Multi-year Expert Meeting on

ENHANCING THE ENABLING ECONOMIC ENVIRONMENT AT ALL LEVELS IN SUPPORT OF INCLUSIVE AND SUSTAINABLE DEVELOPMENT,
AND THE PROMOTION OF ECONOMIC INTEGRATION AND COOPERATION

Third session

25-26 February 2019

Labour, Inequality and Bargaining Power in the Globalized Economy: The Role of the State

by

Sandra Polaski
Former Deputy Director General for Policy, International Labour Organization

Labor, Inequality and Bargaining Power in the Globalized Economy: The Role of the State

Sandra Polaski

February 2019

Outline of presentation

1. **Channels** through which globalization affects bargaining power of capital and labor

2. **Impact** on labor, incomes and inequality in developed and developing economies

3. Implications for **progressive policies** to address labor and inequality

1. Channels through which globalization affects bargaining power of capital and labor

Forces affecting labor markets everywhere…

- **Globalization:** collapse of socialist bloc, opening of China to global production system constituted an enormous labor supply shock, more than doubling the labor force available to capital; exploited through offshoring and global supply chains.
- **Technology:** interacts with globalization, facilitating relocation of production through transport and IT, declining cost of capital goods, disruptive use of technology.

Forces affecting labor markets everywhere…

- **Bargaining power shifts to capital:** fed by the above factors but magnified by policy of many governments: investment treaties (decreased risk to capital), trade agreements (guaranteed access for products back into major markets)and anti-labor structural reforms.
- **Monetary and fiscal policy mistakes:** Abandonment of full employment goal of policy; austerity with large negative multipliers. Overuse of monetary policy also drove up value of capital assets.

Combined effects of these forces…

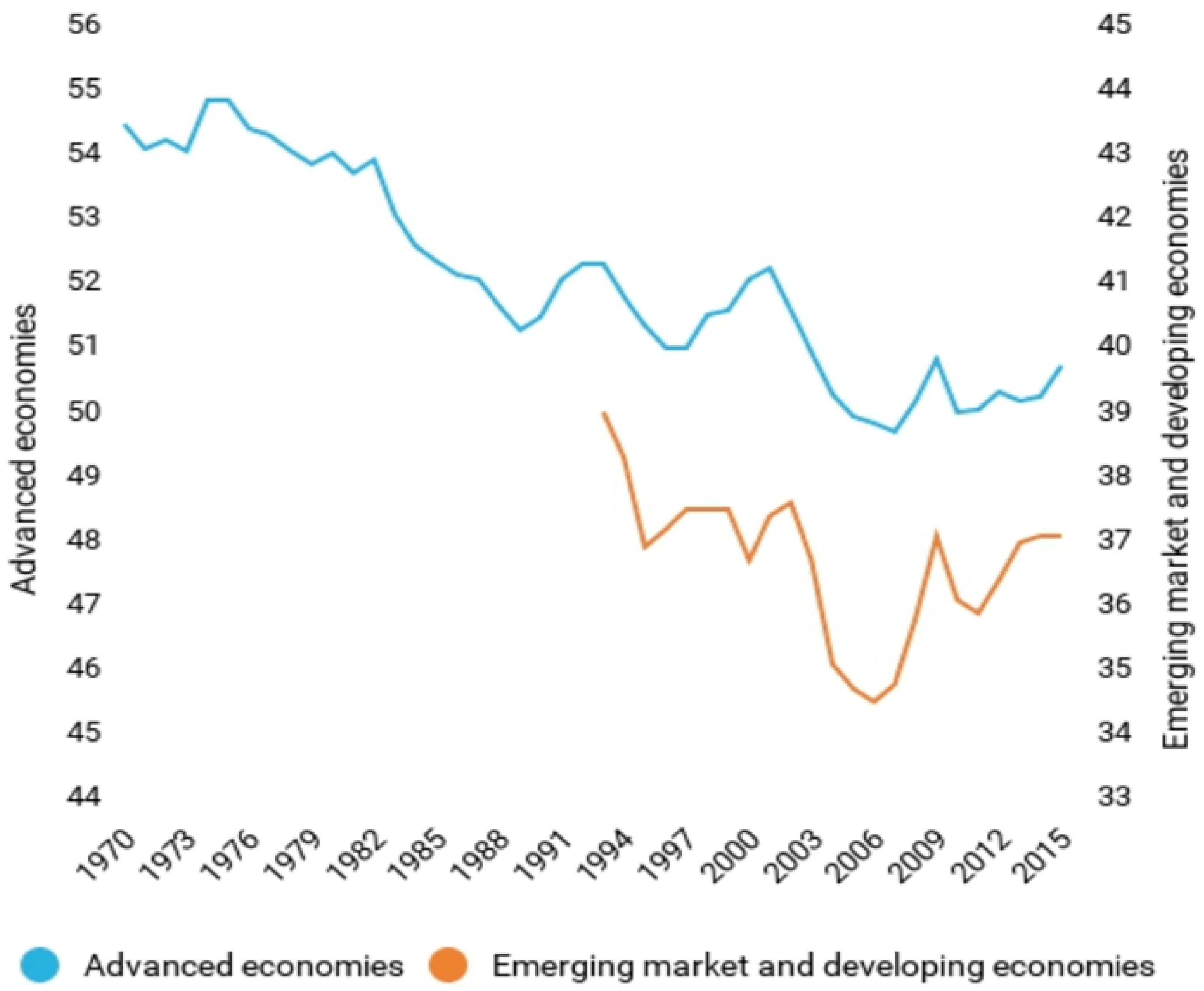
- **Neoliberal policies** amplified and consolidated the shift in bargaining power from labor to capital caused by the labor supply shock and technology.
- Owners of capital reaped the benefits of growth and exploited the post-war distribution of income in high income countries, gradually **expropriating more and more of the surplus**, increasing inequality and leaving "losers" to fend for themselves.
- Elites used this wealth to buy influence and power and **suppress organized resistance** from unions, center-left and progressive parties, etc.

