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**SHARE OF LABOUR COMPENSATION
AND AGGREGATE DEMAND –
DISCUSSIONS TOWARDS A GROWTH STRATEGY**

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Javier Lindenboim, Damián Kennedy and Juan M. Graña

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SHARE OF LABOUR COMPENSATION AND AGGREGATE DEMAND – DISCUSSIONS TOWARDS A GROWTH STRATEGY

*Javier Lindenboim, Damián Kennedy and Juan M. Graña**

Abstract

Economic growth strategies of developing countries have focused in the last decades on expanding their exports. In that scheme, wage compression seems necessary in order to compensate the observed slow productivity pace achieving, therefore, “competitiveness”. The core of this discussion is, undoubtedly, how the national product is appropriated through wages and surplus, i.e. the factorial income distribution. From that viewpoint, this paper discusses the long-term impoverishment of Argentinean workers through two key aspects of the economic process: on one hand, the way in which labour force is allocated, by analysing the relationship between real wage and productivity. On the other, how income is used in the acquisition of consumer goods and capital formation. In order to fully comprehend those trends, this paper recourses to an international comparison with two types of countries: the developed ones (United States of America, France and Japan) and the largest Latin American economies (Brazil and Mexico). As these processes take place in the long run, this paper’s analysis period will start from the 1950s.

INTRODUCTION

According to the *Trade and Development Report 2010* of the United Nations Conference on Trade and Development (UNCTAD), the growth strategy relying on exports, which was implemented by many developing countries, limits the increase of wages in order to maintain competitiveness. This process would cause the weakening of domestic demand as an economic growth factor. Hence, a wage compression strategy will be beneficial only if the source of economic growth intended to be imposed (external demand) is greater than the source that was left behind (domestic demand). At the core of this debate lies the question of factor income distribution; that is, the analysis of what share of total income is to be retained by workers through wages and which is to be kept by companies under any of the different forms of surplus.

Despite the importance attached by the most diverse theories and its key role in research and in the economic debate in Latin America (within the context of the Import Substitution Industrialization (ISI) model followed by many Latin American countries), its analysis has been progressively set aside since the mid-1970s, especially in Argentina, where such process was accompanied by a lack of adequate official

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statistics. Fortunately, the analysis and the availability of information have slowly started to change over the last years.

In this context we conduct this research on the share of labour compensation in income, the starting point to study – at least – two aspects we believe essential to clear out the specific characteristics of the economic process of any country, in this case, Argentina. In short, the analysis of the functional distribution of income allows, on the one hand, to reveal how workforce is allocated from the analysis of the evolution of the relation between labour force productivity and real wages, which, in turn, allows for the identification of a country's annual income source and, particularly, the sources of surplus. On the other hand, if the expenditure approach is incorporated to the analysis, it can be identified how income is allocated to the purchase of consumer goods and capital formation resulting from such process.

Within this context, the purpose of this document is to analyse the evolution of the economic process in Argentina from the approach above described, in light of the experiences of other economies. For the purpose of international comparison, we will take into account two types of countries: the developed countries and Latin American countries. Regarding the former, we will compare the results with countries featuring different forms of development: the United States of America, Japan and France. Regarding Latin American countries, our comparative analysis is restricted to the two major countries in the region in terms of economy size, namely Brazil and Mexico. By this comparison we do not pretend to apply the analysis of the Argentine case to the selected countries. Rather, our intention is to draw a distinction, whenever possible, between the characteristics specific to Argentina, those shared by Latin American countries and, last, those common to all countries chosen for comparative analysis.

The construction of the variables used in this study was based, except for some minor exceptions, on the information supplied by the national bureaus of statistics of the selected countries,¹ following the methodology applied in the case of Argentina (Graña and Kennedy, 2008a). Very briefly, the starting point is the estimates of the System of National Accounts for the aggregates of employee compensation, income at current and constant prices, and the absolute number of total employment and wage earners. The result obtained from dividing labour compensation by the total number of wage earners is the average salary, which is then deflated by the Consumer Price Index to obtain an estimate of the evolution of real wages. Moreover, by dividing income at constant prices by total employment, we obtain an estimate of the evolution of productivity, also called average output or output per worker. In general terms, this study will analyse the period ranging from the 1950s to most recent years.² Not much progress has been made, however, in the comparative analysis of all the variables under study for the first years, given that such information is not yet available for all selected countries. This is why comparisons are made with respect to the variables' average values from 1980 to 1982.³

Section I shows our approach to functional income distribution and its evolution in Argentina and in the selected countries. We address its determining factors (productivity and real wages) as well as its trends in section II, whereas in section III we analyse the relationship between such income and the components of the aggregate demand, consumption and investment in Argentina from an international – comparative perspective. Last, section IV includes some partial conclusions and questions for further analysis.

¹ It may not be perfect, but the comparability of international data is guaranteed under the National Account System guidelines.

² In this respect, we must make reference to the particular situation affecting the gathering and construction of statistical data in Argentina. Although we present information up to 2009, we can certainly refer to the events that took place up to 2006, given that from then onwards, the quality and reliability of the indexes prepared by the Argentina Bureau of Statistics (*Instituto Nacional de Estadísticas y Censos – INDEC*) are very controversial.

³ The fact that we take a three-year period rather than a specific given year is aiming at reducing the chances of considering a period of time featuring very special characteristics that may distort the rest of the series of the variable under analysis.

I. THE SHARE OF LABOUR COMPENSATION IN INCOME FROM THE MIDDLE OF THE 20th CENTURY

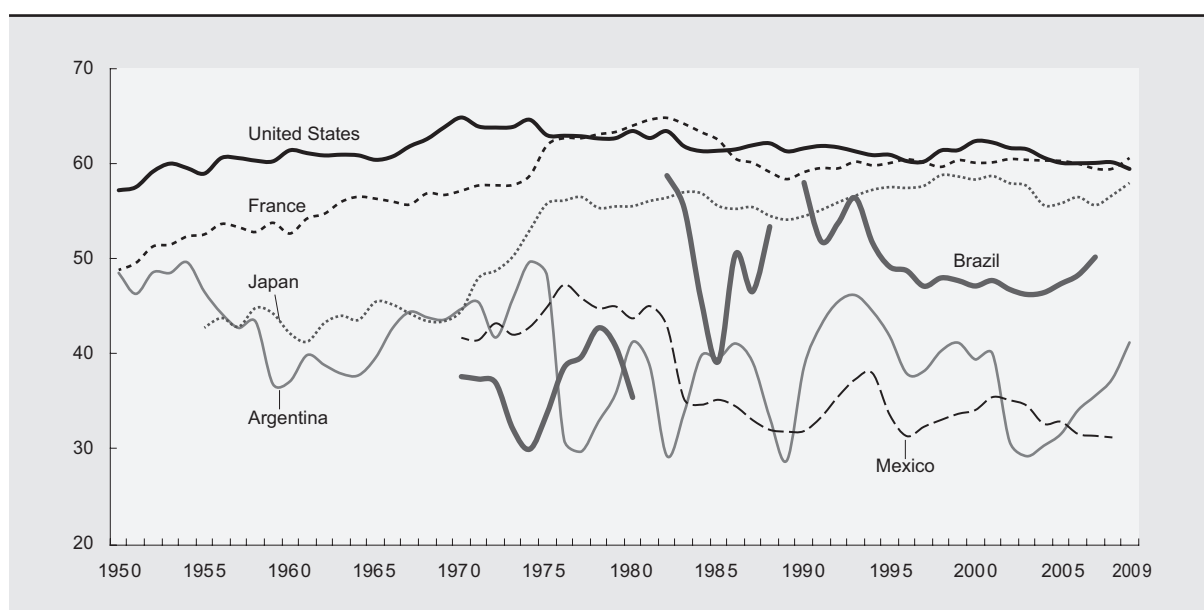
As briefly stated in the introductory paragraphs, in contrast to developed countries, the information available on factorial income distribution in Latin American countries has not been collected on a regular basis. Data on the Argentine case for the entire period of analysis could be obtained for the purpose of conducting this study, but scarce information regarding Brazil and Mexico could be gathered, though. Chart 1 shows the information available for the selected countries.

As can be seen in chart 1, the share of labour compensation in total income ranged from 45 per cent to 50 per cent from the beginning of the period of analysis and up to 1955 (when President Juan Domingo Perón was overthrown during his second administration). From 1955 onwards, it dramatically fell, reaching 36.5 per cent in 1959. Following the instability of the early 1960s, a steady recovery started. By the early 1970s, the share of labour compensation ranged from 42.5 per cent to 45 per cent, that is, a step behind its values in the previous decade. The new (and significant) growth experienced between 1972 and 1974 (1974 and 1954 being the years when it hit its historic highs) is the onset of, first, the 1.5 percentage point fall resulting from the 1975 adjustment plan and, second, its 17 percentage points decrease explained by the outbreak of the military dictatorship that seized power in 1976. If we further consider the reduction of 1977, the share of labour compensation fell far beyond 30 per cent, 7 percentage points below its – till then – historic low of 1959.

Since then, the “wage share” fluctuated significantly from its lowest value to its peak of 40 per cent in GDP. In this way, the growth observed up to 1980 dramatically fell over the last years of the de facto administration in such a way that in 1982 its value was close to 29 per cent, a proportion even lower than its low of 1977. There was a recovery upon the return to the democracy in 1983, an upward trend that continued from 1984 to 1986 but which completely collapsed at the end of the administration of

Chart 1

**SHARE OF LABOUR COMPENSATION IN GDP AT FACTORS COST OR BASIC PRICES:
ARGENTINA, BRAZIL, FRANCE, JAPAN, MEXICO AND THE UNITED STATES, 1950–2009**
(Per cent)



Source: Graña and Kennedy, 2008a; and data compiled by the authors, based on information from the BEA-USA; INSEE-France; Statistics Bureau of Japan; IBGE and IPEA, Brazil; National Institute of Statistics and Geography of Mexico (Instituto Nacional de Estadísticas y Geografía – INEGI), Mexico; ECLAC, *Statistical Yearbook (CEPALSTAT)*; and ILO, *LABORSTA*.

