

“Wageless Growth” not “Jobless Growth” the new conundrum

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The so-called ‘synchronised recovery’ that global policy makers periodically refer to, seems to have bypassed much of the world’s working people. According to the just released *Global Wage Report 2018/19* of the International Labour Organisation (ILO), the rate of growth of average monthly earnings adjusted for inflation of workers across 136 countries registered in 2017 its lowest growth since crisis year 2008, and was well below figures recorded in the pre-crisis years 2006 and 2007. What is more, if China, where wage growth has been rapid and whose workforce size substantially influences the weighted average global figure, is excluded, the level wage growth in 2017 (1.1 per cent) is much lower than the figure for all countries including China (1.8 per cent). The deceleration in wage growth outside of China appears true of both developed and developing countries.

A similar trend in the OECD countries had been flagged in the *OECD Employment Outlook 2018* released in July this year. It noted that: “On average, hourly wage growth in the OECD countries was still 0.4 percentage points lower in last quarter of 2017 than it was in late 2008.” That report, in an editorial tellingly titled “Wageless growth: Is this time different?”, went even further and suggested that the current recovery is different from those that followed previous crises, since falling unemployment has not been accompanied by comparable increases in wages.

This low wage growth in both absolute terms and when compared to the previous year and the pre-crisis period has surprised observers for two reasons. The first, as noted, is that it occurs in a period when the recovery is seen as having been underway in the US, when the worst was seen as over in recession affected Europe, and when growth in the developing countries, especially the emerging markets, was seen as reasonable. According to the ILO, global GDP growth rose from 3.3 per cent in 2016 to 3.7 per cent on 2017, which was its highest level since 2011. Moreover, the most recent upturn is seen as persisting. Growth in the developing economies had risen from 4.4 per cent to 4.7 per cent between 2016 and 2017 and from 1.7 to 2.3 per cent in the advanced economies. And growth in 2018 is expected to be even higher.

Second, the evidence suggests that this recovery, however uneven and hesitant, had reduced unemployment as measured. As is widely recognised, unemployment rates are misleading in poorer countries where, because of the absence of any social security or social protection, those in the working age have to take up some kind of work, even if at low wages and for short periods of time, just to avoid starvation. But, more reliable figures from the developed countries suggest that unemployment is on the decline. According to the ILO: “The average seasonally adjusted unemployment rate among the EU28 countries stood at around 6.5 per cent in April 2018, the lowest rate recorded in the European Union (EU) since December 2008.” A similar trend has been reported by the OECD, which found that the average employment rate in its member countries was 2 percentage points above pre-crisis levels, and unemployment rates have been in “slow descent”.

If growth is improving and unemployment is on the decline, then one should expect that wage growth would improve. The fact that it is falling poses a conundrum. Especially surprising is the fact that “the pattern of “declining unemployment with flat wages” is particularly pronounced in Germany and the United States – two countries where unemployment rates have been gradually reduced over the last seven to eight years but where the growth rate of nominal wages has remained relatively constant, fluctuating between 2 and 3 per cent per year.”

It could be argued that if productivity growth has not improved as much as GDP growth has, then wage growth may be held back even if employment is rising, because there is inadequate surplus per worker that can go to shore up wages. But here too the evidence does not provide an explanation. The figures show that workers are not getting a fair share of whatever productivity growth is occurring. Wage growth has lagged behind productivity growth, leading to a fall in the share of wages in national income. In the assessment of the ILO, “the decoupling between wages and labour productivity explains why labour income shares (the share of labour compensation in GDP) in many countries remain substantially below those of the early 1990s.”

An alternative explanation for these contrary trends in output and employment growth and wage growth could be that growth in the former variables may have been exaggerated. While talk of a recovery has been on since 2017, in most countries, other than the US, the increases in growth rates have been marginal and prone to reversal. In the G20 as a whole, the recovery in the fourth quarter of 2017 from a late 2016 low took the year-on-year quarterly growth rate to a level that was not very much higher than that in the fourth quarter of 2013, and much lower than the peak recorded at the end of the immediate post-crisis recovery in 2010. Even the US recovery has been volatile till very recently.

What has been more convincing as an indicator of improving performance is the unemployment rate in the US, which fell from close to 10 per cent in the middle of the crisis to 4.1 per cent at the end of 2017. That was even below the 5 per cent figure recorded in January 2008 when the crisis was yet to break. But there have been doubts expressed about the falling unemployment rate as well. The labour force participation rate in the US, or the proportion of those 16 years and above reporting themselves as available for and seeking work, fell from 66.2 per cent in January 2008 to 62.7 per cent in December 2017. This was a reflection of the ‘discouraged worker effect’, where those unable to find work for a long period just stop looking for work and are not counted as part of the labour force or among the unemployed. The result is a fall in the employment rate relative to what would have otherwise been the case. According to one estimate, if the labour force participation rate in December 2017 were the same as in January 2008, the corresponding unemployment rate would have been 6.1 per cent. Thus the contradiction between falling unemployment and decelerating wage growth, may be partly explained by the fact that the former has been exaggerated.

But some fall in the unemployment rate cannot be denied. And in the rest of the OECD as well, “labour markets are back to pre-crisis levels in terms of job quantity, with only a few notable exceptions”. But this higher level of employment has been accompanied by a rise in the proportion of casual and precarious jobs. This poor job quality keeps nominal wage growth low, despite the reported ‘tightening’ of the labour market. Many factors could explain the worsening quality of employment in the advanced countries, not least among them the effect of competition from imports from China and elsewhere and the labour market reforms they have triggered. Global sourcing through purchase and production by transnational firms, by expanding the reserve army of labour available to a now globalized metropolitan capital, keeps wages in the advanced countries low, because of competition from labour abroad and the fragmentation of labour markets with precarious employment conditions at home. Since it is the more labor intensive segments of manufacturing that tend to get relocated abroad, employment growth is also limited. Policy measures aimed at rendering labour markets “flexible” expands the scope for creating precarious jobs with low earnings. Finally, uncertain and precarious employment reduces in turn workers’ bargaining power, which too depresses wages and limits wage increases even in “good times”.

Even the normally optimistic OECD is forced to recognise this and state that: ““There has been a significant worsening of the earnings of part-time workers relative to that of full-time

workers associated with the rise of involuntary part-time employment in a number of countries. Moreover, the comparatively low wages of workers who have recently experienced spells of unemployment, combined with still high unemployment rates in some countries, have pushed up the number of lower-paid workers, thereby lowering average wage growth.”

Meanwhile, relocation does not change wage trends in the developing countries because the additional employment created is small relative to the large unemployed labour reserves they harbour. Even in China, it took decades of high growth for labour market conditions to prove tight enough to trigger the wage increases that make it an exception to the arguments made here. In most other developing countries GDP growth is not accompanied by wage increases, as is the case in the advanced countries.

The combined consequences of all this clearly explain the disconnect between GDP growth and wage growth. The fact that this time around that disconnect is wider merely suggests that the pace and nature of the recovery are different, with an intensification of processes that rein in wage increases.

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