2. Impact on labor share, incomes and inequality in developed and developing economies

Labor is losing out

The share of national income paid to workers has been declining in many countries.

(evolution of the labor share of income, percent)



Source: IMF *World Economic Outlook* April 2017

Decline of labor share is concentrated among some groups of workers and some sectors…

- In developed economies **middle-skilled, middle-income workers experienced the sharpest declines**, followed by low-skilled. And **middle-skilled is <u>still the largest group</u>**.
- In developing economies the sharpest decline was for **low-skilled workers, <u>still the largest group</u>**; moderate declines for middle-skilled, small increases for high-skilled.
- So over time the **largest groups in many countries are among those who have lost ground**, leading to the gradual shift in public perception of globalization and backlash, now an explicit political force.

And yet, actual prospects facing workers are quite different across countries…

- depending on the **stage of development**, **endowments**, **economic structure**, **openness**

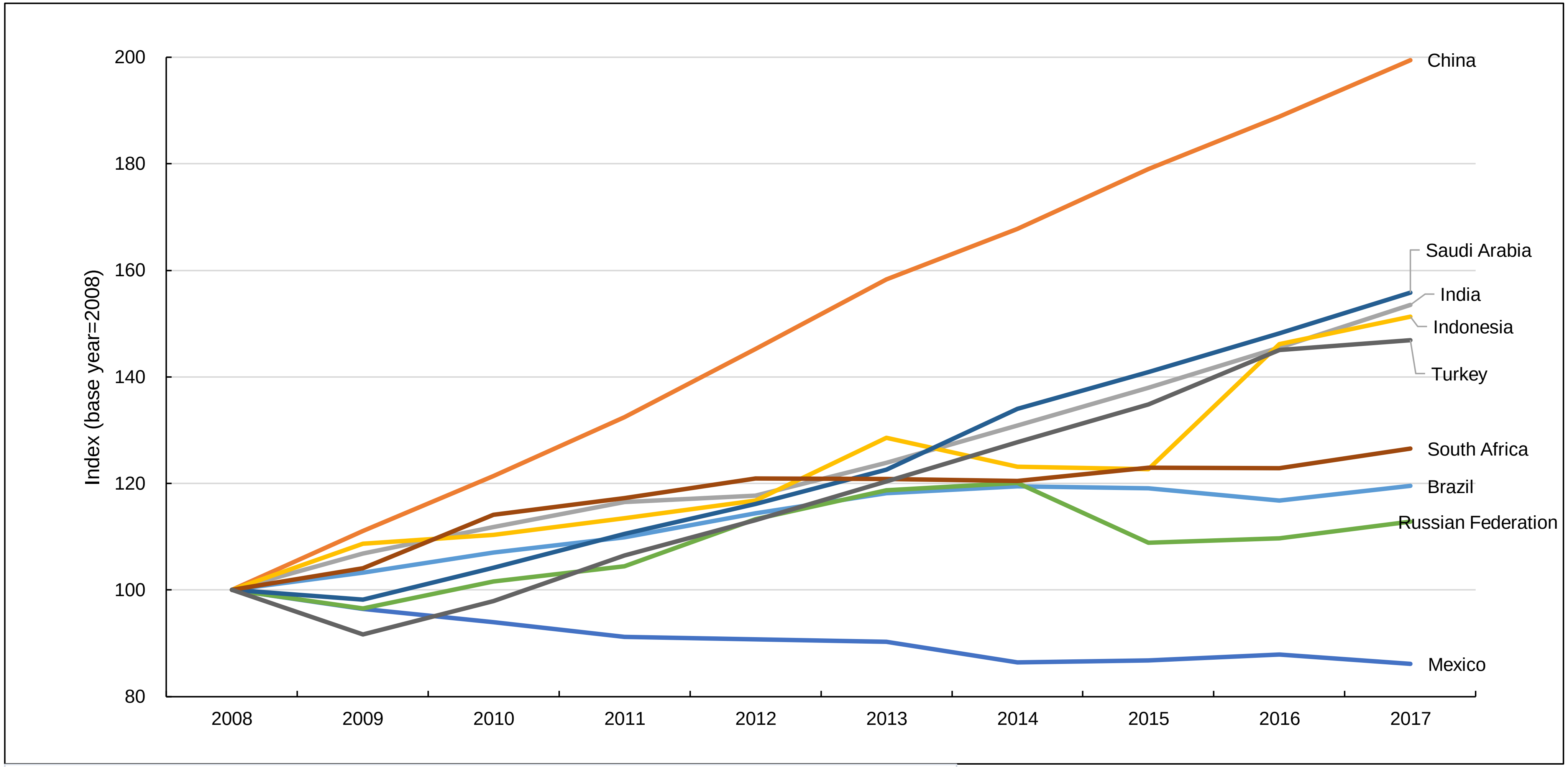
- but also on the **conscious policy choices made by governments.**