President Raúl Alfonsín. Driven by a hyper-inflationary depression, the share of labour compensation fell to a new historic low (28.6 per cent). By the early 1990s, it seemed to grow above what has been its “cap” during so many years, by reaching 45.6 per cent. The “tequila crisis” that took place in the mid-1990s caused it to decrease, however, to 37.4 per cent. It subsequently declined 12 additional percentage points with the great devaluation of 2002, which marked the end of the Convertibility regime, reaching again a historic low.

In short, the outbreak of the military dictatorship led to a huge decrease in the share of labour compensation in total income, hitting a low close to 30 per cent, a value that was repeatedly achieved as a result of the sovereign debt crisis (1982), the hyper-inflation (1989–1990) and the end of the Convertibility regime (2002).

Following the end of Convertibility, and within a context of an annual economic growth close to 9 per cent, the share of labour compensation increased significantly up to 2006, although it could not recover completely from the reduction driven by the devaluation of the Argentine peso in 2002. This recovery took place over the last years, but we cannot be certain taking into account the lack of suitable information available as mentioned above. Should that be true, thus, it can be concluded that it took six years (five of which registered a great economic expansion) to recover what had been lost in almost one year (in 2003, the value slightly reduced). If so, the share of labour compensation in total income would now be close to its “cap” reached under the neoliberal policy.

So, which are the distinctive features that differentiate the share of labour compensation in Argentina from that of the selected countries and which common characteristics do they share?

Without pretending to thoroughly analyse the evolution of the share of labour compensation over all historical periods, chart 1 further shows that Argentina shares with the United States, France and Mexico, a declining trend of the “wage share” in total income from the 1970s onwards, whereas Brazil exhibits a strong downward trend starting in the early 1990s. Japan is the only country without registering a decline in the share of labour compensation, although it neither increases. To sum up, in general terms, the decline or stop in the growth of the share of labour compensation in total income from the mid-1970s seems to be a worldwide phenomenon.

Now, this similarity becomes less significant when evaluating both the magnitude and variability of the evolution of each country’s share of labour compensation. Thus, whereas in the United States and France the share of labour compensation has fallen by about 5 percentage points over the last thirty years, in Argentina, taking into consideration not the 1974 “peak” but the values of the early 1970s, by 2006, the fall in the share of labour compensation has doubled such value. If we do consider the 1974 peak and the values of most recent years, by 2009 the decline was also of 10 percentage points. In Mexico, the situation is even worse than in Argentina, whereas Brazil stands somewhere in between since the 1990s.

The same may apply in respect to the variability of the share of labour compensation. From chart 1 it further follows that the fall in the developed countries is relatively smooth (Japan has the same behaviour although no decline is observed), in contrast to the sharp fluctuations in Latin American countries, especially in Argentina.⁴

Briefly, from the analysis of the functional distribution of income it may be followed that Latin American countries, besides their own specific features, share common characteristics when compared to developed countries. Unfortunately, these characteristics are negative.

⁴ We further put forward for analysis the question regarding the significant gap in absolute terms of the share, close to 60 per cent in developed countries and below 50 per cent in Latin America. In view of the approach followed in this study, we will focus on the evolution of such variables rather than in their absolute values.

Now then, what lies behind these figures? On what factors does functional income distribution depend? How can it be explained such a decline and variability in the share of labour compensation in Argentina and Latin America? These are the questions that will be addressed in the following section.

II. CAUSES OF THE EVOLUTION OF THE SHARE OF LABOUR COMPENSATION

A. Identification of functional distribution determining factors

As noted in the introduction, functional income distribution allows for many analyses, including the study of how workforce is allocated, from the analysis of the relationship between productivity and real wages. To clearly specify the scope of such relation, it is necessary to present the mathematical breakdown of functional income distribution.

The starting point is, for sure, the result obtained from dividing employee compensation (including employees' and employers' contributions to the social security system) by total income, represented by Gross Domestic Product at basic prices (GDP_{bp}), at current prices. The numerator results, in turn, from multiplying the average monthly salary (W_{month}) by the number of months and the total number of wage earners, while the denominator is equal to GDP_{bp} at constant prices (cons pr) multiplied by the Implicit Price Deflators (IPD).⁵ In the second line, we multiply and divide the denominator by the number of months in a year and the total volume of employed people, and regroup. Finally, in the third expression, a specific name is assigned to each of the three components of the mathematical expression, as follows:

$$Share = \frac{\text{Employee compensation}}{\text{Income}} = \frac{W_{\text{month}} * 12 * \text{Wage earners}}{\text{IPD} * \text{GDP}_{\text{cons pr}}^{\text{bp}}}$$

$$Share = \frac{W_{\text{month}} * 12 * \text{Wage earners}}{\text{IPD} * \frac{\text{GDP}_{\text{cons pr}}^{\text{bp}}}{12 * \text{Employment}} * 12 * \text{Wage earners}} = \frac{W_{\text{month}}}{\text{IPD}} * \frac{1}{\frac{\text{GDP}_{\text{cons pr}}^{\text{bp}}}{12 * \text{Employment}}} * \frac{\text{Wage earners}}{\text{Employment}}$$

$$Share = \text{Labour Costs} * \frac{1}{\text{Productivity}} * \text{Wage earners share}$$

where: W_{month} : Monthly salary IPD: Implicit Price Deflator
 GDP: Gross Domestic Product bp: basic prices
 cons pr: constant prices

The first component is Labour Costs, which comprise the costs incurred by an employer in paying an employee (that is, the weight of wages in the employer's income) and they are estimated by deflating nominal wages by a price index representative of production, in our case, the GDP's IPD. The second component is the inverted productivity (reflecting its opposite impact on the share of labour compensation),

⁵ In fact, the right thing to do would be to estimate these variables in worked hours. However, there is no reliable information available in Latin America in this respect to cover the wide period under analysis. That is why we will conduct the analysis in terms of number of people employed, rather than in terms of number of hours worked, and monthly wages, instead of the hourly wage. For mathematical expressions based on the number of hours worked, please refer to Graña and Kennedy (2008b).

which is obtained from dividing GDP at constant prices by the total number of employed people.⁶ Last, wage earners share (the ratio between wage earners and the total employment) has a positive effect on the share of labour compensation and works as an “adjustment” variable necessary when considering wage earners to estimate income and the total number of the employed when calculating productivity.⁷

So, as the focus is on the relation between what workers produce and what they receive in return, instead of analysing labour costs we will concentrate on real wages; that is deflating them by a CPI. Despite being constructed differently, the evolution of both variables in the selected countries is very much alike over most of the period of analysis.⁸

In this way, the evolution of the share of labour compensation may be explained by different behaviours of its determining variables. To be more precise and just to mention some extreme paradigmatic examples, a decline in the wage share is not necessarily detrimental to workers, provided it derives from real wages that grow at a slower pace than productivity. In this line of thought, an increase in the share of labour compensation is not necessarily in the best interest of workers, if it is owed to real wages that fall less than productivity.

In view of this, how is it explained the evolution of the share of labour compensation in Argentina since the mid-1950s, as mentioned in section I above? The answer to this question leads to discuss the following.

B. The evolution of productivity

The evolution of productivity in Argentina for the period of analysis is presented in charts 2 and 3, as compared to developed and other Latin American countries, respectively.

The first twenty years for Argentina constituted a period of clear expansion – with some years of stagnation – with an aggregate growth of 62 per cent. This ongoing and steady upward trend under the ISI model was deeply modified in the mid-1970s. From the outbreak of the military dictatorship in 1976 to the implementation of the Convertibility regime in 1991, productivity stagnated in the first years and then declined over the remaining years of the 1980s, with a very fluctuating trend. Thus, productivity in 1990 was 5 per cent lower than in 1970. In other words, in almost 20 years, output per worker did not increase.

This trend seems to change completely in the early 1990s, exhibiting an expansion over 27 per cent from 1990 to 1994. It is worth noting that this growth is due more to a destruction of low productivity companies in a context of trade liberalization and a currency appreciation (plus the privatization of public utilities and machinery imports by the most concentrated companies) rather than to a true development of work production capacity.⁹ Following the stagnation driven by the tequila crisis, productivity continued its way up. This trend shifted due to the economic recession of the last years of the Convertibility regime (1998–2001).

