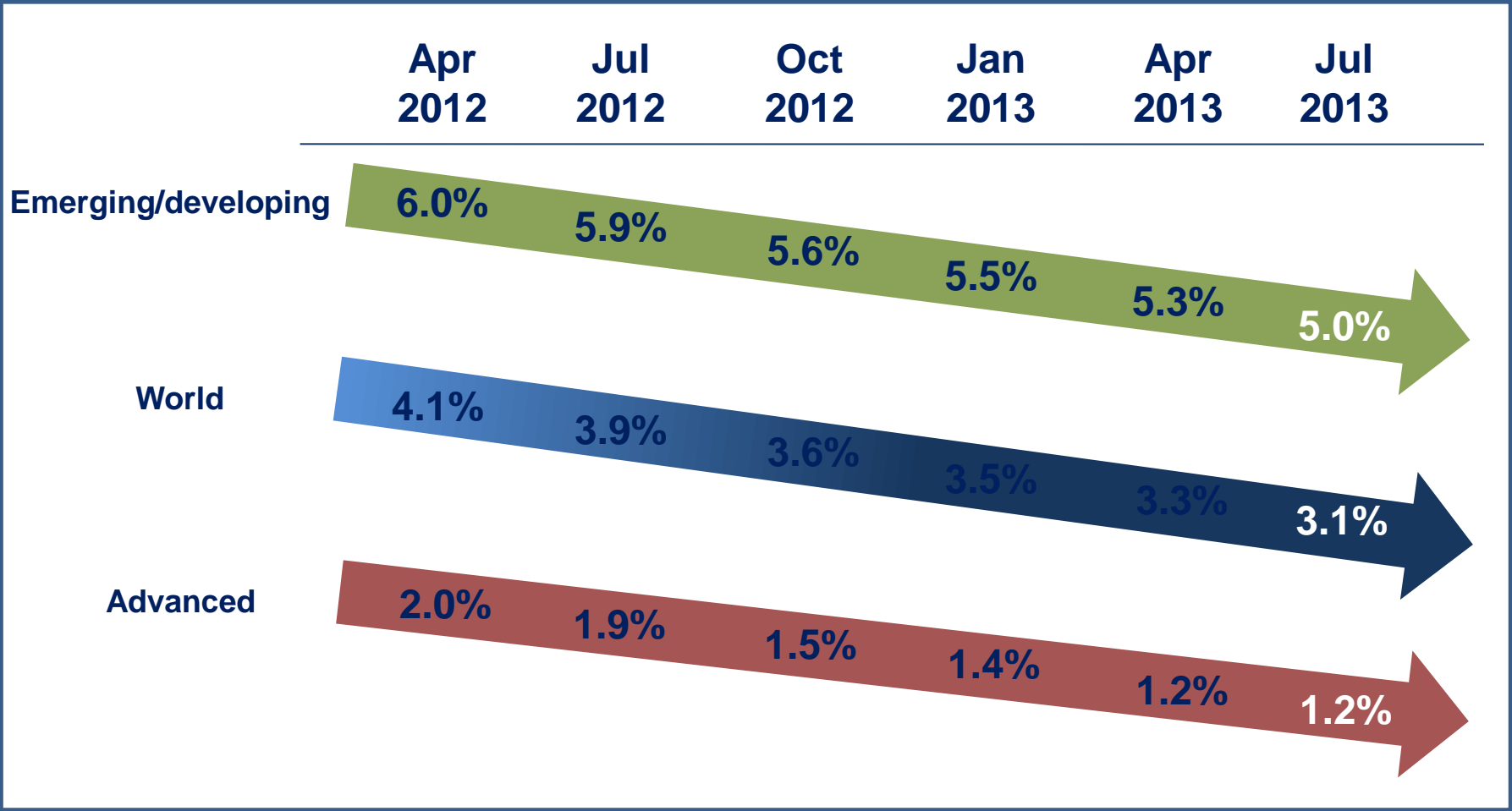
**In search of increased aggregate
demand, sustainable growth and
development:**

The role of labour market policies

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September 17, 2013

Prospects for economic growth are below trend

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



Source: IMF

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

	Impact	Recovery
Averages of regions and selected countries	Q2 09-Q2 08	Q4 12-Q4 09
European Union (27 countries)	-4.01	-0.18
Developed East Asia ¹	-2.38	0.31
South Africa	-0.36	1.08
United States	-4.1	1.09
Latin America ²	-3.55	1.36
India	-0.67	1.58
South East Asia and Pacific ³	-0.75	1.74
Russian Federation	-4.13	1.88
China ⁴	5.29	2.54⁵