- The **global forces are powerful** but **national policy choice** is not only possible, it is **often the more significant determinant of outcomes for workers.**

As illustrated by two countries' policy choices under conditions of global competition …

- At the time of China's accession to the WTO, **average manufacturing wages in Mexico** (in dollar terms) were more than **twice those in China.**
- However beginning in 2003, the Chinese government began an **ambitious policy of increasing minimum and other wages**, with double digit increases over each of the past 15 years.
- In contrast, the Mexican government repressed wage growth. Now **average labor costs in manufacturing** (adjusted for productivity) **are 30% lower in Mexico than in China.**

Difference in average real wage performance of emerging G20 countries (2008=100)



Source: ILO Global Wage Report 2018/19

...with political and strategic consequences...

- **Mexican manufacturing workers** still earn only about **1/10th the wages earned by US manufacturing workers** (~$2.10 v. ~$21 per hour), **despite stagnation of US wages.**

- **Mexican labor costs undercut US wages** as much or more than those of China, particularly in light of lower tariffs, energy and transport costs for Mexico, contributing to tensions with Trump, US attitudes.

- Meanwhile **China** has expanded **domestic demand** based significantly on increased wages. Domestic consumption is now the largest source of growth, which increases the country's **resilience to global policy shifts and global demand shocks**.

