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Economic Briefing

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Content

Foreword

"Rebuilding Economies Jobs and Wages": the trade union agenda for the G20 Brisbane Leaders' Summit

As G20 leaders look in dismay at a global economy that is faced with weak growth, high unemployment and rising income inequality, they should remind themselves that this is not inevitable. The International Monetary Fund (IMF), putting out another downward revision of growth forecasts, has admitted that recovery is too slow and fragile, while recognising the problem of income inequality. The OECD, in its reports on New Approaches and Economic Challenges (NAEC) and its 2014 OECD Employment Outlook, acknowledges that rising inequality affects economic growth and social cohesion, sapping trust in markets and institutions.

In the years since the crisis began, the global labour movement has been calling on governments and international financial institutions to move away from austerity. If the G20 Leaders who are meeting in Brisbane for the G20 Summit want to meet the target agreed by finance ministers of achieving 2% GDP growth in the next five years, they will need to shift their strategies. Change is the only way to close the crisis-induced jobs gap by creating the 81 million jobs needed by 2018. This is a reality test. It needs clear answers.

L20 modelling shows that a mix of wage increases and investment in infrastructure in G20 countries can create up to 5.84 percentage points more growth and 33 million jobs compared to business as usual over a 5-year-period. The world economy, in aggregate, is wages-led - that is, the more you pay people the more they will spend on goods and services. In contrast, every one percentage point decline in the wage share leads to a decline in global GDP by 0.36 percentage points.

Low wages, low skills and precarious jobs will not lead to sound economic recovery.

The G20 must shift away from the thinking that says the path to growth is cutting wages and maximising short-term business profit. In short, the world needs a pay rise.

Governments need to invest. Invest in good jobs, invest in sustainable infrastructure projects and invest in our youth. It is not acceptable that 1 in 4 young people cannot find work for more than $1.25 a day.

Trade unions have been constantly calling for measures for inclusive growth including strengthened workers' rights, minimum wages, collective bargaining and social protection floors. We need to enable women and young people to participate in secure jobs, and provide youth guarantees, and training with the scaling up of quality apprenticeships.

There will be no jobs or growth on a dead planet either. Agreement on Just Transition Strategies will be crucial to protect the livelihoods and jobs of workers.

This Briefing was prepared principally by Carolin Vollmann of the Economic and Social Policy Department of the ITUC. It is being released on the occasion of the L20 Summit in Brisbane – as a complement to the L20 statement to G20 Leaders.

John Evans

November 2014

John Evans, ITUC Chief Economist.

Economic Briefing

Creating Quality Jobs and Inclusive Growth: The Role of G20 Leadership

1 Recovery still missing

Table 1: Growth forecasts for 2014 and 2015 in percent (change from previous forecast)

Source	Month (2014)	Global		Developing and Emerging Economies				Developed Economies	
		2014	2015	2014		2015		2014	2015
IMF	Oct.	3.3 (-0.3)	3.8 (-0.1)	4.4 (-0.5)		5.0 (-0.3)		1.8 (-0.4)	2.3 (0.0)
World Bank	June	2.8 (-0.4)	3.4 (0.0)	4.8 (-0.5)		5.4 (-0.1)		1.9 (-0.3)	2.4 (0.0)
OECD	May	3.4	3.9	--		--		OECD: 2.2 EA: 1.2	OECD: 2.8 EA: 1.7
				Developing Economies		Transitioning Economies			
				2014	2015	2014	2015		
UNCTAD	Sep.	2.7 (--)	--	4.7 (--)	--	1.3 (--)	--	1.8 (--)	--
UN DESA	October	2.6 (-0.2)	3.1 (-0.1)	4.4 (-0.3)	4.8 (-0.3)	0.7 (-0.9)	1.3 (-1.0)	1.6 (0.3)	2.1 (-0.2)
EU Commission	Nov.	3.3 (-0.2)	3.8 (0.0)	--		--		EU: 1.3 (-0.3) EA: 0.8 (-0.4)	EU: 1.5 (-0.5) EA: 1.1 (-0.6)

Sources: IMF (2014) World Economic Outlook; World Bank, Global Economic Prospects; OECD (2014) Economic Outlook; UNCTAD (2014) Trade and Development Report; UN DESA (2014) LINK Global Economic Outlook 2015-2016; EU Commission (2014) European Economic Forecast.

The latest forecast from the IMF revealed another unsurprising downward correction of global growth forecasts for 2014 and 2015. Six years into the crisis, IMF Chief Economist Olivier Blanchard describes the current global growth as "mediocre" and recovery as "weak and uneven".[1] Global growth is projected to be 3.3% in 2014, 0.3 percentage points below the April forecast.

1 Financial Times (2014) "IMF's Olivier Blanchard says global recovery is still 'weak'," By Robin Harding, October 7 and IMF (2014) World Economic Outlook, October, p. xiii.

Figure 1: Real growth has stalled in most countries since 2010

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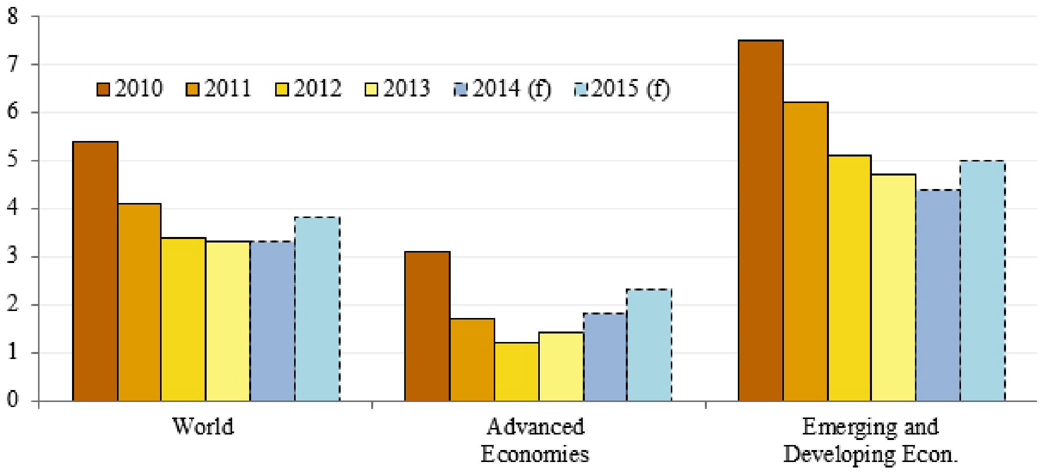


Source: IMF (2014) World Economic Outlook, October.

Figure 1 shows that global growth will remain at its 2013 level of 3.3%.

In developing and emerging economies, which were considered the growth engine for mature economies up until the beginning of 2014, growth continues to slow.In particular, growth in the BRICS economies is weakening. In Russia, growth literally collapsed from an already weak 1.3 % in 2013 to a projected 0.2% for 2014 due to economic sanctions. Also in Brazil growth stalled shrinking from 2.5% in 2013 to 0.3% in 2014. In China, growth slowed in recent months and is forecasted to reach 7.4% this year, which might reflect a maturing of the economy rather than a cyclical effect. South Africa's economy, which grew by a mere 1.9% in 2013 is subdued and expected to reach only a 1.4% growth rate in 2014. Among the BRICS countries only India might exceed its growth rate of 2013 reaching 5.6% in 2014. In the Sub-Saharan region growth is projected to remain as strong as in 2013 (5.1%) however should the Ebola virus spread further, this growth target is unlikely to materialise.