As regards the present process, up to 2006, economic growth was driven by a greater absorption of workforce. Productivity, thus, exhibited no great dynamism, achieving a value slightly above its top

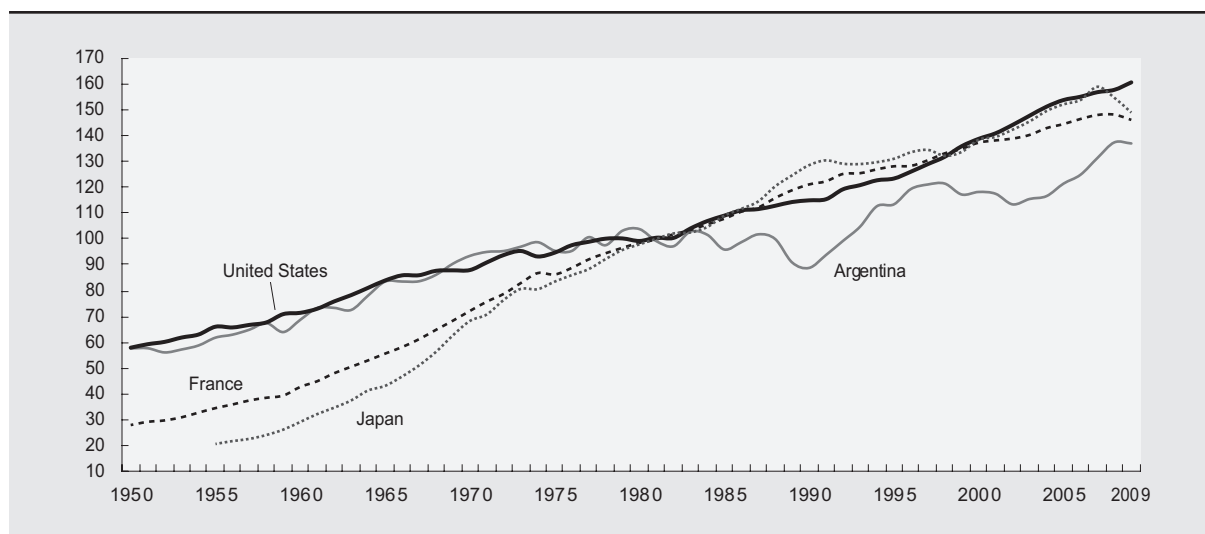
⁶ That is to say, this is not exclusively related to wage earners, for it is impossible to estimate how much each class of worker contributed in the generation of total income. This implies to assume that the productivity of wage earners and that of the total employed evolve in the same way.

⁷ This variable has a long-term upward trend in all selected countries. However, both in Argentina and in the United States, such growth is not very significant. Thus, its impact on the evolution of the share of labour compensation in income is marginal.

⁸ If not the case, it will be expressly so stated.

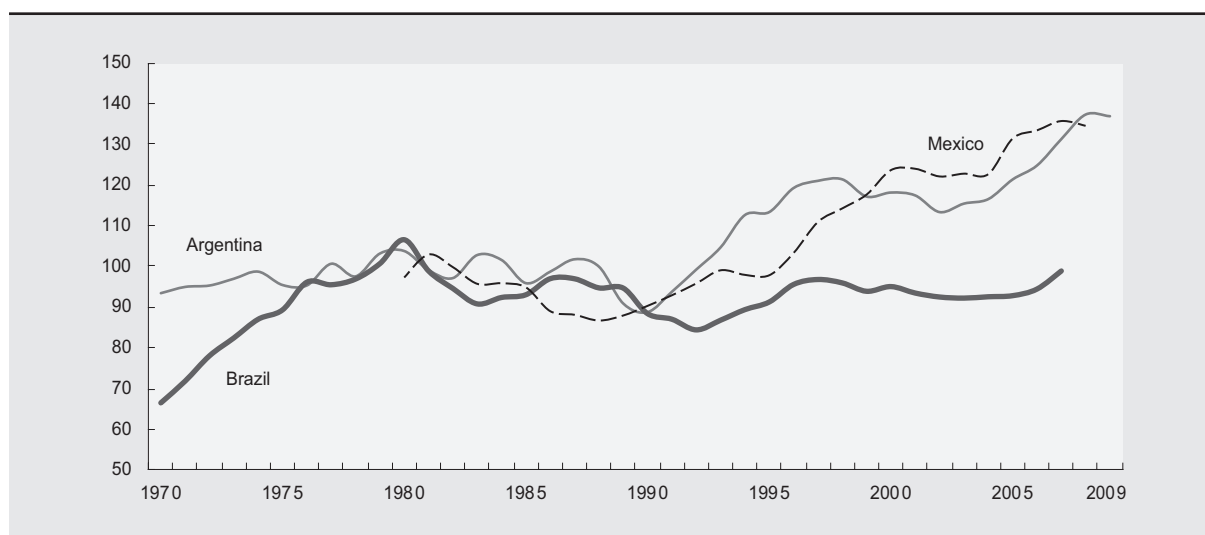
⁹ A clear effect of this process was the evolution of the unemployment rate, which increased from 6 per cent in the 1980s to 18 per cent by the mid-1990s.

Chart 2
PRODUCTIVITY: ARGENTINA, FRANCE, JAPAN AND THE UNITED STATES, 1950–2009
 (Index numbers, 1980–1982 average = 100)



Source: Graña and Kennedy, 2008a; and data compiled by the authors, based on information from the BEA-USA; INSEE- France; and Statistics Bureau of Japan.

Chart 3
PRODUCTIVITY: ARGENTINA, BRAZIL AND MEXICO, 1970–2009
 (Index numbers, 1980–1982 average = 100)



Source: Graña and Kennedy, 2008a; and data compiled by the authors, based on information from IPEA and IBGE-Brazil; National Institute of Statistics and Geography of Mexico (*Instituto Nacional de Estadísticas y Geografía* – INEGI), Mexico; ECLAC, *Statistical Yearbook (CEPALSTAT)*; and ILO, *LABORSTA*.

value during Convertibility. In this way, by 2006, productivity was 32 per cent higher than in the early 1970s and 25 per cent higher than the average value between 1980 and 1982. Likewise, what apparently occurred in the years thereafter would be a sign of a more favourable dynamics of work production capacity, exhibiting a small fall in the last year. Thus, by 2009, domestic productivity would be 12 per cent and 36 per cent higher than the highest values reached during the Convertibility Regime and the period of analysis, respectively.

What can be said about this productivity evolution in light of the experiences of other economies? As shown in chart 2, productivity in the three developed countries shows a practically continuous upward trend during the sixty years under consideration (the only exception being the significant United States stagnation between the mid-1970s and the early 1980s). The smaller dynamism of productivity in Argentina is clearly visible by the fact that over the period of analysis, work production capacity of work grew by about 30 per cent, in contrast to the other countries, where it increased by 45 per cent to 60 per cent.

If we trace the analysis back in time and compare the values with those reached in the early 1970s, a turning point in Argentine history, the gaps are even greater. Whereas in this case, the expansion in Argentina reached the same level (considering the stagnation of the 1980s), in the United States, it increased to 75 per cent, in France, 93 per cent and in Japan, 107 per cent. At this point it should be remembered that the comparison is limited only to the evolution of work production capacity and not to variables absolute values. Nevertheless, we can confirm that such dynamics implies a broadening of productivity absolute gap that makes Argentina depart from the selected countries.¹⁰

Compared to Latin American countries, as shown in chart 3, the stall and decline in productivity in Argentina during the 1980s is shared by the other countries of the region. In the early 1990s, productivity was 10 per cent lower than the 1980–1982 average. The behaviour of the variables in the early 1990s is also similar in other countries of the region, although they differ in intensity: whereas Mexico, by 1998, after the tequila crisis, equalled the level of growth of Argentina, in Brazil, the increase was slower. During the last years of the 20th century and the first years of the 21st century, Mexico, Brazil and Argentina once again had similar values: all of them showed a stagnation and/or a decline of productivity, which expanded once again in the most recent years, the rate of growth being higher in Mexico (similar to Argentina's) than Brazil.

In short, given the similarity in the productivity dynamics of Latin American countries with respect to Argentina, the widening of the absolute gap of productivity observed in comparison with the developed countries can be interpreted as well as a phenomenon attributable also to the two biggest countries in Latin America.

C. The evolution of real wages

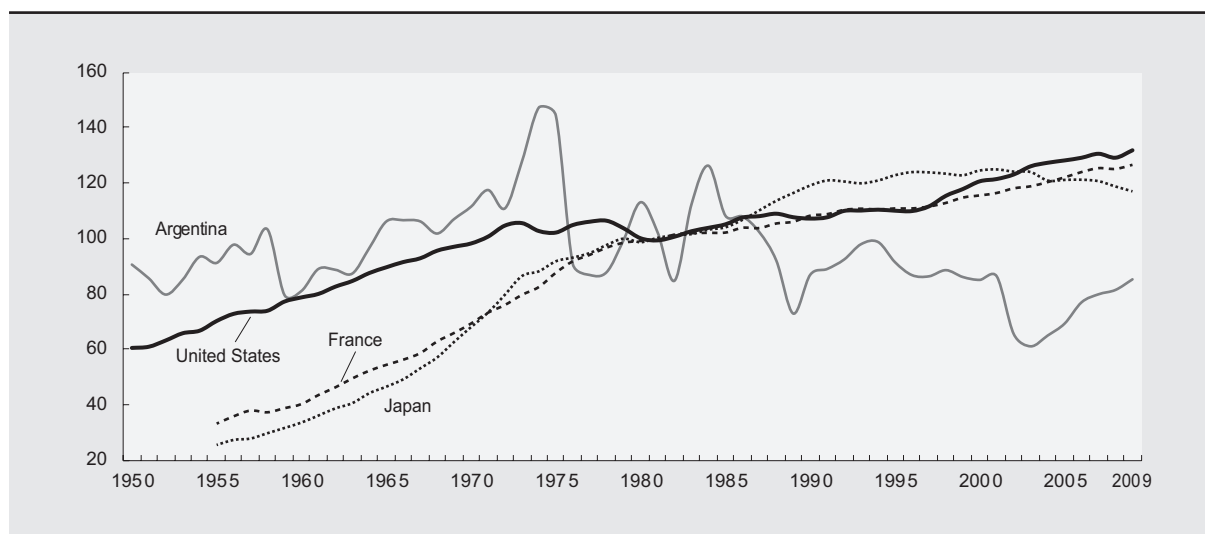
As in the case of productivity, charts 4 and 5 show the evolution of real wages in Argentina for the period of analysis along with the values corresponding to the developed and Latin American countries, respectively.

