

Economic policies for income-led growth:
experiences and challenges

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Overview of presentation

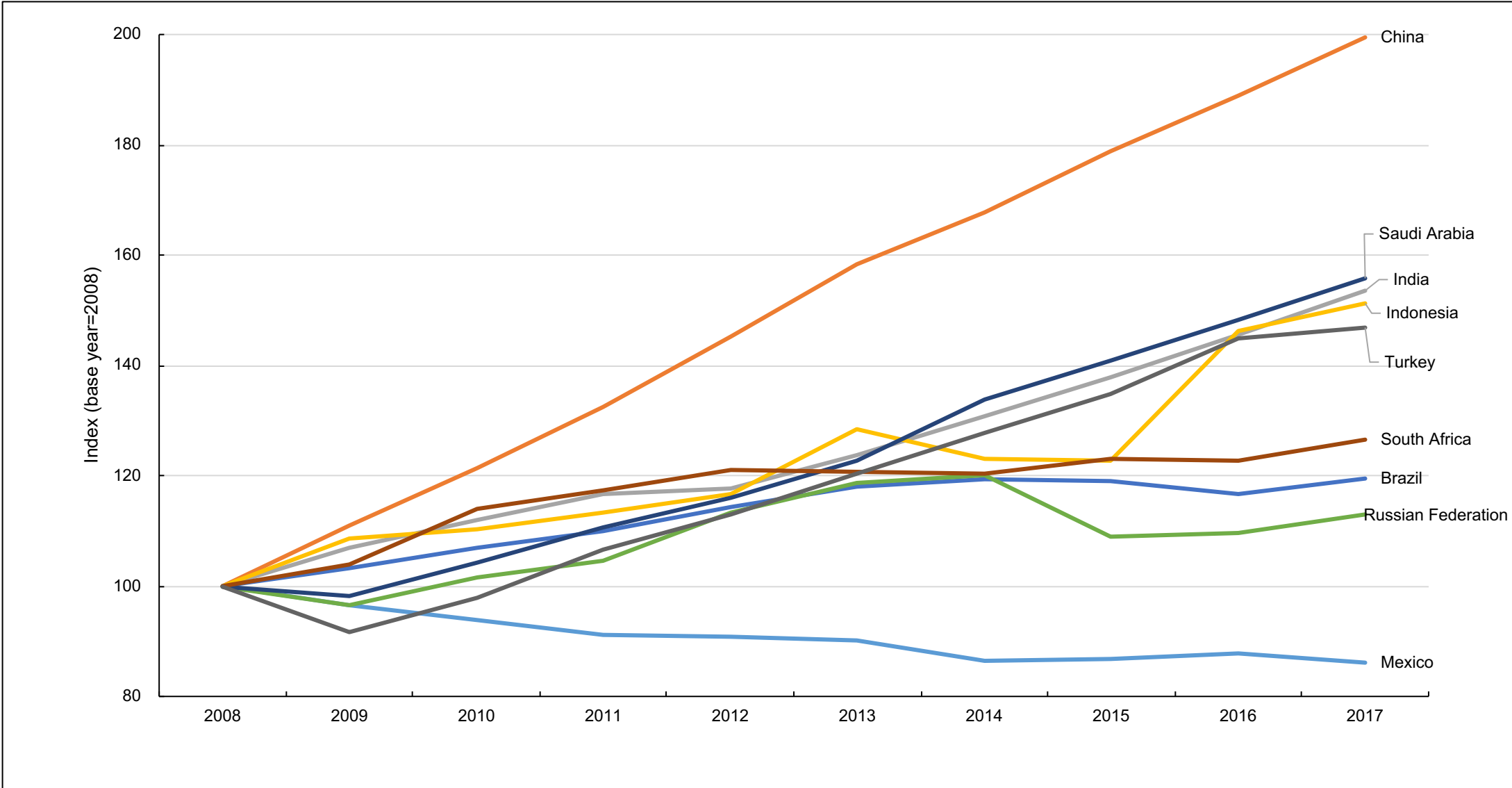
- Mexico has long lagged many other upper-middle income countries, notably China, in wages and in income-promoting public investment
- Wage-led growth and public investment-led growth are necessary elements of the fourth transformation to address poverty, inequality and balanced growth
- The AMLO administration has an historic window to catch-up in both policy areas