Economies with activities highly concentrated in commodity and primary goods have been affected considerably by the weak growth and demand in developed economies. There, growth remains weak at 1.8% in 2014, still running well below potential. The contraction that took place after 2010, when mainstream policy in advanced economies shifted toward austerity and a neoliberal structural reform agenda, has not been reversed to an extent that would have justified this political direction. It continues to fall short of projections by 0.4 percentage points made by the IMF in April. Growth is expected to rebound as usual towards the end of this year, and in 2015. However, these forecasts are based on strong assumptions such as the moderation of fiscal consolidation, the maintenance of loose monetary policy and a decline of geopolitical tensions.

Comparing the G20 countries according to this year's growth forecasts, the Asian countries and Saudi Arabia remain strongest. Growth in the UK is stable. In the US growth was reported at 3.5% in the third quarter, following a very weak first quarter growth due to a harsh winter at the beginning of the year.[2] Forecasts for the Euro zone are still bleak. In recent months German industrial orders along with exports have been falling dramatically, mirroring the slowdown in China. Since July, output has fallen by 4.0%, the sharpest contraction since 2009.[3] However, the economic sentiment index of the European Commission showed a slight pick-up in October. Upward trends were most dominant in

2 Financial Times (2014) "GDP takeaways: It could be as good as it gets" By Robin Harding, October 30.
3 Financial Times (2014) "Plunge in industrial production stokes German recession fears," By Stefan Wagstyl and Jamie Chisholm, October 7.

the Netherlands (+2.1), France (+1.1), Germany (+0.6), and Italy (+0.5) while deteriorating in Spain (-0.7). In the Euro Area as a whole the upswing is mainly driven by the sub-indices for retail trade (+0.9), services (+1.2) and, particularly, construction (+3.1) while industrial production saw only a slight uptick (+0.4).[4] Whether these changes signal a real turnaround remains in question.

Table 2: Real growth in the G20 ordered by projected growth rates in 2014

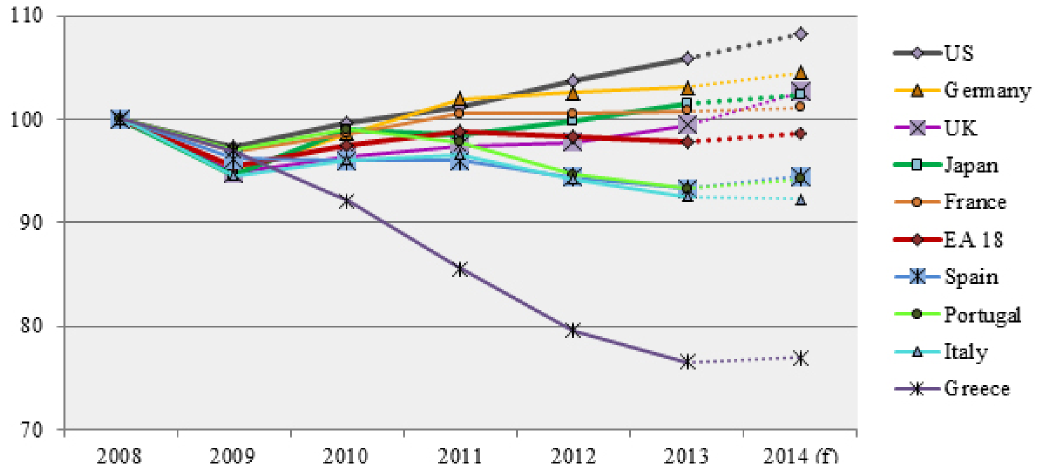
	1996-2005	2011	2012	2013	2014 (f)	2015 (f)
China	9.2	9.3	7.7	7.7	7.4	7.1
India	6.4	6.6	4.7	5.0	5.6	6.4
Indonesia	2.6	6.5	6.3	5.8	5.2	5.5
Saudi Arabia	3.3	8.6	5.8	4.0	4.6	4.5
South Korea	5.0	3.7	2.3	3.0	3.7	4.0
United Kingdom	3.4	1.1	0.3	1.7	3.2	2.7
Turkey	4.3	8.8	2.1	4.0	3.0	3.0
Australia	3.7	2.6	3.6	2.3	2.8	2.9
Mexico	3.4	4.0	4.0	1.1	2.4	3.5
Canada	3.3	2.5	1.7	2.0	2.3	2.4
United States	3.4	1.6	2.3	2.2	2.2	3.1
Germany	1.2	3.4	0.9	0.5	1.4	1.5
South Africa	3.3	3.6	2.5	1.9	1.4	2.3
Japan	1.0	-0.5	1.5	1.5	0.9	0.8
Euro Area	2.1	1.6	-0.7	-0.4	0.8	1.3
France	2.3	2.1	0.3	0.3	0.4	1.0
Brazil	2.4	2.7	1.0	2.5	0.3	1.4
Russia	3.8	4.3	3.4	1.3	0.2	0.5
Italy	1.4	0.4	-2.4	-1.9	-0.2	0.8
Argentina	2.3	8.6	0.9	2.9	-1.7	-1.5

Source: IMF (2014) World Economic Outlook, October.

Figure 2 shows the level of real GDP in different European countries, the US and Japan with 100 = 2008. On average the Euro Area still operates more than two percentage points below its pre-crisis level of GDP with a wide dispersion across countries. Most dramatic is the situation still in crisis countries (Greece, Italy, Portugal and Spain) which are still up to 23 percentage points below their 2008 GDP level. Among those that recovered from the 2009 downturn are the US, Germany, the UK, Japan and France.

4 European Commission (2014) "Business and Consumer Survey Result, October. Available at: http://ec.europa.eu/economy_finance/db_indicators/surveys/documents/2014/esi_2014_10_en.pdf

Figure 2: Growth level (2008=100)



Source: Eurostat Database with projections from IMF (2014) World Economic Outlook, October.

With the exception of France, these countries are considered the "strong growers". However, when comparing their current projection for 2014 with their average growth rates during the 1980s and 1990s only the UK is expected to reach previous rates. Current growth performances are anything but outstanding.