As can be seen from those charts, under the ISI model, in general terms, there was an upward trend in real wages (despite that the drop between 1958 and 1959 did away with the recovery achieved over a decade), so that by the early 1970s real wages grew by 23 per cent with respect to 1950. This upward trend observed in the quarter of the 20th century continued during the following three years; however, it was temporary: the “*Rodrigazo*”¹¹ and, especially, the military dictatorship did away not only with this last expansion but with all the progress made since the middle of the century. At the end of the military dictatorship, the values returned to this level after an increase explained by a growing currency appreciation.

¹⁰ In one sense, the backwardness of production would widen, even if the evolution were the same, as for instance, absolute productivity in the United States is higher. Hence, in the event of a growth similar in percentage terms, in absolute terms, such expansion would be proportionally higher. In other words, if evolving at the same rate, the relative gap of productivity remains unchanged, the absolute distance, instead, widens.

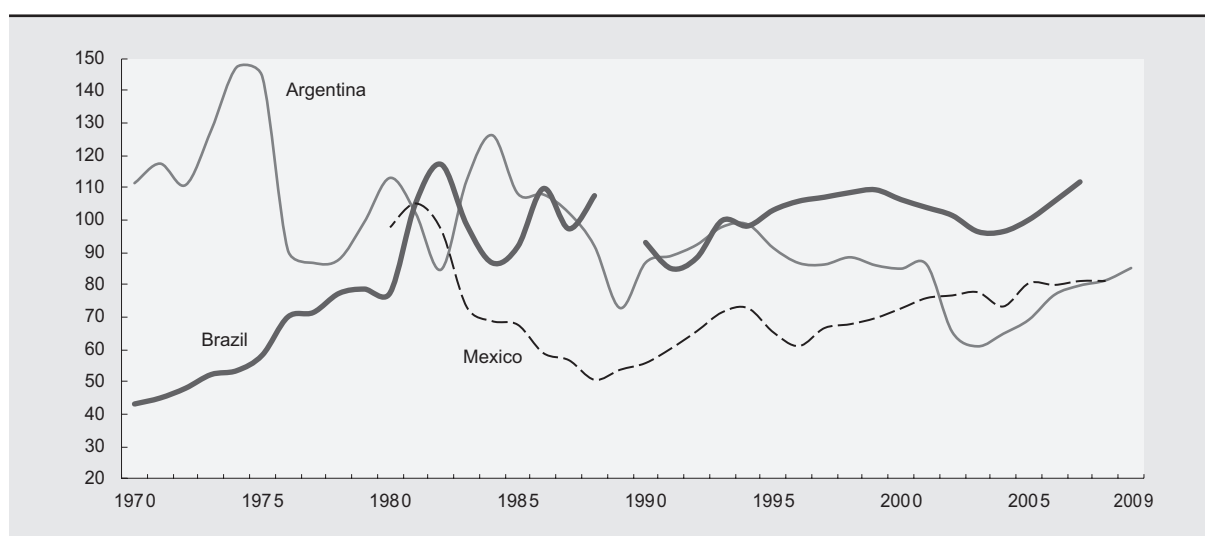
¹¹ The “*Rodrigazo*” was an adjustment economic plan implemented in 1975 by Peron's administration, which implied the increase of public utilities rates, the removal of price controls in some markets and the freezing of wages within a context of high inflation. It is known by this term after the name of the Ministry of Economy that promoted its implementation: Celestino Rodrigo.

Chart 4
REAL WAGES: ARGENTINA, FRANCE, JAPAN AND THE UNITED STATES, 1950–2009
 (Index numbers, 1980–1982 average = 100)



Source: See chart 2.

Chart 5
REAL WAGES: ARGENTINA, BRAZIL AND MEXICO, 1970–2009
 (Index numbers, 1980–1982 average = 100)



Source: See chart 3.

The 48 per cent rise observed during the first two years of the recovery of democracy was temporary as well: the bouts of inflation at the middle of the 1980s and the hyperinflation went far beyond the military dictatorship, in as much as real wages in 1989 just represented 65 per cent of the purchasing power achieved by the early 1970s. Although under completely different circumstances, the logic behind the Convertibility regime was not that much different: in the context of nominal stabilization and the appreciation of the Argentine peso, there was an initial 35 per cent recovery, a great portion of which was

subsequently lost due to the increasing unemployment rate, the worsening of the employment conditions and the economic stagnation.

If there were any hope that the purchasing power of wages could not get even worse, the currency devaluation of January 2002, after an inflationary period, wiped all hope away: real wages dropped by more than 29 per cent between 2001 and 2003, reaching a new lowest point in history, and representing barely more than half of its level in the early 1970s. With respect to the most recent process, up to 2006, besides the 26 per cent increase, real wages have not recovered from the fall caused by the devaluation. Thus, wage earners' purchasing capacity barely represents 75 per cent of its value in the reference years. That is to say, over the last half of the century, the working class could not make any progress in terms of quality of life. Rather, it showed a downward trend over the last thirty years.

If we do consider the questionable information available for the 2007–2009 period, the growth in real wages would have been sufficient to return to its pre-devaluation value. As stated in the analysis of the share of labour compensation, if the values of the last three years are confirmed, it took almost six years of growth for real wages to recover from a fall that mostly took place in just one single year. In any case, it should be reminded that, even when considering these last three years, the purchasing power of wages would rise today to 85 per cent of its level at the reference period and 75 per cent of that reached at the early 1970s. There are no doubts as to the fact that the situation would be even worse if we consider the also questionable information available for 1974 (in terms of quality of statistics): real wages in 2009 would be 43 per cent lower than 1974.

Under an international comparative analysis of real wages, it may be followed from chart 4 that the 1970s was also a turning point in real wages trends also for the selected developed countries. In contrast to Argentina, in this case, however, such a shift in the trend resulted in a slowdown in growth rates, which still continues. This period further presented, for all the three selected countries under comparison, some years of stagnation, others of decline, but in no way did they affect the upward trend. In this way, during the first stage – until 1970 – the increase was of 55 per cent in the United States, 109 per cent in France and 167 per cent in Japan. These values, instead, decreased to 34 per cent, 82 per cent and 72 per cent, respectively, in the 1970–2009 period, despite being a longer term.

As regards the comparison with Latin American countries, it should be first pointed out the difficulties encountered to build up the series.¹² That being said, chart 5 shows that, as in the case of productivity, compared to the dynamics of the developed countries, the trend of real wages matches that of Latin American countries. This does not affect its own specific characteristics.

In this way, it can be concluded that the evolution of real wages in Brazil is more promising than in Argentina and Mexico (opposite to the conclusions drawn in terms of productivity). Despite some sharp falls, there is a clear upward trend, although during the 1990s and the first years of the 21st century, real wages were quite similar to the values reached in the 1980s. Mexico, in turn, showed an evolution identical to that of Argentina “at both ends” of the segment (i.e., between the reference period and the last years), although with a bit different trend in between: the continuous fall during the 1980s pushed real wages down – at the end of the decade – to a level representing half of its initial value, when a slow but constant recovery started (with some difficulties, especially the tequila crisis), achieving by the middle of the first decade of the 21st century 80 per cent of its value at the reference period.

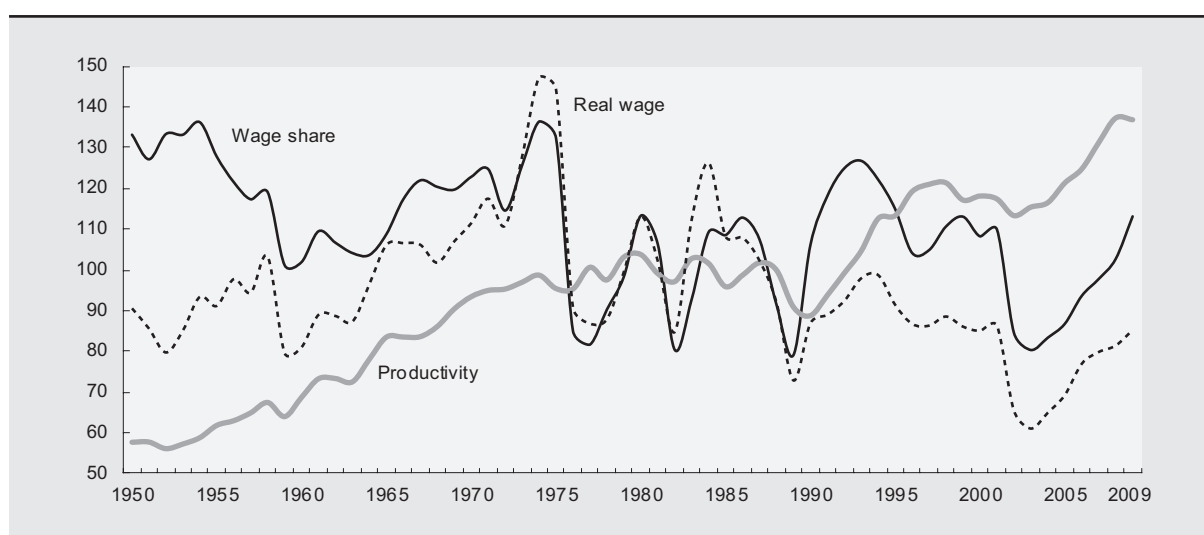
¹² The Brazilian case is so complicated that the series could not be estimated by applying the method specified in the introductory paragraphs. We resorted, then, to the evolution data supplied by specific surveys.