I. Wage-led growth and labor policy:

time to reverse decades of wage repression

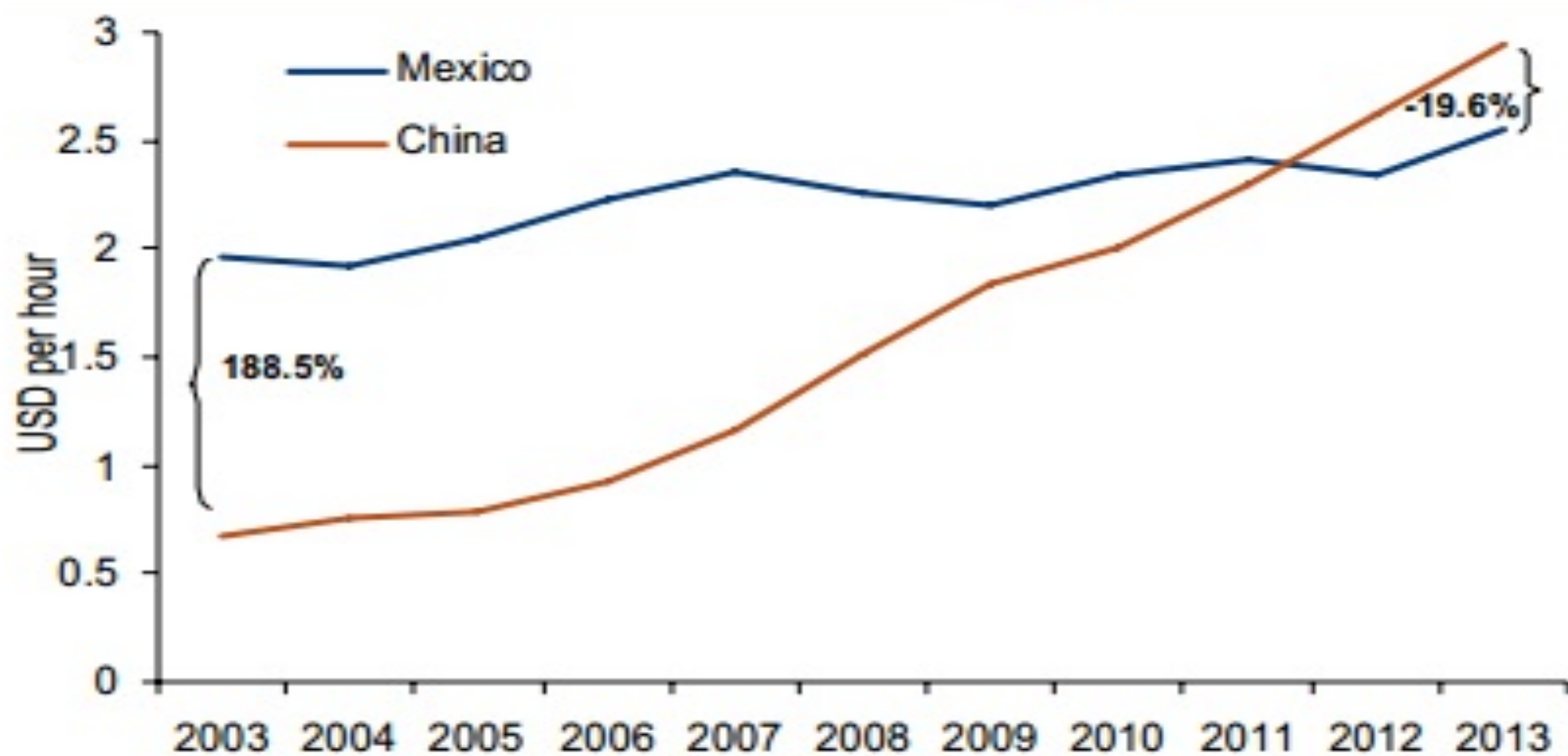
- Mexico faces common forces affecting today's labor markets everywhere: globalization, technology, capital mobility
- Yet policy choice yields very different outcomes
- International comparisons