Table 3: Long-term average growth rates versus growth in 2014

	US	Germany*	UK	Japan	France
Growth projection 2014	2.2	1.4	3.2	0.9	0.4
Average growth rate (1981-2000)	3.4	1.6	3.1	3.0	2.2

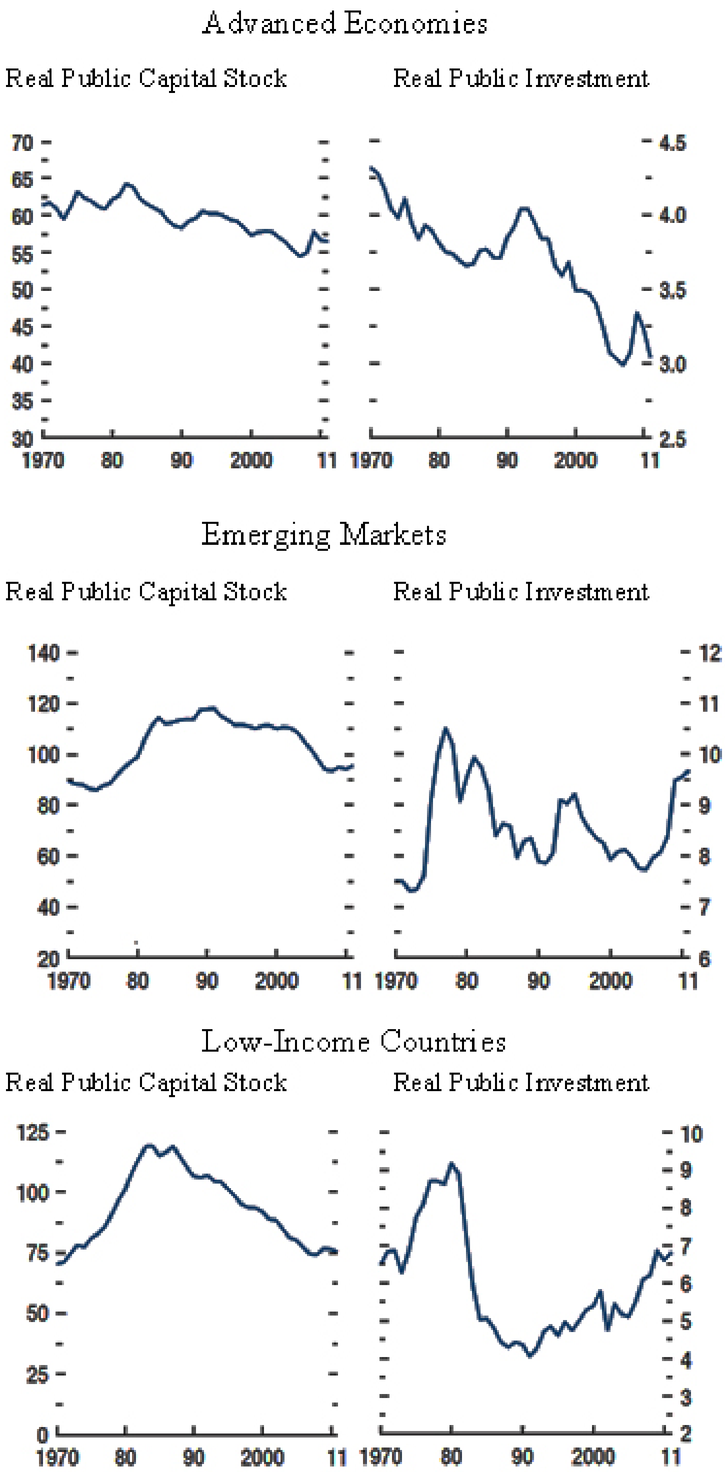
*Data for Germany refer to 1992-2000.
Source: Eurostat Database.

2 Stuck in the doldrums or what some call 'secular stagnation'

The current situation has revived the term "secular stagnation", which was originally coined by Alvin Hansen when he gave a speech at the annual meetings of the American Economic Association in December 1938. He wrote *"This is the essence of secular stagnation – sick recoveries which die in their infancy and depressions which feed on themselves and leave a hard and seemingly immovable core of unemployment."*[5] According to Hansen, full employment required sufficient investment, which he saw in turn based on innovation, the discovery of new land and resources and on the growth of population. Some of Hansen's fears turned out to be unfounded, such as the lack of future innovation. However, other observations seem to have lost nothing of their relevance. With regard to monetary policy he stated: *"Yet few there are who believe that in a period of investment stagnation an abundance of loanable funds at low rates of interest is alone adequate to produce a vigorous flow of real investment. ... I venture to assert that the role of the rate of interest as a determinant of investment has occupied a place larger than it deserves in our thinking."*[6]

Larry Summers revived this term at a speech he gave at the IMF in late 2013, warning that the US could fall into "secular stagnation" and a lost decade as Japan did in the 1990s and 2000s, characterised by deflation, low interest rates, low GDP growth rates (averaging 1.1% in the 1990s and 0.8% in the 2000s), and low levels of demand and above all investment. He argues specifically that monetary policy has reached its limits in supporting investment.[7]

Figure 3: Evolution of Public Capital Stock and Public Investment



Note: stock of public capital stock per capita in emerging and low income countries is just a fraction of that in high income countries.

Source: IMF (2014) World Economic Outlook, October, p. 91.

5 Alvin Hansen (1939) "Economic Progress and Declining Population Growth," American Economic Review 29:1, March, pt. 1, 1-15.
6 Ibid.
7 The full speech is available at: https://www.youtube.com/watch?v=KYpVzBbQIX0.

3 The continued lack of investment

2 Stuck in the doldrums or what some call 'secular stagnation' In October,

In October, the IMF took a stronger stance on the need for investment and has reversed its position on how this should materialise. It dedicated a whole chapter of the October edition of the World Economic Outlook to infrastructure investment and argued that it would help global recovery if advanced economies with a need for infrastructure maintenance and expansion would invest more. It shows (Figure 3) that annual public investment in advanced economies had been declining by on average 1% of GDP between the early 1990s until the crisis. In emerging and low-income countries a steep fall occurred in the 1980s which was never reversed to an extent that would have stalled the decline of the public capital stock, specifically in the lead-up to the financial crisis.

In a similar vein the OECD has illustrated that investment is falling short in this post-crisis period. Table 4 shows that public and private investment in 2013 was hardly above the trough and, in total, still 2.6 percentage points of GDP below the pre-crisis average across OECD countries. Private investment in particular remains subdued.

Table 4: Investment rates in 2013 (% of GDP, differences in percentage points)

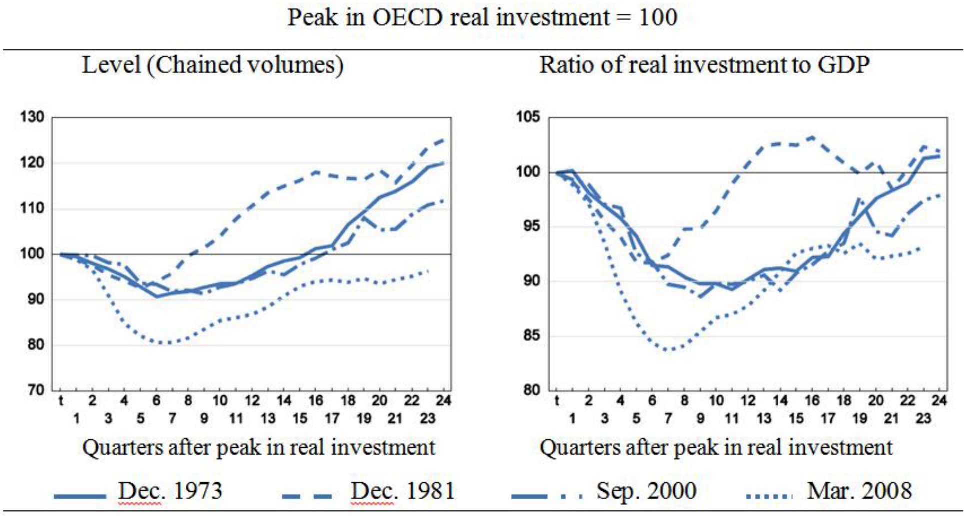
	Pre-crisis average (1996-2007)	Trough	2013 average	Difference from average	Difference from trough
Total investment	21.7	18.7	19.1	-2.6	0.5
Housing investment	5.3	3.7	3.9	-1.4	0.2
Business & public investment	16.5	14.9	15.2	-1.3	0.3
of which:					
Business investment	12.7	11.0	11.9	-0.9	0.9
Public investment	3.7	3.2	3.3	-0.4	0.1

Note: Based on Data for 18 OECD countries for which all components of investment are available. The quarter of the trough for each type of investment differs, so the respective colums are not additive.
Source: Lewis, C. et al. (2014), "Investment Gaps after the Crisis", OECD Economics Department Working Papers, No. 1168, p. 7.