In a few words, the widening of the gap of the purchasing power of wages previously observed in Argentina in relation to the “developed” countries is present, at least from the 1980s onwards, also in Mexico and, to a less extent, in Brazil.

D. Once again, functional distribution: productivity and real wages as a whole

After individually analysing in the previous section the evolution of productivity and real wages in Argentina from an international perspective, let’s now study how these variables jointly influenced the dynamics of the functional distribution of income. To such end, chart 6 was prepared.

Chart 6
SHARE OF LABOUR COMPENSATION IN GDP AT BASIC PRICES,
PRODUCTIVITY AND REAL WAGES: ARGENTINA, 1950–2009
(Index numbers, 1980–1982 average = 100)



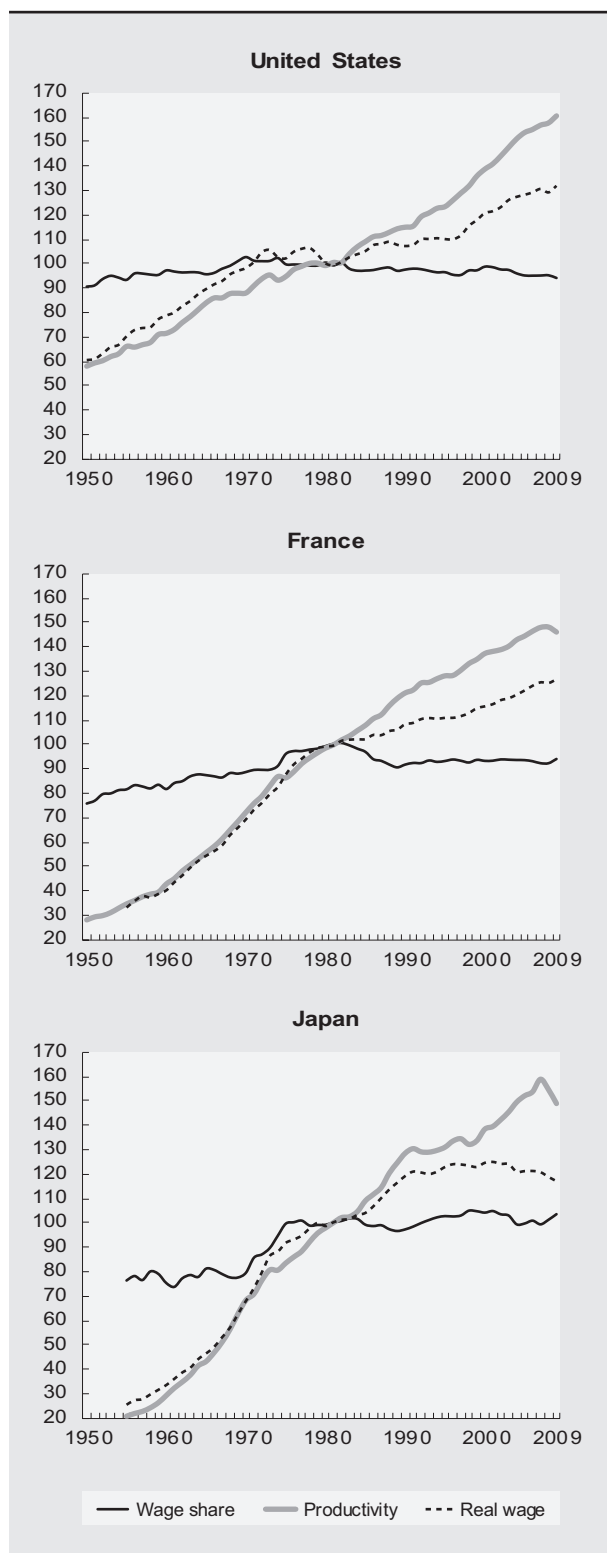
Source: Graña and Kennedy, 2008a.

Except for the first two years (where real wages increased above productivity, which rise at a steady pace), until the early 1970s, the decline in the share of labour compensation is owed, in general terms, to a relatively continuous increase in productivity, well above the so increasing real wages (61 per cent as against 23 per cent).¹³

Since then and up to the beginning of the 1990s, the evolution of the share of labour compensation is almost completely explained by the changes in real wages, as productivity still remained at relatively constant levels or was even declining. Between 1983 and 1989, the share of labour compensation not only stays – between ends – at its historic low but hides the worst possible scenario behind it: a reduction of real wages (35 per cent between 1983 and 1989) and of productivity (11.5 per cent for the same period).

¹³ This general process can be divided in two large periods, the dividing point being in the early 1960s. Thus, up to then, the decline in the share of labour compensation was explained by an increase of productivity higher than that of real wages, whereas the growth observed in the second period is owed to real wages being quite a bit more dynamic than productivity.

Chart 7
SHARE OF LABOUR COMPENSATION IN GDP
AT BASIC PRICES, PRODUCTIVITY AND REAL
WAGES: THE UNITED STATES, FRANCE AND
JAPAN, 1950–2009
(Index numbers, 1980–1982 average= 100)



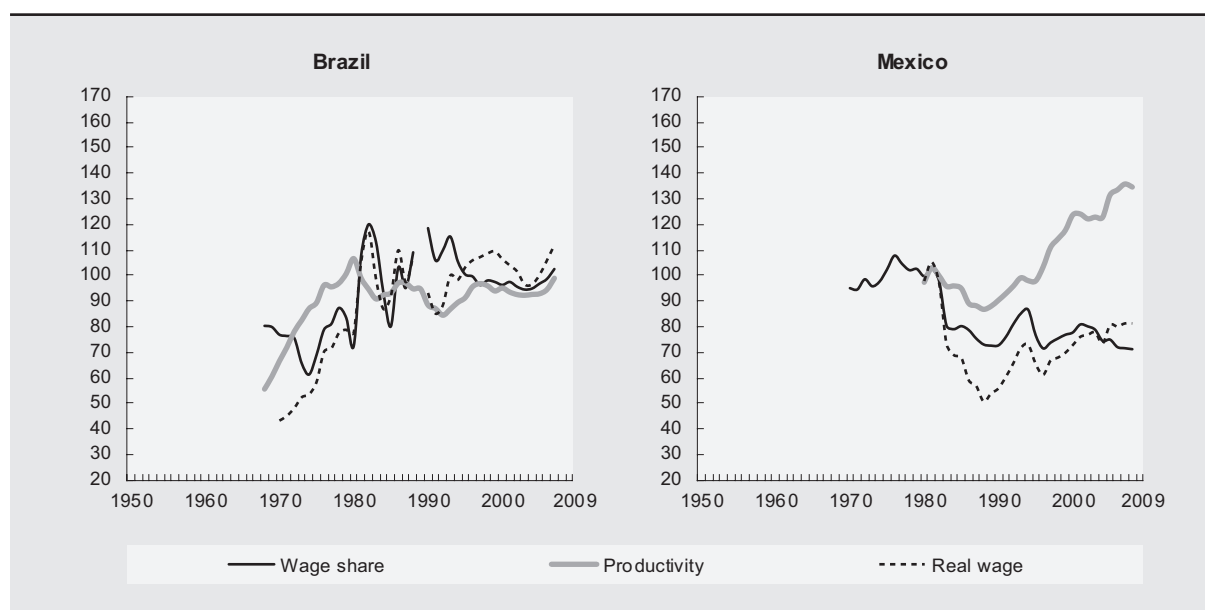
Source: Date compiled by the authors, based on information supplied by BEA-USA; INSEE- France; and Statistics Bureau of Japan.

From 1989 to 2002 (that is, a period covering the implementation and the exit from the Convertibility regime), the share of labour compensation remained also at around its low. This process combines a continuing worsening of real wages (16 per cent exclusively attributed to the devaluation of the peso) with a rise in productivity (27 per cent for almost the same period). Finally, behind the recovery of the share of labour compensation up to 2006 there lies an increase of real wages higher than that of productivity (17.5 per cent and 10 per cent, respectively), featuring a specific characteristic: whereas productivity recovered from its post-devaluation fall, real wages were still 8.5 per cent below the value reached in 2001. If we add to the analysis what might have happened in the next three years, this trend would be strengthened as the increase of the share of labour compensation from 30 per cent in 2002 to 41.2 per cent in 2009, would be explained by a 30 per cent expansion of real wages and of 20 per cent in terms of productivity as well.

In short, backward looking at the process that took place from 1950 to 2006, it can be clearly followed that the decrease in the share of labour compensation (from 48 per cent to 34 per cent of total income) translated into an increase of productivity (116 per cent) together with a decline in real wages (15 per cent). If the period is extended to the last three years, the situation does not suffer from major changes: the share of labour compensation decreases to 41.2 per cent while productivity grows by 137 per cent and real wages fall by 6 per cent. This process may be divided into different periods. However, the main turning point took place in the middle 1970s, as may be inferred from the analysis of the different variables. In both periods, the share of labour compensation decreased from 48 per cent in 1950 to an average of 44 per cent between 1970 and 1972, and to 34 per cent in 2006 (or 41 per cent in 2009). However, the underlying reasons of these falls are, for certain, different. Whereas during the first term, productivity and real wages jointly increased to 64 per cent and 25 per cent, respectively, in the second period, productivity grew by 32 per cent up to 2006 (44.5 per cent up to 2009), at the same time real wages collapsed by 32 per cent until 2006 (25 per cent if the last three years are taken into consideration).