¹ Japan, Korea

² Argentina, Brazil, Chile, Mexico

³ Australia, Indonesia, New Zealand

⁴ Calculation based on annual growth rates data taken from the World Bank WDI

⁵ 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
WORLD	1.7	1.6	1.7	1.2	1.4	1.2
Developed Economies and European Union	0.4	1.1	0.6	0.3	0.4	0.5
Central and South-Eastern Europe (non-EU) and CIS	-0.3	0.1	1.0	0.8	0.7	0.0
East Asia	1.4	1.1	1.0	0.5	0.7	0.2
South-East Asia and the Pacific	2.7	2.1	1.7	2.0	1.7	1.4
South Asia	2.4	2.0	2.7	0.8	1.9	1.8
Latin America and the Caribbean	3.2	2.3	2.5	2.1	1.9	1.6
Middle East	3.5	3.2	4.8	3.4	3.0	2.4
North Africa	2.4	2.6	3.2	2.7	1.8	1.9
Sub-Saharan Africa	3.2	2.6	3.0	2.9	3.1	3.1

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

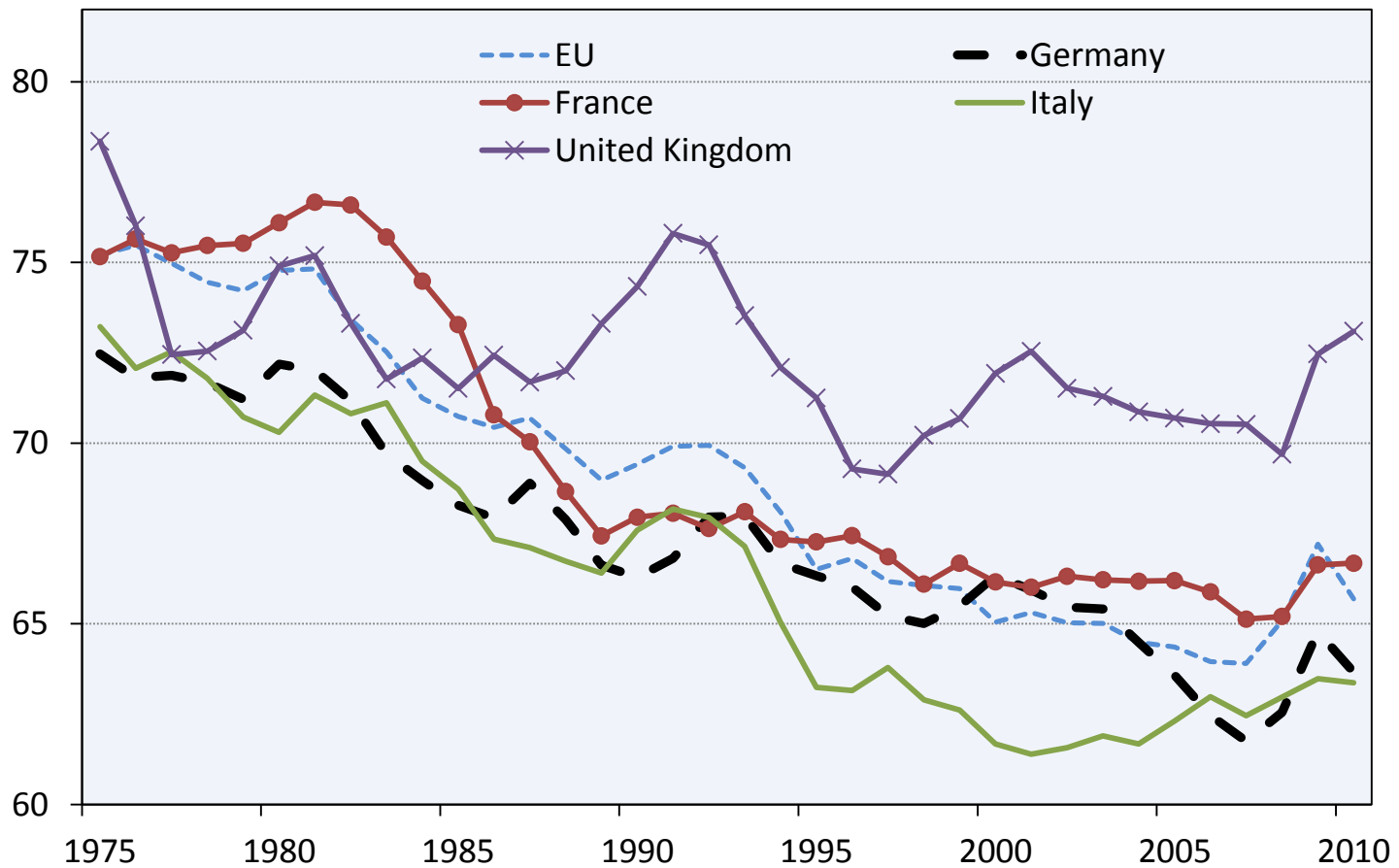
Source: ILO, Trends Econometric Models, July 2013