In comparison with previous crisis (Figure 4), this recovery is lacklustre in terms of investment. Measured in volume, investment had normally reached its pre-crisis level after 4 years at the latest. This time, after 6 years, investment is still below the pre-crisis level. This is also true relative to real GDP. What is compelling is that recovery had stalled after 16 quarters/four years in 2010, when the coin of crisis policy flipped back to the orthodox side. With regard to the US and the UK, the OECD noticed that total nominal investment as percentage of GDP is more than 3 percentage points below its pre-crisis level.[8]

8 Lewis, C. et al. (2014), "Investment Gaps after the Crisis", OECD Economics Department Working Papers, No. 1168, p. 6.

Figure 4: Real business Investment growth has been weak compared to previous cycles



Source: Lewis, C. et al. (2014), "Investment Gaps after the Crisis", OECD Economics Department Working Papers, No. 1168, p. 9.

More surprising than the IMF's mere illustration of low investment is the fact that, for the first time, the IMF made the link between an expansionary monetary policy and a debt-financed up-scaling of fiscal expenditure. According to the IMF (see box), the current situation of extremely loose monetary policy with close-to-zero interest rates leads it to make the case for debt-financed public investment expenditure which – as it argues – would enhance the debt-to-GDP-ratio more than if it is tax-financed.

"For economies with clearly identified infrastrucutre needs and efficient public investment processes and where there is economic slack and monetary accomodation, there is a strong case for increasing public infrastructure invesment. Moverover, evidence from advanced economies suggests that an increase in public investment that is debt financed would have larger out-put effects than an increase that is budget neutral … Current conditions present an opportunity to increase public investment, for those economies where the aforementioned conditon hold. The increased public investment would provide a much-needed boost to demand in the short term aqnd would also help raise potential output in the long term."

IMF (2014) World Economic Outlook, October, p. 89.

This is interesting because it breaks with some very fundamental orthodox assumptions. One is that austerity would help overcome the crisis. The IMF's statement indirectly gives credit to the paradox of thrift. In a simplified way this paradox says that in difficult times when households and businesses are saving rather than spending, a contractive public budget can diminish growth to the extent that income per capita is declining and the level of public debts is deteriorating.[9] A second assumption which is now in question is that monetary policy alone – without fiscal policy – would be able to ensure productive investment. The expectation was that injected money would find its way into the real economy. While quantitative easing has had some beneficial repercussions, there are also some serious downsides.

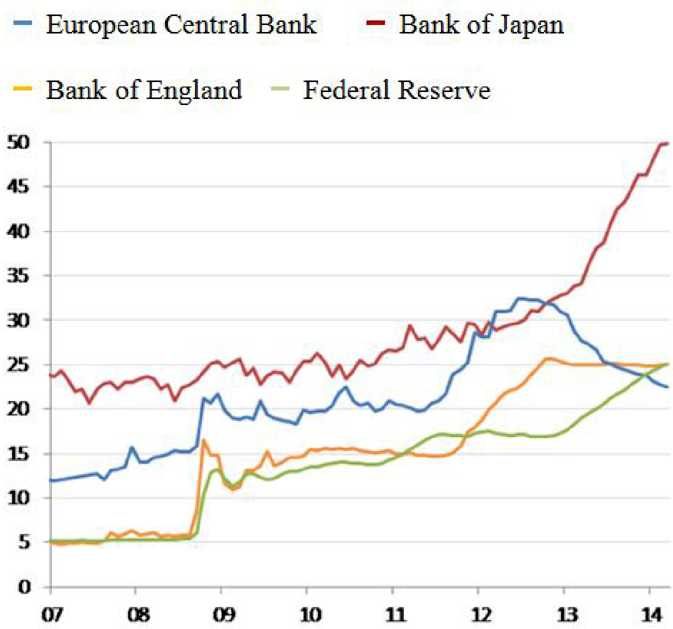
"One should get worried when the IMF turns Keynesian."

John Evans, Chief Economist, TUAC/ITUC

9 For a short explanatory video see: http://www.youtube.com/watch?v=qrHyDztQIBY.

4 Quantitative easing – the good, the bad and the ugly

Figure 5: Size of balance sheets of various central banks (in % of GDP)



Source: Grégory Claeys, Zsolt Darvas, Silvia Merler and Guntram B. Wolff (2014) "Addressing weak inflation: The European Central Bank's shopping list", 6th May, BRUEGEL Policy Contribution 2014/05.

The conventional monetary policy tool of lowering the interest rates was abandoned early on. Alongside low interest rates many central banks implemented quantitative easing (QE) programs which consisted of the purchase of bank assets and government bonds in order to facilitate banks deleveraging and purging their balance sheets from junk assets. The hope was that this would revive banking loans and ease banks' reluctance to lend. The programs differed in scale and in the composition and risk classification of assets. The wide agreement that abundant liquidity would be required in order to restore confidence in the banking system and avoid a domino effect of banking closures was critical. It helped avoid repeating the mistakes made in the Great Depression when banks called in outstanding loans to increase their liquidity and bank credits plummeted in the first half of 1931 by 10% or USD 5 billion and 700 banks closed in the first nine months of the year.[10]

In this crisis, the Fed started their quantitative easing program already in December 2008 and their balance sheet inflated to USD 4.45tn until October 2014.[11] On October 29, the Fed announced the ceaseing of its program with government bond yields and the dollar exchange rate surging swiftly.[12] The Bank of England also applied QE early on in March 2009 and holds currently £375bn of debt assets (roughly USD 600bn or 25% of GDP) and has shown no intention to unwind its program, or to raise interest rates which are currently at 0.5%.[13] The QE program of the Bank of Japan started later, in April 2013[14] but was the most aggressive compared to the GDP volume (see Figure 5) as Prime Minister Abe was determined to end Japan's decade long period of deflation. On October 31, The Bank of Japan surprised investors by further scaling up its QE program from annual purchases mounting currently up to Y60tn-Y70tn ($539bn-$629bn) to Y80tn a year. However, those purchases will be concentrated in long-term government bonds rather than bank assets.[15]

10 Liquat Ahamed (2010) Lords of Finance, Windmill Book, London, pp. 389-90.
11 Financial Times (2014) "Fed's grand experiment draws to a close," By Michael Mackenzie, October 29.
12 Reuters (2014) "Dollar surges as Fed ends QE on hawkish note," By Yasmeen Abutaleb, October 30.
13 Guardian (2014) "UK £50bn better off thanks to quantitative easing, says economist," By Angela Monaghan, April 17; Financial Times (2014) "Bank of England keeps rates and QE programme on hold," By Emily Cadman, August 7.
14 Financial Times (2014) "Subdued outlook for Japan shortens odds on BoJ action," By Ben McLannahan, October 27.
Financial Times (2014) "US dollar jumps to 4-year high after BoJ stuns markets," By Ben McLannahan and Robin Wigglesworth, October 31.