Average real wage index for emerging G20 countries 2008-17



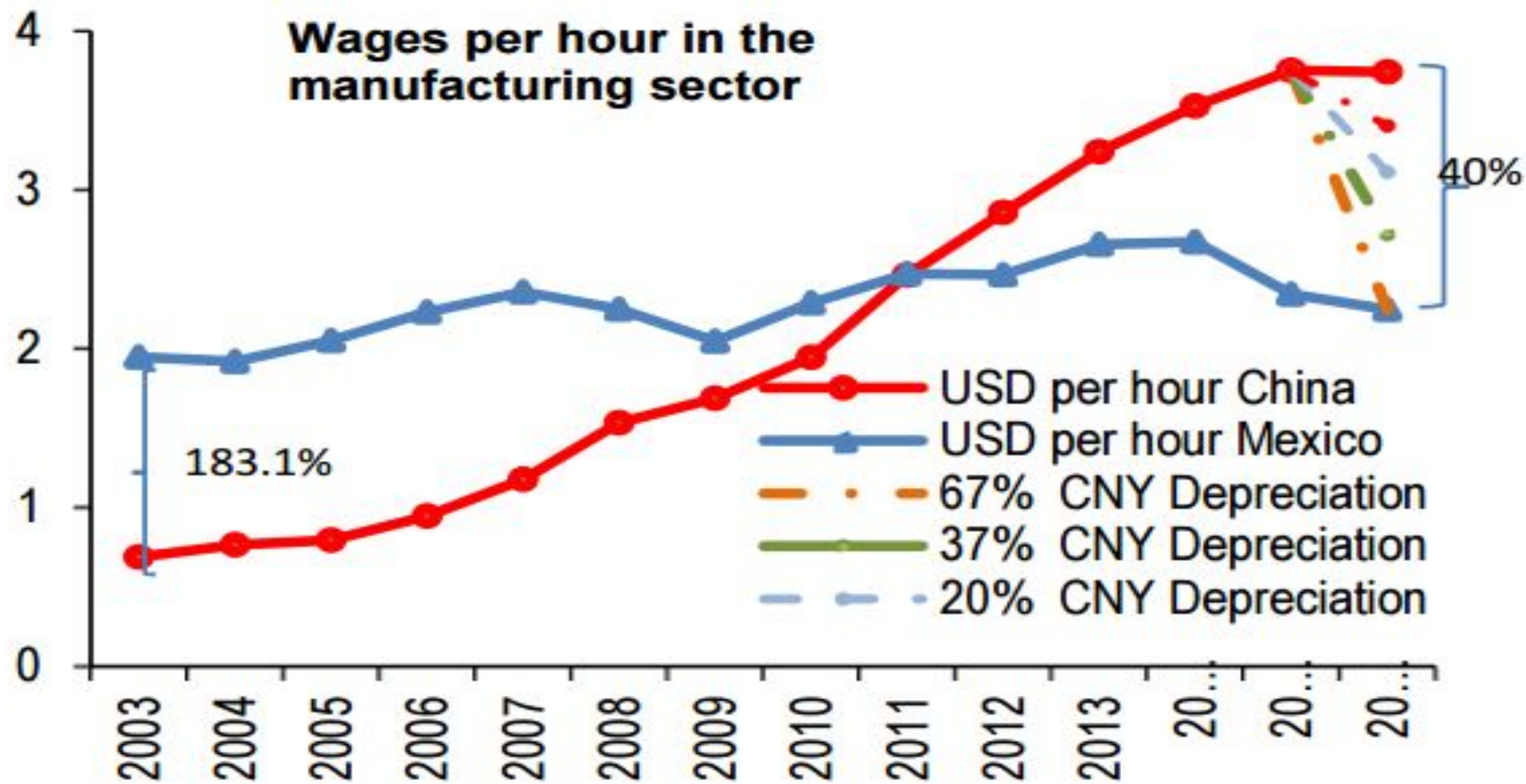
Source: ILO Global Wage Report 2018/19

Chart 1: Mexico has overturned China's hourly wages



Source: BofA Merrill Lynch Global Research, Banxico, INEGI, International Labor Organization, China NBS
Own estimates for China since 2009 and for Mexico in 2013