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.

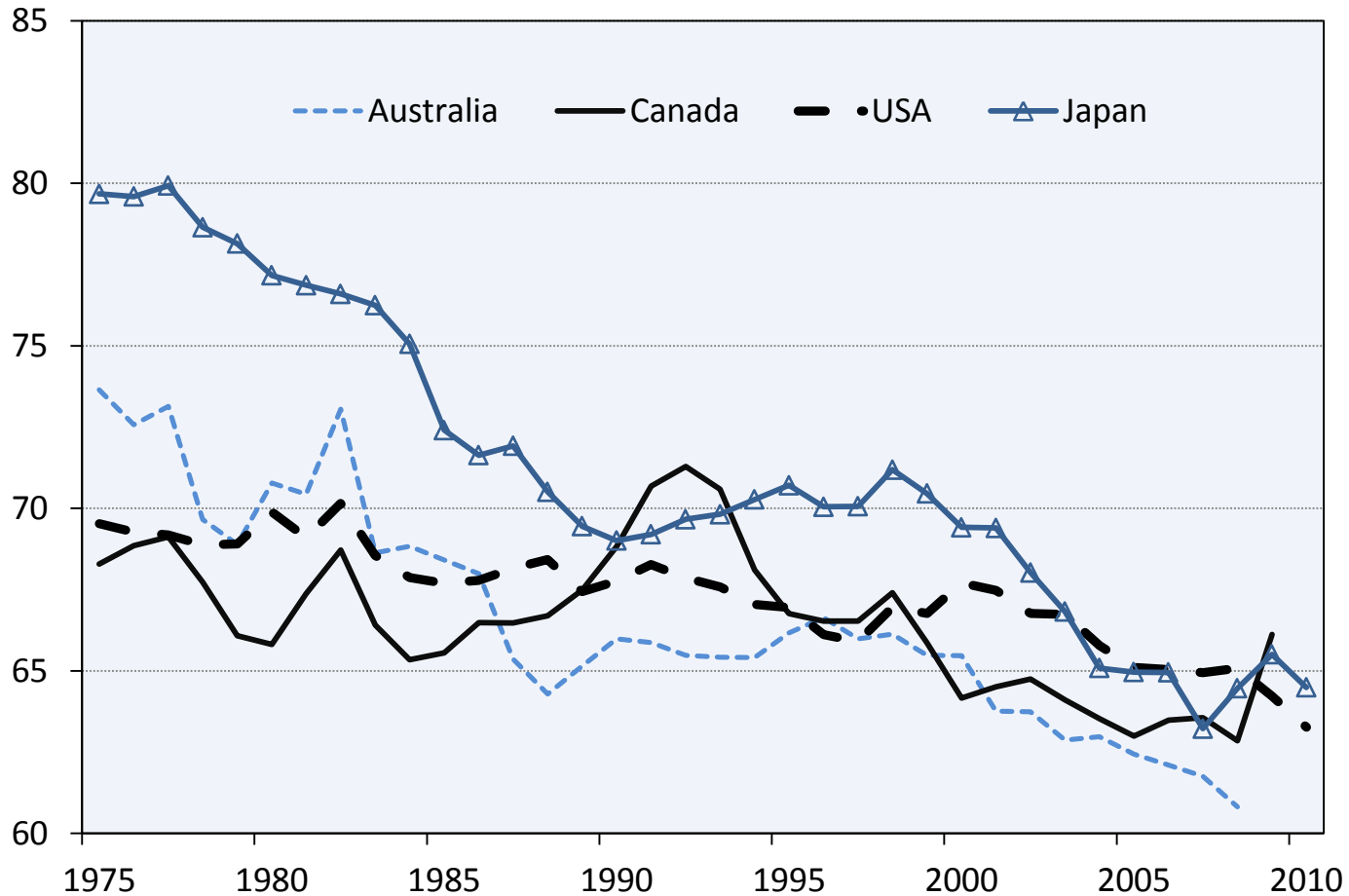
Decline in the labour income share, 1975-2010