Chart 7 shows the behaviour of the same variables in the developed countries. As earlier specified,

Chart 8
SHARE OF LABOUR COMPENSATION IN GDP AT BASIC PRICES, PRODUCTIVITY AND
REAL WAGES: BRAZIL AND MEXICO, 1950–2009
(Index numbers, 1980–1982 average = 100)



Source: Data compiled by the authors, based on information from IPEA and IBGE, Brazil; National Institute of Statistics and Geography of Mexico (*Instituto Nacional de Estadísticas y Geografía – INEGI*), Mexico; ECLAC, *Statistical Yearbook (CEPALSTAT)* and ILO, *LABORSTA*.

these countries did also suffer that turning point in the 1970s, in terms of the evolution of the share of labour compensation and its determining variables. Now, the behaviour of these variables in each of the two major periods differs from the Argentine case. Hence, from the middle of the 20th century to the turning point, both productivity and real wages registered an upward trend of similar magnitude. At such point, the trend changed and productivity increased at rates higher than those of real wages.¹⁴

Chart 8, which includes information on the behaviour of the same variables but for Latin American countries, shows that Mexico follows a pattern very similar to that of Argentina: a decline of the share of labour compensation resulting from an increase in the productivity and a reduction of real wages. Brazil has, between ends, a different and apparently inconsistent pattern: whereas the share of labour compensation slowed down, productivity stagnated although real wages grew.¹⁵

¹⁴ In France and Japan, a portion of the increase in the “wage share” of labour compensation observed during the first stage, and the marginal fall during the second phase – despite the higher increase in productivity – owes to the rise of the wage earners rate (0.6 per cent and 1.3 per cent annually, respectively).

¹⁵ This apparent inconsistency derives from the different behaviour of labour costs and real wages in the Brazilian economy. In the same way as real wages exhibits a value 20 per cent higher with respect to the point of comparison, labour costs are reduced in about 10 per cent during the same period of time. This difference arises, as previously explained, by the diverting behaviour among the CPI and the IPD. From 1994 to 1995, the former increases 66 per cent, whereas the latter rises 93.5 per cent. From then onwards, both variables continue evolving quite at the same pace, however the gap between still remains.

III. FUNCTIONAL DISTRIBUTION AND THE EXPENDITURE APPROACH: RELATIONS BETWEEN THE TWO SIDES OF INCOME

One of the ways the progress of the economic process of a country may be analysed is from the composition of national demand; that is, by studying how income is allocated between final consumption and capital formation. Certainly, this analysis is of paramount importance. But the purpose of this work is not to analyse national demand in itself, but to have a comprehensive approach to this side of income produced at a given period of time, which served as a connecting thread over the preceding sections. In other words, this study is focused on the relation between income and its expenditure.

Indeed, a thorough study of this relationship, including a comparative analysis identical to that conducted so far, would require additional work, in view that there is a wide range of indicators that may be built for such analysis. Therefore, this work will only serve as an initial exploratory work. Therefore, we will focus exclusively on the most significant characteristics that stand out. To such end, we will mainly study the relationship between employee compensation and private consumption, on the one hand, and operating surplus and gross domestic fixed investment (GDFI), on the other. Hence, we must first describe two different essential characteristics.

First, income aggregates considered as such are, in fact, not the most appropriate components for the intended analysis, for two main reasons. Firstly, the estimates of the income of self-employed workers and employers (from their work activity) are included in operating surplus, where, in fact, they should be part of aggregate income that is compared with private consumption, as this income arises from work activities. Likewise, work-related income should be modified by the two-way transfers between families and the General Government (mainly, retirement and pension plans and direct taxes), so as to estimate the disposable income that may be allocated to consumption. In both cases, the difficulty arises from the fact that, at least in Argentina, such adjustments can only be made for the estimates of the last decade and a half. Thus, they should be disregarded when conducting a broader analysis as this one.¹⁶

Second, the nature of the comparative analysis requires that an assumption be made regarding how employee compensation is allocated between consumption and savings. This paper is based on the assumption that employee compensation is fully allocated to consumption, and, thus, the remaining goods and services are acquired through operating surplus, whether acquired directly or through financing from surplus-related sources. The purpose of this assumption is not to reflect what actually happens, but just to portray the most favourable situation for wage earners for the purposes of conducting this analysis inasmuch as a violation of the assumption would imply a lower share of labour compensation in private consumption and, thus, a greater consumption through operating surplus sources.

That being said, we will now make a brief analysis of the relevant relations between income components and final demand. As in the two sections above, we will start by analysing the Argentine situation and will then make a comparative analysis with respect to the selected countries.

A. Income, consumption and investment in Argentina

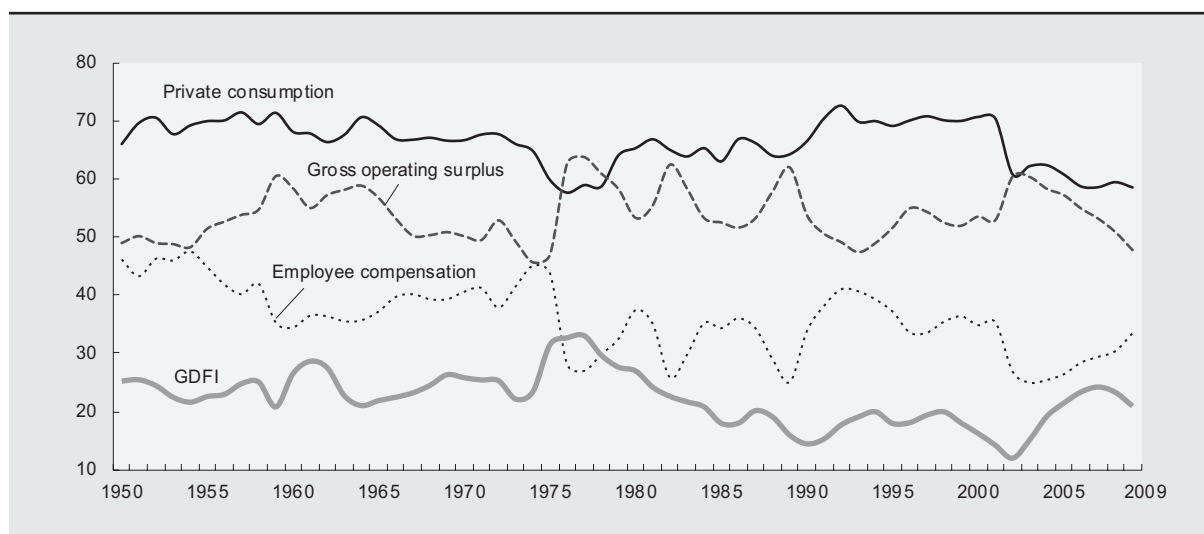
A key aspect stands out from the information shown in chart 9: the significant gap between the share of employee compensation and of private consumption in income and, consequently, the gap between

¹⁶ In the two prior works focused on the Argentine case (Lindenboim, Graña and Kennedy, 2006 and Graña and Kennedy, 2008b), by covering a shorter period of analysis, we have considered both aspects. The main findings are that, in no case, for the 1993–2006 period, are the trends observed by comparing employee compensation and private consumption modified. This is explained by the fact that the aggregates considered in each adjustment (income of self-employed workers and of employers, on the one hand, and the net transfers between the State and families, on the other) represent, throughout time, a relation that remains relatively unchanged of private consumption.

Chart 9

EMPLOYEE COMPENSATION, OPERATING SURPLUS, PRIVATE CONSUMPTION AND GROSS DOMESTIC FIXED INVESTMENT IN RELATION TO GDP AT MARKET PRICES: ARGENTINA, 1950–2009

(Per cent)



Source: Economic Affairs Secretary (SAE), 1955; Argentine Central Bank (BCRA), 1975 and 1993; ECLAC, 1988 and 1991; Bureau of National Accounts (DNCN); Household Permanent Survey (EPH) (INDEC); and Graña and Kennedy, 2008a.

operating surplus and investment. However, these gaps show different values depending on the historical period. Thus, it is clear that since the mid-1970s both “gaps” have got even wider, a trend that was partly reversed following the end of the Convertibility regime.

As regards the beginning and end of ISI model, the share of the four macroeconomic aggregates as well as the two relations among aggregates is quite similar. Certainly, there are significant particularities within this twenty-year period that deserve to be highlighted.

Thus, from chart 10 it follows that while at the beginning, employee compensation represented about 70 per cent of private consumption, its fall during the 1950s coupled with the stability in the share of private consumption, resulted in a drop in the relation among both variables close to 50 per cent in 1959. The other side of this process is the increase in the operating surplus, which does not translate into an increase in investment. This means that, although by the late 1950s there was a rise in the share of investment in income, such increase was not as high as that of operating surplus. There was, then, a growth of the portion of operating surplus that, either directly or indirectly, is used as a source of private consumption. In short, whereas by the middle of the 20th century, about half of the operating surplus was allocated to private consumption, by the early 1960s, this percentage increased to 60 per cent. Having some specific features, as can be inferred from the chart, what occurred during the 1960s shifted these trends and the relations returned back to their levels in the 1950s.