Chart 5: Wages per hour are lower in Mexico than in China

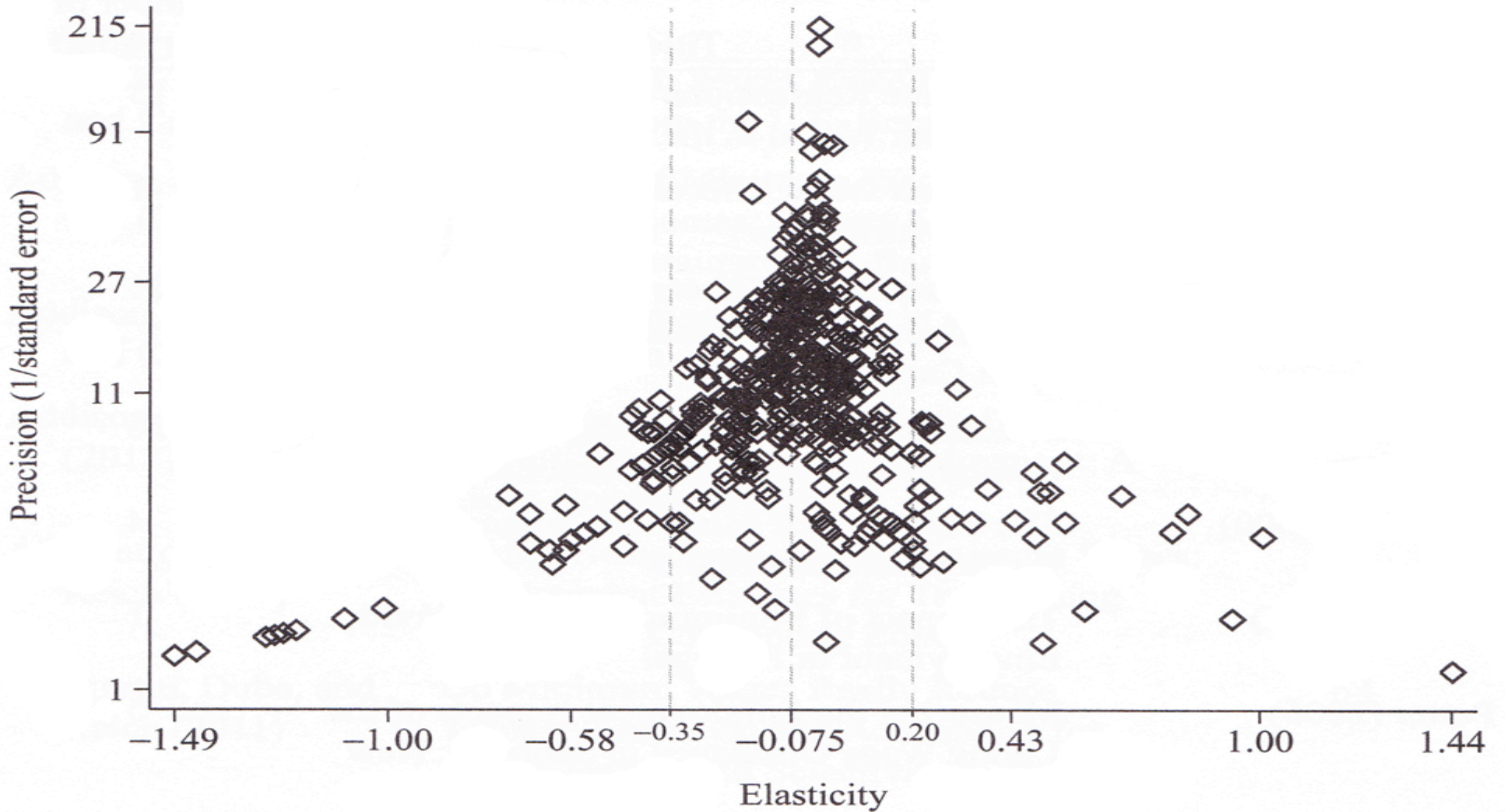


Source: Source: Bank of America Merrill Lynch Global Research, INEGI, ILO, Bloomberg

I. Wage-led growth, continued

- AMLO's early actions: minimum wage increases, industrial relations reform
- Employment impact: what the international evidence shows on employment, informal sector wages