– EU G20 countries



Decline in the labour income share, 1975-2010

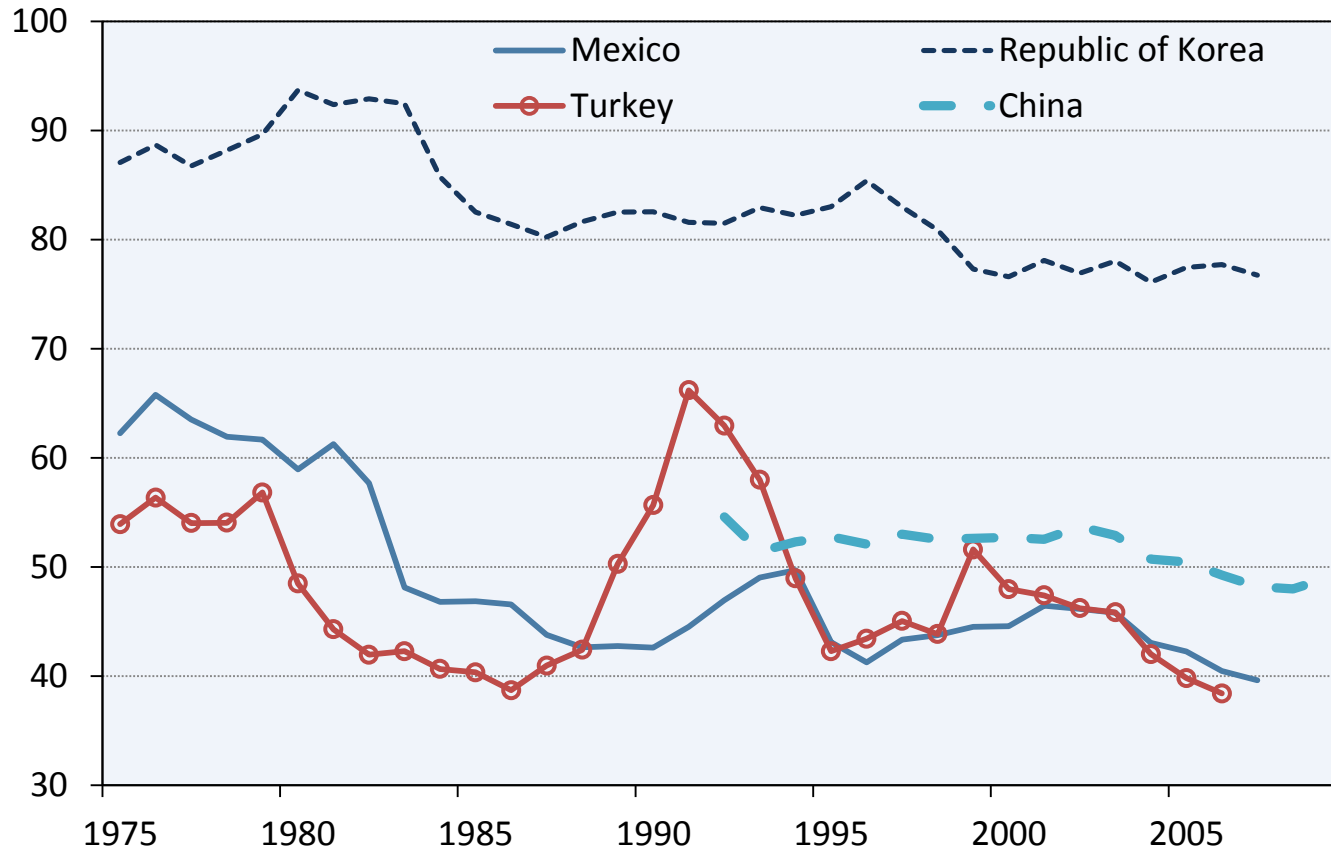
– Other high-income G20 countries



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

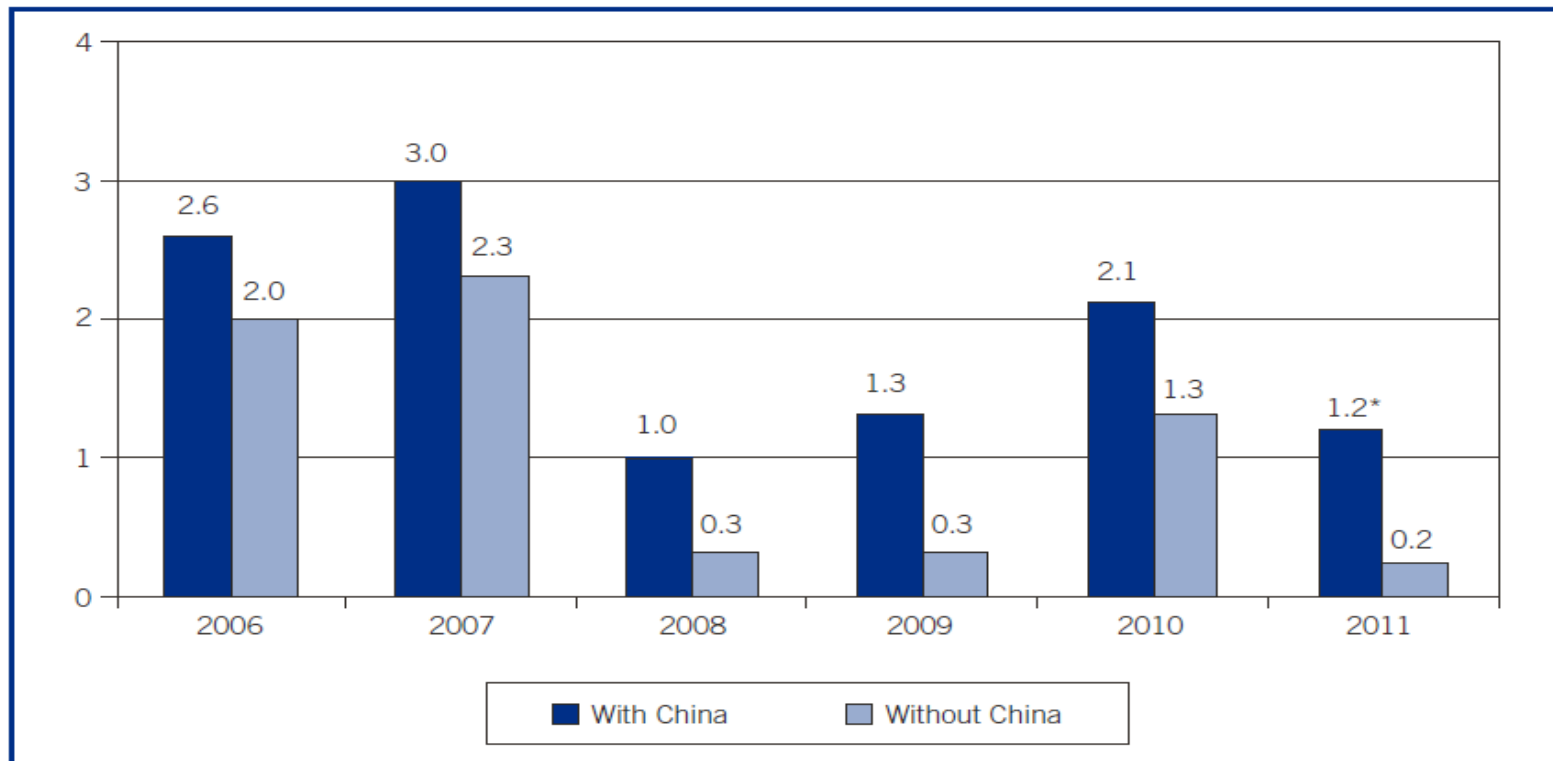


*China is excluded as an outlier due to very high wage and productivity increases. Argentina is excluded due to data issues. See endnote 12 of the *Global Wage Report 2012/13*. Labour productivity is measured as output per worker.

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.