…demonstrating the space for policy choice

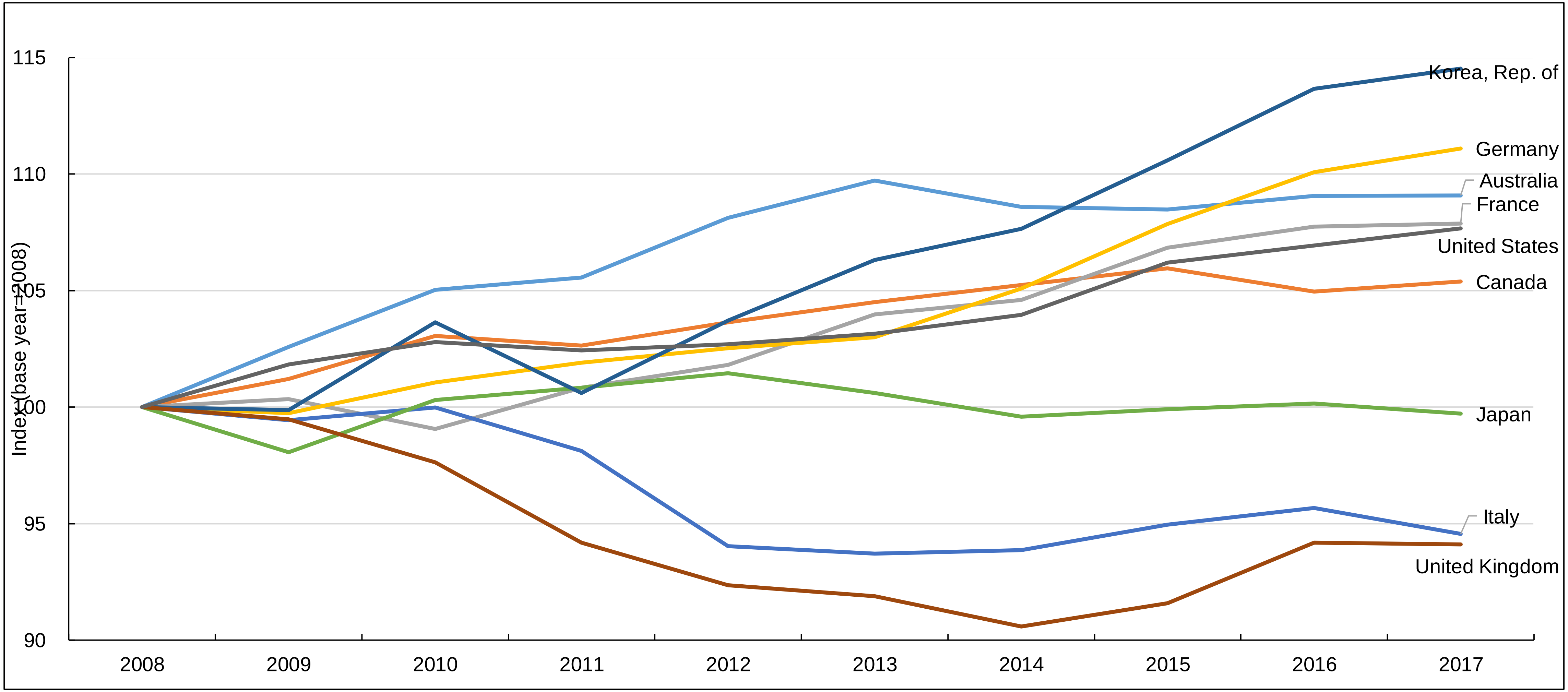
- In Asia, China's sharp wage increases were **seen by some other Asian governments as an opportunity** to increase their own workers' wages.
- **Vietnam, Cambodia** and to a lesser extent **Indonesia** undertook large increases in minimum wages over recent years, **adding to domestic and regional demand.**
- By contrast, **Bangladesh has pursued a low-wage strategy** like Mexico.
- This contrasting approach to wages is also seen in countries' **development strategies**: China and some other countries have **preserved policy space** for their own development model and **state capacity for industrial policy**.

… and the continuing need to use it.

- Of course there is **room for improvement in China's policy** regarding labor share and household income security, particularly with respect to the need to continue building a **full social protection system** including pensions, unemployment insurance, etc. and to address inequality.

- Meanwhile **in Mexico, the new government has changed course** away from the former neoliberal, low-wage policy, raising minimum wages by 16% as of January 2019 and submitting draft legislation to increase workers' bargaining power.

Different policy choices also seen in wage performance of advanced G20 countries



Source: ILO Global Wage Report 2018/19

3. Looking forward: the current global context and its policy implications

Context:

- Slower overall global growth—indications that current cycle has peaked
- Exporters facing weaker external demand
- Possibility that trade tensions will disrupt global supply chains
- Changing monetary policy in large economies leading to market volatility, potentially less FDI
- High levels of household and corporate debt (again) in many economies

Implications for policy:

- Domestic demand should be bolstered as a source of growth and stability.
- Fiscal policy should be used to contribute to domestic demand.

The role of the state at the national level …

- **National governments** should guard and exercise their policy space to:
  - emphasize full employment as an overarching policy goal
  - enact policies to raise minimum wages and other wages
  - strengthen labor's bargaining rights
  - redistribute income to lower income households with higher propensity to spend
  - build social protection floors as automatic stabilizers and to lessen the need for precautionary saving by households

- Consider the role of the state as the **employer of last resort**: learn from employment guarantees such as India's successful National Rural Employment Guarantee Scheme.

…and in cooperation at the multilateral level

- **Resist external constraints** on policy imposed through trade and investment rules.
- Reassert the **need for adequate national policy space** in multilateral and other cross-border agreements, including space for industrial policy, public enterprises, regulation and other policies in the public interest.
- **Create new multilateral support** and priority for policies of full employment, rights, wage increases, redistribution.