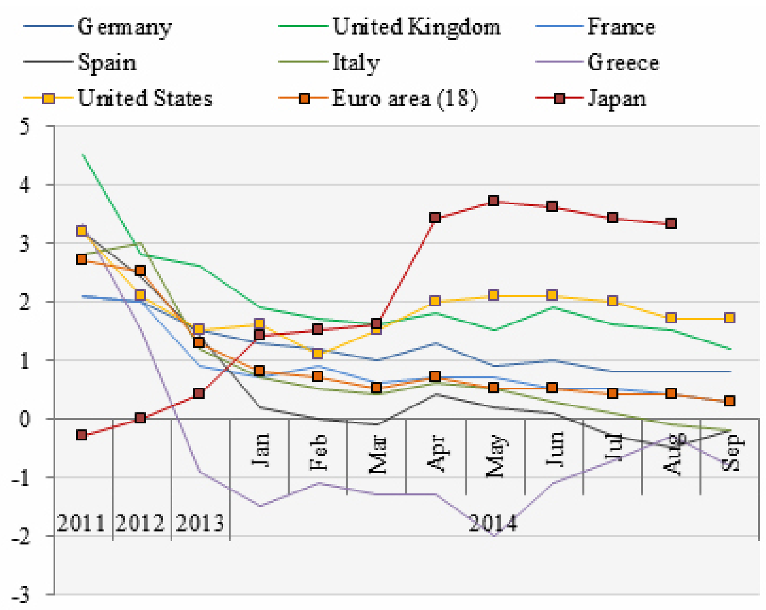
With restraints coming from Germany, the ECB has reluctantly started to buy securely rated bank assets. The plan foresees a total purchase of €1tn, while ruling out any purchase of sovereign debt bonds.[16]

4.1 Inflation

Since the second half of the year, the low level of inflation has worried economists. Of most concern was, and still is, the situation in Europe.

Inflation (see Figure 6) in key countries has slowed down since June, however with major differences across countries. The Japanese economy finally managed to crawl out of its deflation hole, with inflation standing at 3.3 % in August. In the US figures are more or less in line with the 2% target of the Fed (1.7% in September). The Euro Area to the contrary is approaching the dangerous zone of deflation with prices almost at a standstill (0.3% in September) and the European South already in deflation. Latest estimates for October show a slight increase to 0.4%, with Germany's inflation slowing down again to 0.7%.[17] The expansion of circulating money has certainly helped stabilise inflation in Japan, the US and the UK and the lack thereof at the ECB has worsened the situation in Europe.

Figure 6: Inflation in selected countries (all items)



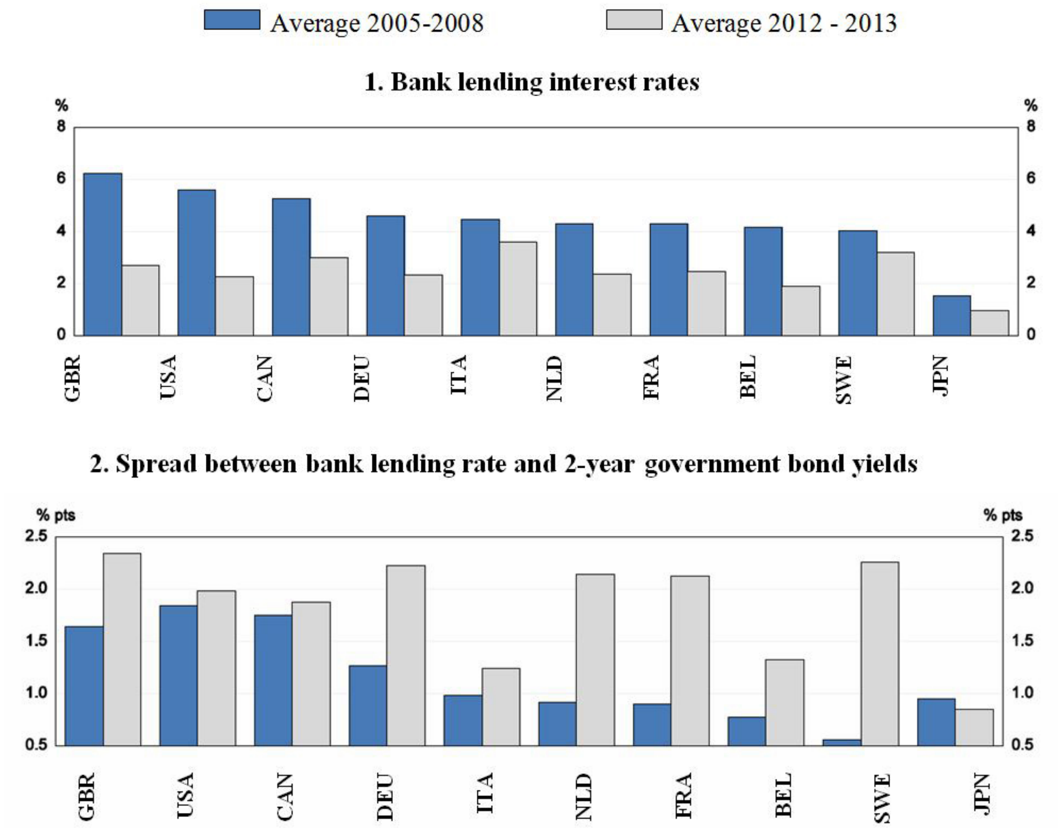
Source: OECD (2014) Database.

4.2 Banking loans and risk taking

While there is no doubt about QE had a positive impact in avoiding deflation, other developments have fallen short of expectations. It was hoped that the low interest rates and extra liquidity central banks provided, would translate into an expansion of banking loans at low interest rates. As the OECD shows (Figure 7.1), bank lending interest rates have declined in recent years making loans cheaper, but loan criteria have tightened. At the same time Figure 7 shows that banks increased their spreads, which is defined as the profit margin between paid and charged interest rates. This means that banks do not seem to transfer the cheaper refinancing costs to the extent that was aimed at.

16 Financial Times, fastFT (2014) "ECB buys €1.7bn of covered bonds in first week," October 27.
17 Reuters (2014) "Euro zone inflation edges up to dim chance of new ECB action," By Robert-Jan Bartunek, October 31.