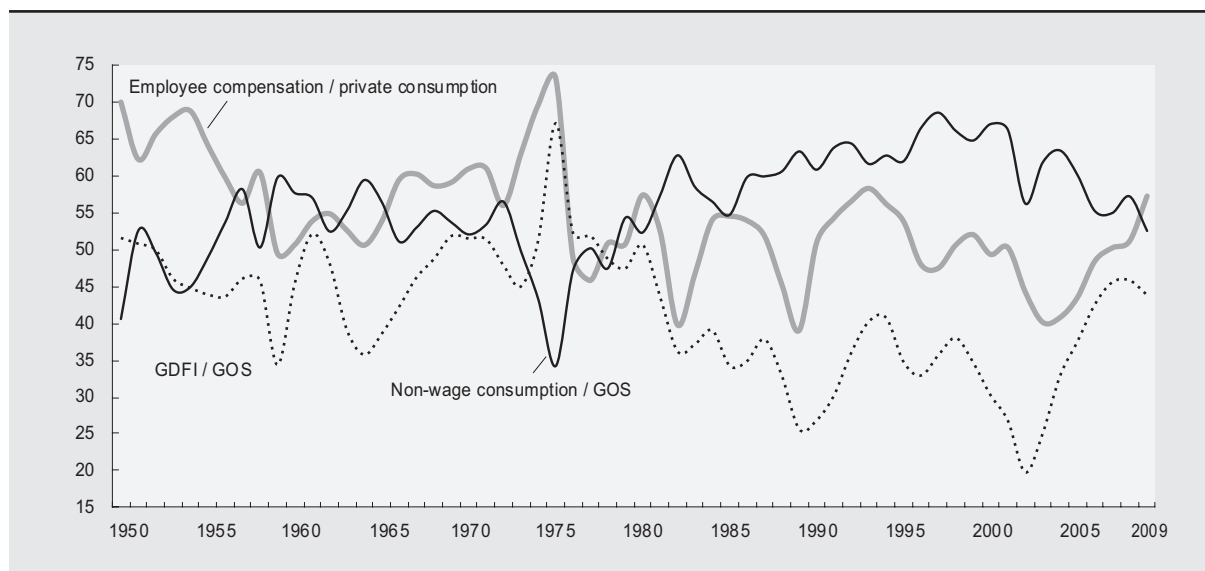
After the outbreak of the military dictatorship and until the end of the 20th century, dynamics of the employee compensation – consumption relation followed the same pattern as that of the 1950s, characterized, as already mentioned, by an extreme volatility of the share of labour compensation in income. Thus, the level reached after its collapse in 1976 translated into a reduction of the share of employee compensation in private consumption. Opposite to the slight increase in the share of investment observed in the 1950s, during the 1980s, investment represented a share in GDP lower than that under the ISI model.

No major changes took place in this regard during the 1990s. The truth is that over the first years, there was a significant improvement (resembling that of the share of labour compensation) explained by the

Chart 10

**EMPLOYEE COMPENSATION AS PER PRIVATE CONSUMPTION AND NON-WAGE CONSUMPTION
AND GDFI AS PER GROSS OPERATING SURPLUS (GOS): ARGENTINA, 1950–2009**

(Per cent)



Source: Economic Affairs Secretary (SAE), 1955; Argentine Central Bank (BCRA), 1975 and 1993; ECLAC, 1988 and 1991; Bureau of National Accounts (DNCN); Household Permanent Survey (EPH) (INDEC); and Graña and Kennedy, 2008a.

growth of both the share of private consumption absorbed by employee compensation and the share of investment in income. However, when looking at the entire period, such trends worsened, and the relations among aggregates returned to their initial levels. It is also worth noting that these were the years when the private sector was affected by a permanent deficit, as can be concluded from the chart showing that the sum of the share of Gross Operating Surplus (GOS) allocated, either directly or indirectly, to consumption or investment was well above 100 per cent. As such, this is one of the reasons that explain Argentina's need of permanent indebtedness which at last resulted in the collapse of the Convertibility regime. Following such debacle, most recent years show promising signs: employee compensation has increased in parallel with a stability of private consumption, which implies a rise in the percentage of employee compensation in private consumption, whereas the relative fall of operating surplus is accompanied with an increase in investment.

In short, by looking at the relation between these aggregates of the Argentine economy it is once again easy to clearly distinguish the ISI model from the neoliberal policy. During the neoliberal era, the fall of the share of labour compensation in income, which translated, as specified in the previous section, into a sharp decline of real wages, did not even result in a greater share of investment in income, as some economic theories would suggest.

B. Income, consumption and investment from an international perspective

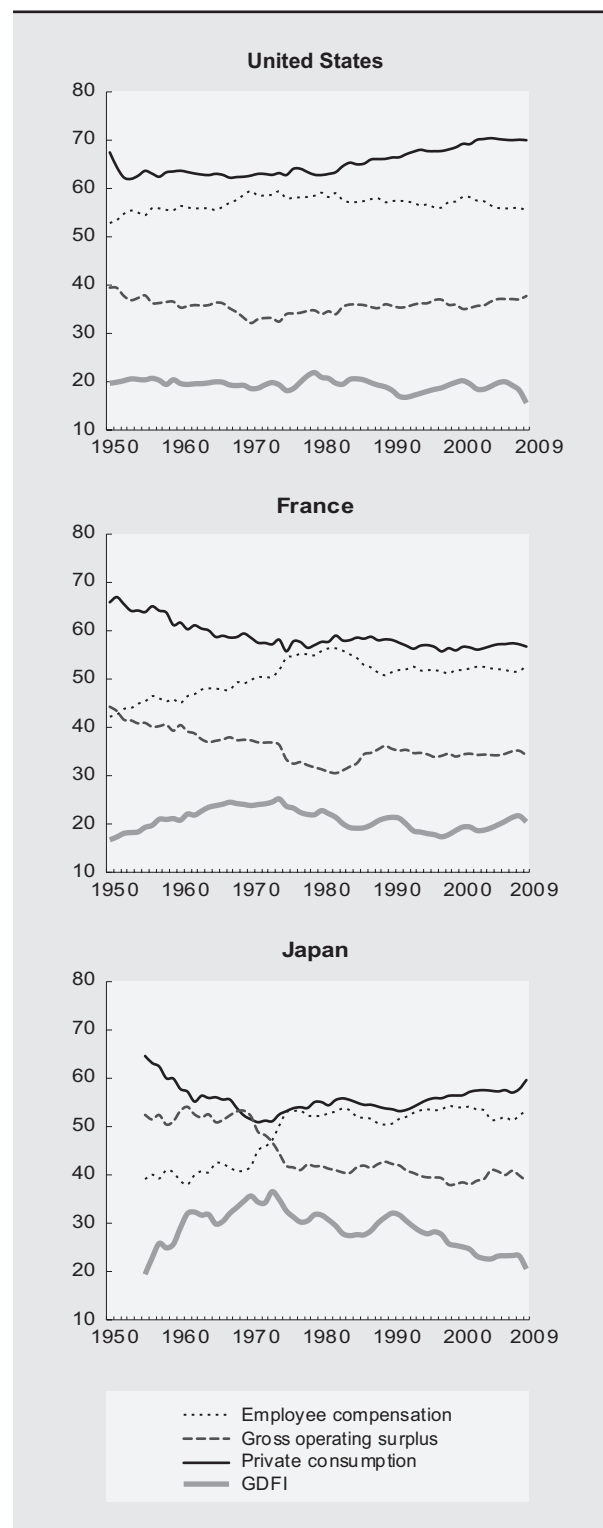
The variables for each of the developed countries selected for analysis are portrayed in chart 11. At first glance, considering them as a whole, the first thing that stands out is, in line with the behaviour of the variables related to functional distribution, the stability of the components of final demand. A second aspect is the level achieved by the series: in the three countries (in the case of Japan, since the early 1970s), employee compensation is barely below private consumption, which implies that the share of consumption absorbed by wages is significantly higher.

Notwithstanding the foregoing, in the case of the United States, the gap between employee compensation and private consumption has widened since the 1980s. Employee compensation has shown a slightly downward trend in contrast with private consumption, which has been increasing. Opposite to this, there has also been a rise of operating surplus coupled with a decline in investment.¹⁷ Special attention should be paid to another feature, namely, that the share of investment in income is very similar to the average rate of the Argentine economy. This is a good indicator that in Argentina (and indeed, in any country) a given share of investment in total income should not be set as a goal in itself to be achieved, rather what should be taken into consideration are, above all, the characteristics of such investment and the incorporated technology.

In the case of France, two big periods can be distinguished. From the middle of the 20th century and up to the early 1970s, there has been a steady growth of employee compensation (and, accordingly, a fall in operating surplus) along with a drop of the share of private consumption in GDP and a rise of the share of investment. Since then, the shares of such variables in total income have remained practically unchanged, employee compensation absorbing most of private consumption. Similarly to the United States case, investment is close to one fifth of GDP, that is, a value similar to its counterpart in Argentina.