Figure 4.1 Employment and Hours Elasticities vs. Precision

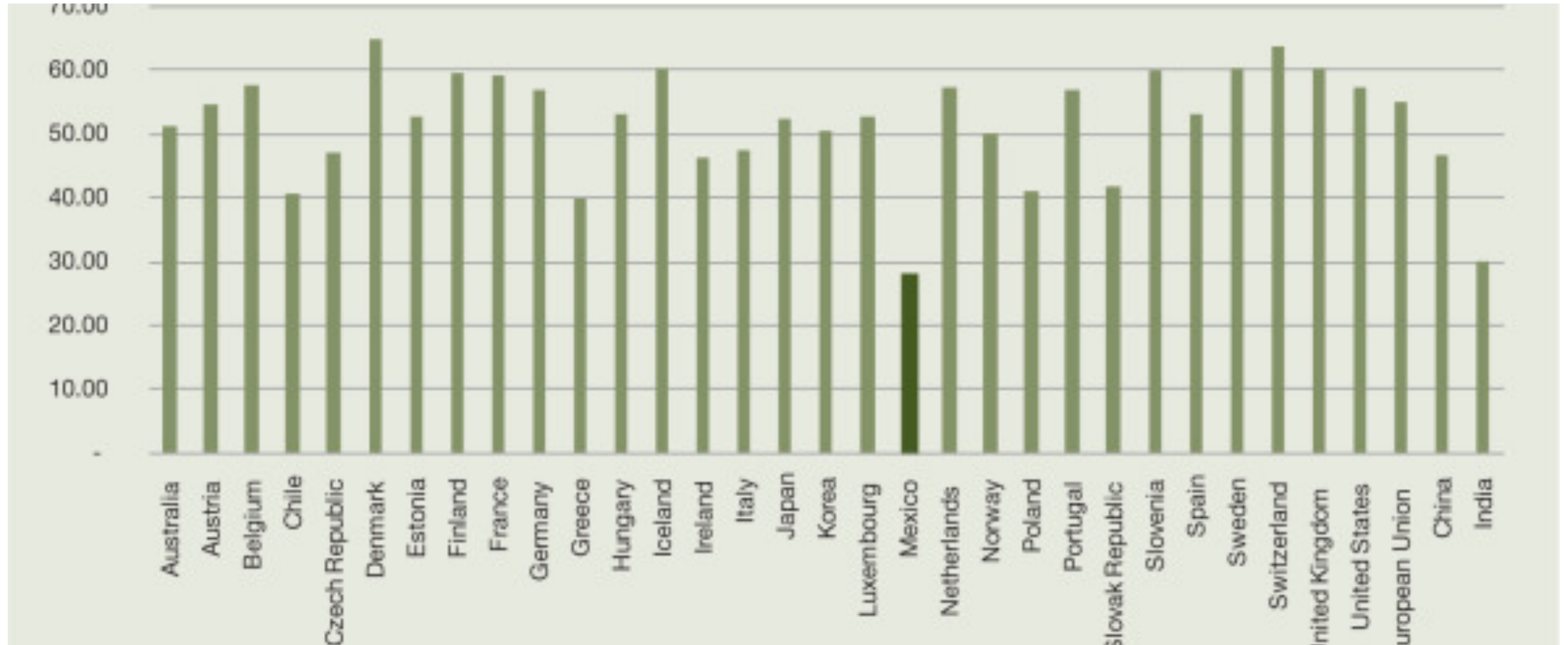


Belman and Wolfson. 2014. *What Does the Minimum Wage Do?*

I. Wage-led growth, continued

- Productivity impact: in both domestic sector, value-addition in global supply chains
 - Minimum or general wage increases force firms to become more efficient to maintain profits, reducing the option for a low-productivity, low-wage strategy.
 - More productive firms replace the less productive, with overall productivity increases at the macroeconomic level.

Participación porcentual de las remuneraciones al trabajo en el Valor Agregado Bruto 2011



I. Wage-led growth, continued

- Moving over time from export-driven to consumption-driven growth increases space for policy choice and resilience to external shocks
- Industrial relations reform, labor commitments and enforcement in USMCA: partial alignment of incentives?

II. Public investment in income-led growth

- Long-term wage repression will take time to reverse
- Income-led growth across the country will also require public investment in physical and social infrastructure
- Total investment in Mexico is about 20.5% of GDP
 - 2.5% public investment
 - 18% private investment
- Government goal: 24% per cent

II. Public investment-led growth

- Mexico has fiscal space:
 - “...among the world’s lowest levels of public and private sector debt. Total...debt is below 80% of GDP, compared with 110 to 160% total debt-to-GDP in its Latin American peer group or 250% in ...China.” -Erik Norland, CME Group
- Tax reform would provide additional fiscal space and reduce inequality: tax revenue currently only 13% of GDP, with a regressive tax structure

II. Public investment-led growth, cont'd.

- Mexico also has monetary space:
- IMF: “With the ex-ante real rate ... still notably above staff’s and Banxico’s estimates of the neutral rate ...policy remains very tight...despite a large negative output gap.”

More than the sum of the parts:

$$\text{GDP} = C + I + (X - M)$$

- Given the long-term repression of wages it will take time before wage policy alone can provide adequate impetus to sustainable growth.
- Combining wage-led growth and public-investment-led growth can reinforce the effects of each, creating **momentum** and **positive feedback loops** (e.g., increased tax revenue to fund public investment) while reducing reliance on net exports.

Useful References

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