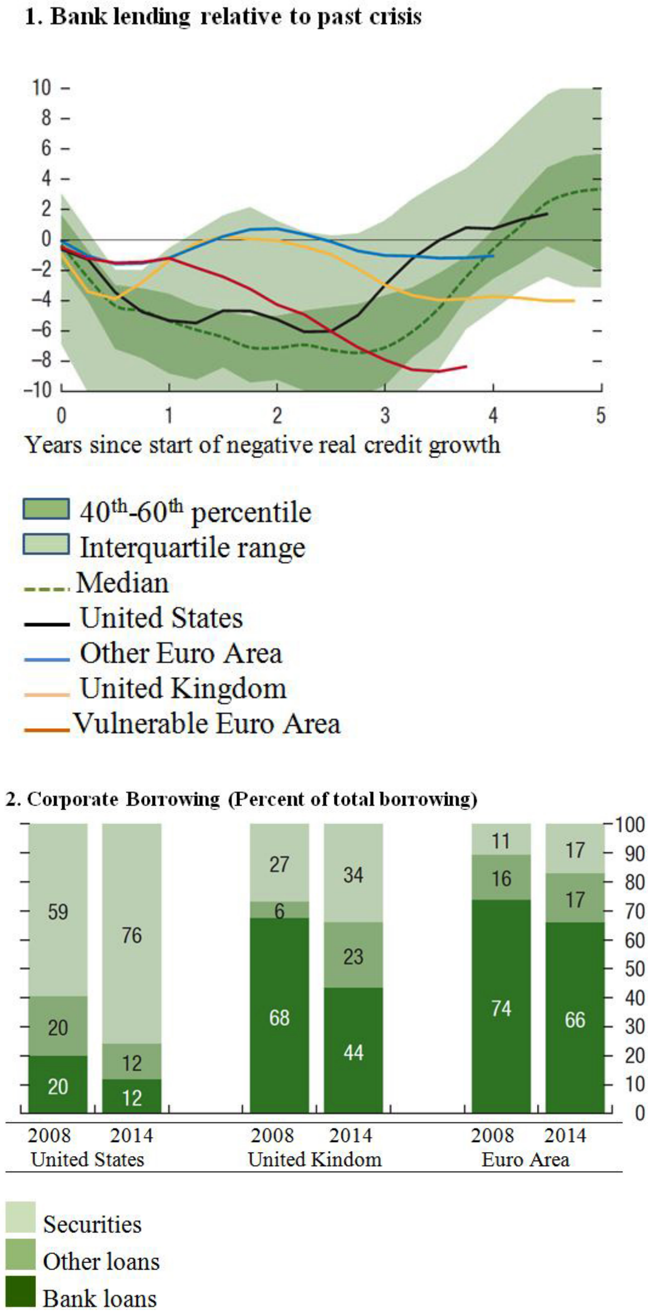
Figure 7: Bank lending interest rate have declined, but spreads have risen



Note: Weighted average across all maturities. Average maturities may differ across countries. Data are lending rates (all maturities) for loans to non-financial corporations for the United States, rates for new loans to non-financial corporations and averages across member countries for the Euro area, rates for new loans to non-financial corporations and households for Japan, rates for new loans to non-financial corporations for the United Kingdom, rates for new prime loans to non-financial corporations for Canada, rates for new loans to non-financial corporations for Sweden.
Source: Lewis, C. et al. (2014), "Investment Gaps after the Crisis", OECD Economics Department Working Papers, No. 1168, p. 17.

In contrast to previous crises, bank lending is back to its pre-crisis level in the US only, while it remains mediocre in Europe and contractionary in Southern Europe (Figure 8.1). What has also been a remarkable trend is that lending has tilted towards non-financial corporations (Figure 8.2). The most significant change has been documented for the US.

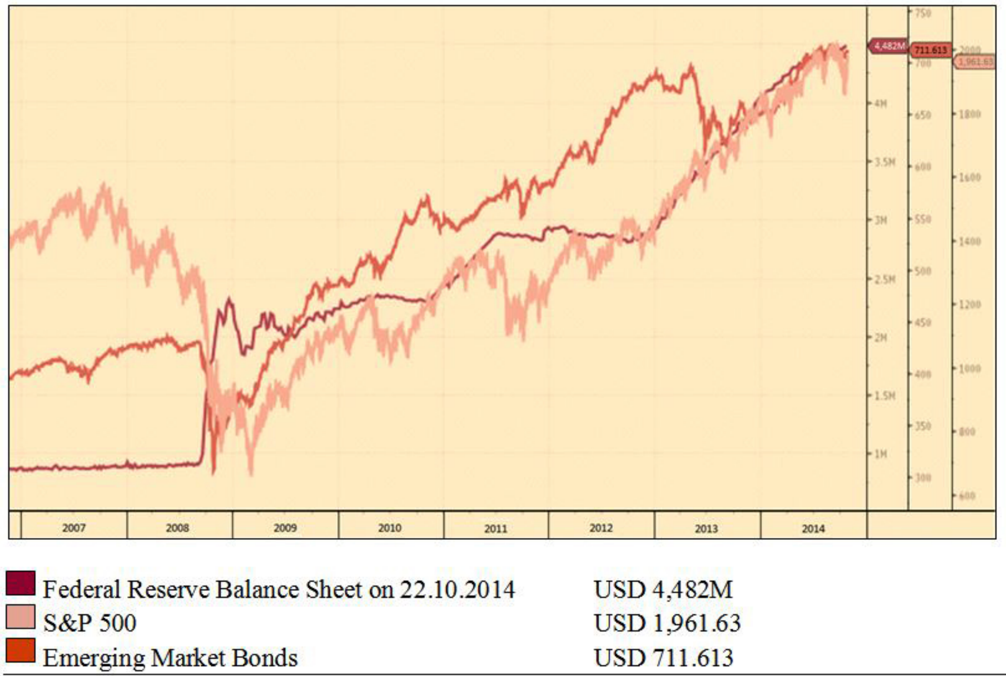
Figure 8: Bank lending and Nonbank sources of credit



Note: Excludes estimeted value of intercompany loans, Rest of World bank loans are included in bank loans in the United States and United Kindom but are excluded in other loans in the Euro Area.
Source: IMF (2014) Financial Stability Report, October, p. 29.

Since the Fed announced tapering of QE earlier this year, causing turmoil in emerging markets, another factor of QE became apparent: increasing risk taking. In the US for example there is a suspicious correlation between the rising balance sheet of the Fed, the stock market represented by the S&P 500 and Emerging Market bond purchases (Figure 9).

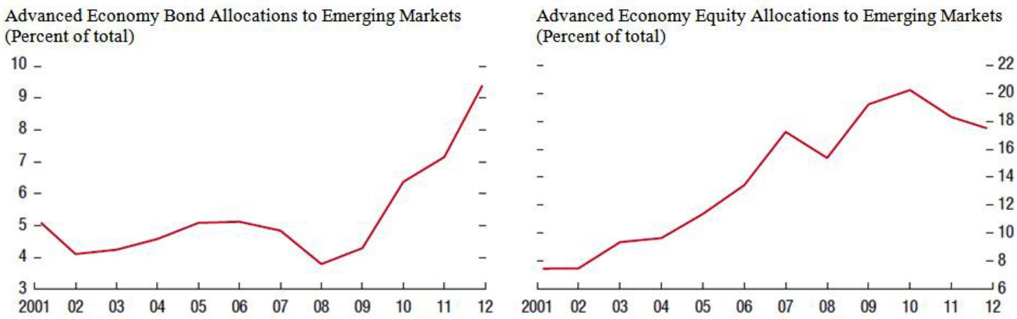
Figure 9: The Federal Reserve balance sheet and the performance of the S&P 500 stock market index and emerging markets bonds



Source: Financial Times (2014) "The end of US quantitative easing: two charts", 29.10.2014.

In a more aggregate picture (Figure 10) there has been an increasing financial flow from advanced economies into emerging market bonds, which accelerated even further after 2011. Also, equity markets in emerging markets saw huge amounts of capital inflow which dampened after 2010 when equity markets in advanced economies started to surge.