In Japan, instead, a different pattern was followed up to the 1970s: a share of operating surplus greater than the wage share, together with a fall in private consumption and a significant increase in the investment share in income, reaching 35 per cent. From that point onwards, a different process has arisen: employee compensation, well above operating surplus, absorbed practically all private consumption, whereas operating surplus, following the slow down of the 1970s, remained at constant levels. By the end of the period, the gap between employee compensation and

Chart 11
EMPLOYEE COMPENSATION, OPERATING SURPLUS, PRIVATE CONSUMPTION AND GROSS DOMESTIC FIXED INVESTMENT AS PER GDP AT MARKET PRICES: THE UNITED STATES, FRANCE AND JAPAN, 1950–2009
(Per cent)



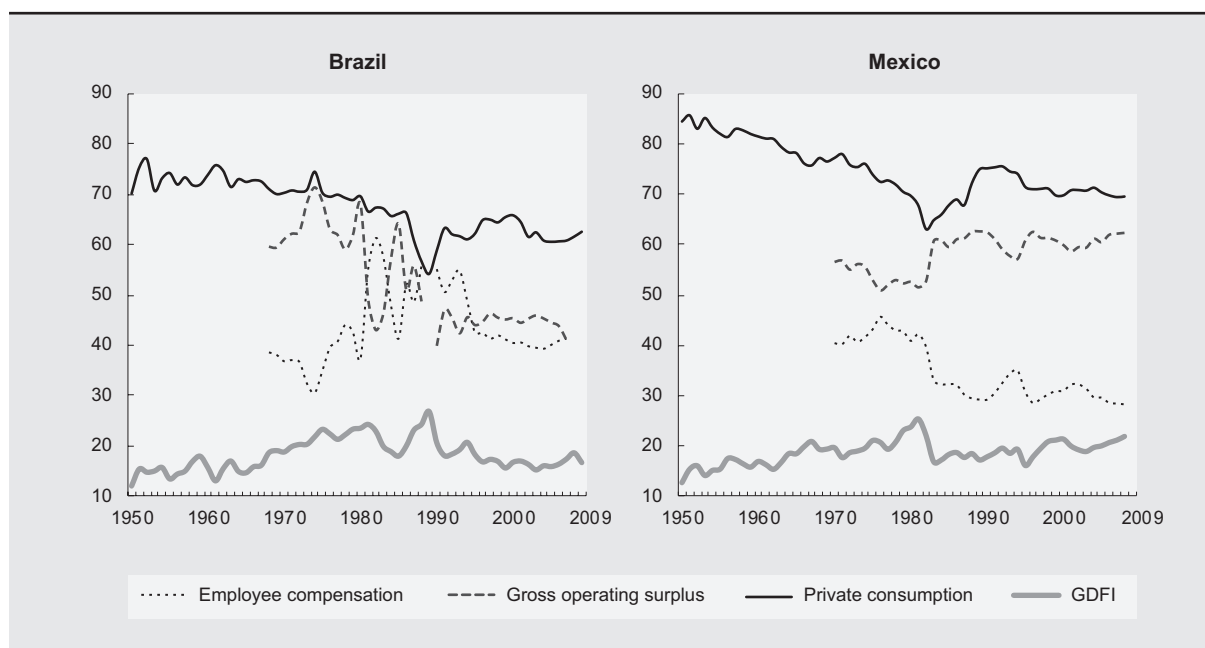
Source: Data compiled by the authors, based on information from the BEA-USA; INSEE- France; and Statistics Bureau of Japan.

¹⁷ For being a world leader, this process implies an important thread of analysis to account for the last worldwide crisis (evidenced by the explosion of mortgage debts and home debts) as well as the reasons that explain the slow or none growth of the world economy.

Chart 12

**EMPLOYEE COMPENSATION, OPERATING SURPLUS, PRIVATE CONSUMPTION AND GROSS DOMESTIC
FIXED INVESTMENT AS PER GDP AT MARKET PRICES: BRAZIL AND MEXICO, 1950–2009**

(Per cent)



Source: Data compiled by the authors, based on information from IPEA and IBGE, Brazil, National Institute of Statistics and Geography of Mexico (*Instituto Nacional de Estadísticas y Geografía – INEGI*), Mexico; ECLAC, *Statistical Yearbook (CEPALSTAT)*; and ILO, *LABORSTA*.

consumption widened, with a greater impact on the drop in the level of investment, getting about 20 per cent in income.

Once again, Latin American countries resemble Argentina (chart 12). And, as can be expected in view of the previous findings, Mexico is the country that most resembles the Argentine case. In this way, it can be concluded that, since the 1970s, the drawback in the share of employee compensation in income has not translated into a fall in private consumption, which is the same as saying that the increase of operating surplus in income does not lead to a growth of investment share in income, remaining at around 20 per cent.

Last, the distinguishing feature of Brazil seems to be that the sharp fluctuations in the components of the functional distribution of income do not have the same impact on those of the final demand. In connection with these, up to the mid-1970s the share of consumption dropped and investment increased, whereas in the coming years, investment levels tended to remain unchanged, opposite to the new fall in the share of consumption. Besides the sharp changes in income components, from the information available in this respect, it can be seen that they have a relatively constant level, in line with a correspondence in the components of the aggregate demand.

To sum up, two distinctive features, which ought to be addressed in future research, can be drawn from this analysis. On the one hand, the greater volatility of income components in the Latin American countries selected for this study, especially in the case of Argentina, as already pointed out, correlates into also a greater, although not that strong, volatility of national demand components. On the other hand, another main aspect stands out, which, in our opinion, is of utmost importance: Latin American countries seem to require greater and growing shares of operating surplus in income to reach similar levels of investment, a characteristic that has intensified, especially in Argentina, from the mid-1970s onwards.

IV. CONCLUSIONS

In the Introduction we noted that, according to the *Trade and Development Report 2010*, developed countries' growth strategy relied on an increase of exports, a strategy that, as such, implies a restriction in the increase of wages and salaries.

To address this process, the main purpose of this document was to study the economic evolution of Argentina from the 1950s until today from the viewpoint of functional income distribution and its associated lines of investigation: the real wages – productivity relation, on the one hand, and the income – final demand relation, on the other.

At the peak of the import-substitution industrialization model, there was a long debate on the two roles of real wages, especially in Argentina. Employee compensation was considered a key factor for the production of goods for domestic consumption (Candia, 2000) although there were restrictions to the rate of wages and salaries as, when reaching a specific value, they had a negative impact on the external sector (Canirot, 1983). Thus, this dual role and primary products international prices explained the economic cycles of this model known as “stop and go” (Braun and Joy, 1968; Diamand, 1972). In this regard, as shown in sections I and II above, employee compensation exhibited a relatively stable behaviour (although it plunged in one decade and boosted in another) up to the mid-1970s, owing to the also stable and, in general, growing trends of real wages and work production capacity. Indeed, the dynamics of both determinants of the functional distribution of income much resembles that of the United States (although at a lower rate than in France and Japan).

If, at least from this standpoint, the ISI process seems to be positive, this is so, in great part, because of the economic process implemented thereafter. In the vast and diverse literature, virtually all scholars agree that the “*Rodrigazo*” in 1975 coupled with the *coup d'état* in 1976 lead to the sudden abandonment of the ISI model, which was replaced by a still consensual unnamed regime characterized by – especially during the military dictatorship and the Convertibility regime – the trade liberalization, foreign indebtedness and national currency overvaluation (Damill and Frenkel, 1993; Ferrer, 2004; Basualdo, 2006).

The plan implemented by the military dictatorship was explicitly aimed at dismantling a “defective productive structure” created under State protectionism during the ISI model, and reducing real wages. This latter purpose was achieved, as stated in section II above, and it far exceeded its expectations. The former, instead, was not that “successful”: productivity stagnated in the mid-1970s. This situation continued until the early 1990s and the share of labour compensation in income could do nothing but fall. The intensification of this policy through the implementation of the Convertibility Plan succeeded in the “modernization” of the production structure, certainly at the expense of the massive destruction of companies. In this context, there was no need to resort to political repression for the maintenance of the new deteriorated real wage level achieved by the hyperinflation of 1989 and 1990: unemployment would serve as a disciplining factor.

However, the scenario dramatically worsened: the bases of such productivity growth has diluted since the mid-1990s, so that the gap with developed countries that has been widening since the mid-1970s could barely be reduced. But the situation got even worse: the huge crisis that marked the end of the Convertibility regime lead to the greatest recession in history, a slump in productivity and a reduction of the purchasing power of wages comparable to that caused by the outbreak of the military dictatorship and the hyperinflation in the late 1980s.

In short, far from improving the inclusion of Argentina worldwide, the economic policy strategy “relying on exports” implemented after the abandonment of the ISI model had the worst results: a serious reduction of real wages coupled with a relative stagnation of productivity, if compared to the developed countries. Mexico and, to a less extent, Brazil, have gone through relatively similar situations.

The economic evolution in Argentina, under the logics of the economic functioning set in the mid-1970s had another significant and, unfortunately, negative aspect that can be drawn from the second line of analysis conducted in this study: the growth in the operating surplus over the period under investigation, as the other side of the share of labour compensation that shrank mainly due to the reduction of real wages, did not translate into an increase in the share of investment, a situation that once again is shared by the other selected Latin American countries. More precisely, as the share of investment in total income in all selected countries is practically the same, in Argentina (as well as in Mexico and Brazil) a greater share of operating surplus was needed to achieve similar levels of investment.

The economic process run after the exit from the Convertibility regime (a period still lacking a consensual denomination) show very favourable trends: a sustained economic growth at high rates was observed along with a behaviour of the variables discussed in this study completely different from that observed in the previous period: productivity and real wages boosted and the share of investment in income increased “despite” the fall in the operating surplus. This does not imply, for certain, an absolute recovery from the problems created by the policies implemented for almost thirty years; the purchasing power of wages remains far lower than the values achieved in the 1970s.

There are no doubts that the economic and social ups and downs in Argentina (and, in general, of Latin America) are closely linked to the changes in the world economy. The ISI process took place in a context where core countries continued implementing the so called Welfare State policy, which was abandoned after the devaluation of the dollar and the petroleum crisis, and replaced by neoliberal policies. This new stage in the world capital accumulation had a significant impact on Latin American economic life, mainly through the growing capital inflows subject to the condition that neoliberal reforms be adopted. Since then, these capital inflows that converted into sovereign debt became a new factor to be considered in the economic life of the region during the 1980s. In this sense, the distinctive evolution in Argentina over the 1990s is explained by its own economic policy scheme as well as by the many financial crises throughout the world.

In most recent years, the countries with the greatest population in the world, which strongly demand raw materials produced at large scale by the region, have pushed the basic equations constituting the limits of Latin American economic policy. In view of all the above, it is worth asking if this new international context, the rate of the economic recovery of the region after the crisis and the questioning of the growth neoliberal scheme have significant differences that allow to speak of a new stage for Latin America or whether it is just a favourable junction. Debates in the region in this regard have not ended yet.

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