Figure 10: Evolution and Concentration of Asset Allocation to Emerging Markets

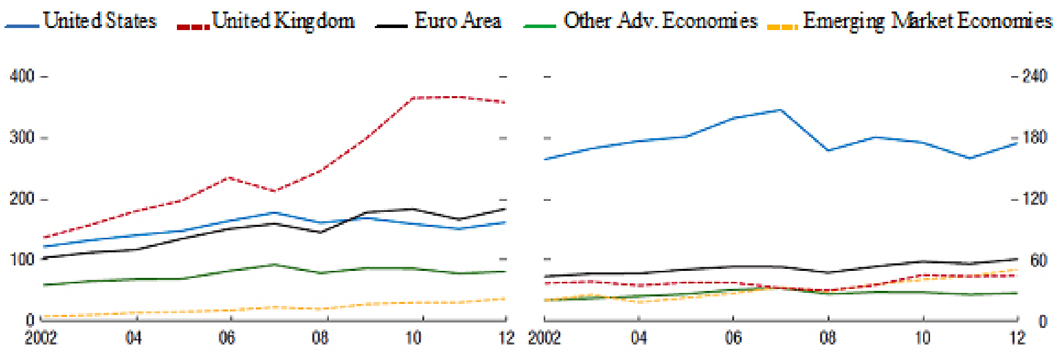


Source: IMF (2014) Financial Stability Report, October, p. 37

The IMF dedicated a whole chapter of its Financial Stability Report of October 2014 to Shadow Banking. It finds that: *"The largest shadow banking systems are found in advanced economies, where more narrowly defined shadow banking measures indicate stagnation, while broader measures (which include investment funds) generally show continued growth since the global financial crisis. In emerging market economies, the growth of shadow banking has been strong, outpacing that of the traditional banking system."*

As reflected in Figure 11, in 2012 shadow banking in the UK mounted to more than 350% of GDP, in the US and the Euro Area to more than 150% of GDP. A recent banking stress test run by the ECB revealed major weaknesses in 25 European banks which failed the test. According to the result, the shortfall of capital added up to € 24.6 bn.[18] This amount might even be just the tip of the iceberg as some errors and inconsistencies were found afterwards.[19]

Figure 11: Broad Shadow Banking Measures

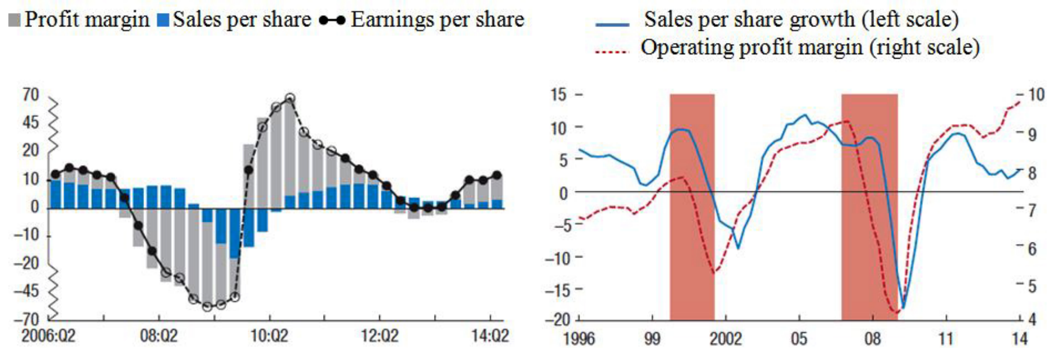


Source: IMF (2014) Financial Stability Report, October, p. 66.

4.3 Profits and inequality

Despite the fact that growth has been anaemic, unemployment high, prospects gloomy and investments low, profits are on the rise. Figure 12 shows that while sales per share are at an all-time low, earnings have been boosted by rising profit margins and are at peak levels.

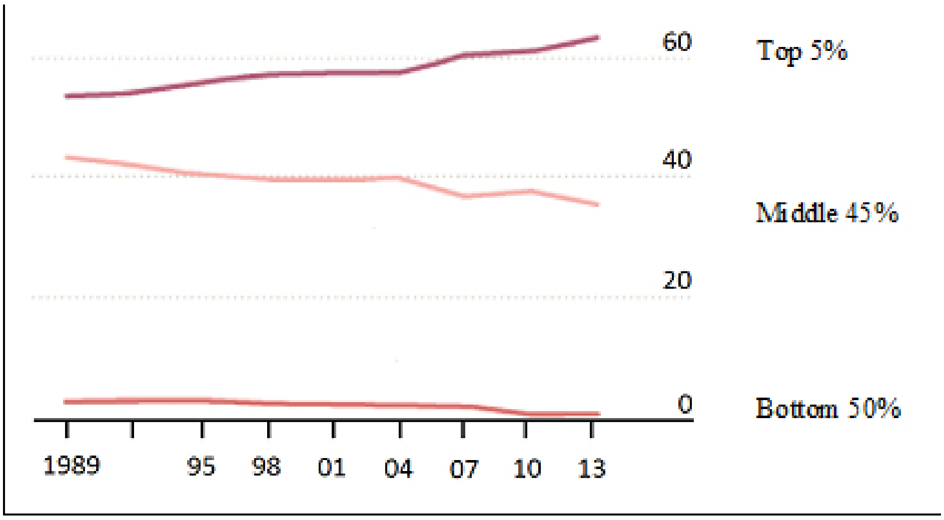
Figure 12: Profits versus Sales in the Equity Market



These profits have not been shared equally and have fuelled a further increase in inequality in many countries. At the beginning of 2014, Oxfam estimated that the richest 85 people in the world hold as much wealth as the poorest half of global population. Recently it reported that "Between March 2013 and March 2014, these 85 people grew $668m richer each day." Since the onset of the crisis the number of billionaires has doubled, says Oxfam.[20] In the US, the dramatic wealth inequality that emerged already before the crisis increased yet further since 2010 (Figure 13). The median family income fell from USD 53,100 in 2007 to USD 46,700 in 2013. This is a decline of over 12%. At the same time, the top 3 % of richest households raised their income share from 51.8% to 54.4%. [21]

18 Wall Street Journal (2014) "European Bank Stress Tests: The Results," By Elliot Bentley, Gabriele Steinhauser, Pat Minczeski, Viktoria Dendrinou, David Enrich, Jovi Juan, October 26.
19 Wall Street Journal (2014) "European Stress-Test Results Have Isolated Errors, Inconsistencies," By Eyk Henning, Max Colchester and David Enrich, October 27.
20 Oxfam (2014) "Even it up – time to end extreme inequality", October, p. 8 and 32, available at: http://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/cr-even-it-up-extreme-inequality-301014-en.reviewed.pdf.
21 Financial Times (2014), "Incomes fail to recover, except for those at the very top of the ladder," By Robin Harding, October 9.

Figure 13: Share of total US net worth (percentage of population)

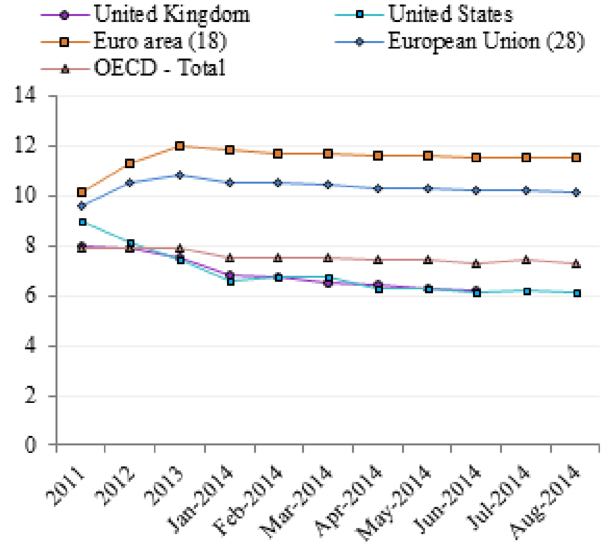


Source: Financial Times (2014) "Debate rages on quantitative easing's effect on inequality," October 21.

5 Labour markets and the missing piece – wage growth

Unemployment has fallen slightly in recent months, however not to a degree which would indicate any relaxation in the labour market (see Figure 14 and Table 5).

Figure 14: unemployment rate in key economies



Source: OECD (2014) Database.

Table 5: Changes in the unemployment and employment rate across the OECD

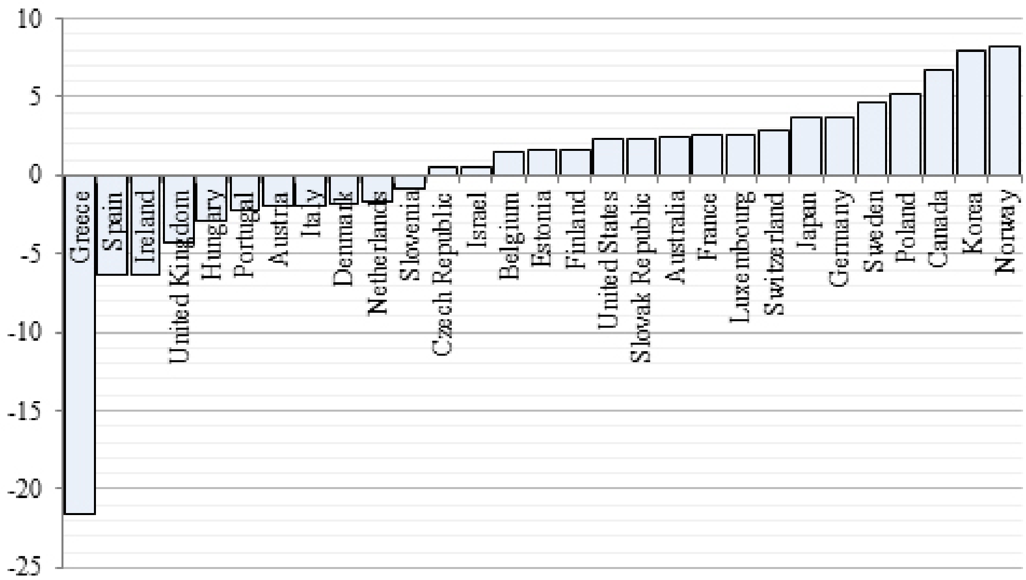
	harmonised unemployment rate			employment rate (15-65)		
	2009	Q2-2014	difference	2009	Q2-2014	difference
Greece	9.6	27.1	17.5	60.9	49.2	-11.7
Spain	17.9	24.7	6.8	60	55.8	-4.2
Italy	7.8	12.5	4.7	57.5	55.6	-1.9
Portugal	10.6	14.4	3.8	66.1	62.4	-3.7
Slovenia	5.9	9.5	3.6	67.5	64.3	-3.2
Netherlands	3.7	7	3.3	77	73.6	-3.4
Euro area (18 countries)	**9.6**	**11.6**	**2**	**64.5**	**63.8**	**-0.7**
Slovak Republic	12.1	13.4	1.3	60.2	60.6	0.4
European Union (28 countries)	**9**	**10.3**	**1.3**	**64.5**	**64.8**	**0.3**
Poland	8.1	9.2	1.1	59.4	61.4	2
France	9.1	10.2	1.1	64	64.3	0.3
Luxembourg	5.1	6.1	1	65.2	66.9	1.7
Belgium	7.9	8.5	0.6	61.6	61.9	0.3
Denmark	6	6.4	0.4	75.4	72.4	-3
Finland	8.2	8.6	0.4	68.7	68.9	0.2
Australia	5.6	5.9	0.3	72.1	71.7	-0.4
Austria	4.8	5	0.2	71.6	72.8	1.2
Norway	3.2	3.3	0.1	76.4	75.4	-1
Korea	3.7	3.7	0	62.9	65.1	2.2
Sweden	8.3	8	-0.3	72.2	74.7	2.5
Ireland	12	11.7	-0.3	61.9	61.4	-0.5
Mexico	5.5	5	-0.5	59.8	60.4	0.6
New Zealand	6.1	5.6	-0.5	72.9	74.4	1.5
Czech Republic	6.7	6.2	-0.5	65.4	68.7	3.3
OECD - Total	**8.1**	**7.4**	**-0.7**	**64.7**	**65.6**	**0.9**
United Kingdom	7.6	6.3	-1.3	69.9	72.1	2.2
Canada	8.3	7	-1.3	71.5	72.2	0.7
Israel	7.5	6.1	-1.4	59.2	67.7	8.5
Japan	5.1	3.6	-1.5	70.5	72.6	2.1
Hungary	10	8	-2	55.4	61.7	6.3
Iceland	7.2	5.1	-2.1	78.3	82.2	3.9
Germany	7.8	5	-2.8	70.3	73.4	3.1
Turkey	12.6	9.5	-3.1	44.2	49.7	5.5
United States	9.3	6.2	-3.1	67.6	68	0.4
Chile	9.7	6.2	-3.5	56.1	62.2	6.1
Estonia	13.6	7.5	-6.1	63.8	69.4	5.6

Source: OECD (2014) Database.

In the Euro Area, unemployment fell slightly but remains, with 11.5% for August, at elevated levels. In the second quarter of 2014, employment increased by 0.4% on a year-to-year comparison. Of concern, however, is that most of this employment is concentrated in low productive services, which increased by 1.5% while employment in manufacturing increased by 0.1% after contracting over the previous three quarters.[22]

Given that private consumption is the backbone of economies, wages are a crucial ingredient in finding a way back on to the growth track. According to Eurostat data, the share of investment in GDP in developed countries ranges between 15% and 20%. Private consumption on the other hand has a share of over 50%, which makes it such an important driver for growth. Figure 15 depicts the average real wage change between 2009 and 2013 across a variety of countries. Out of the 29 countries only four reached an average wage growth of over 5%, or 1.25% annually. In 11 countries the average declined.

Figure15: Average real wage growth in OECD countries 2009-2013



Source: OECD (2014) Database.

The slowdown in wage growth has been weighted heavily on middle income families, and further increased the imbalances in the functional income distribution between capital and labour. UNCTAD estimates that the global wage share has fallen by 8 percentage points since 1980.[23] This is not just socially but also economically unjustifiable as the gap between productivity and wages continues to widen (Figure 16). OECD data shows that the share of labour compensation in national income declined in 26 out of 30 OECD economies for which data were available over the period from 1990 to 2009. The median labour share of national income across these countries fell from 66.1% to 61.7%.[24]

22 EU Commission (2014) "Employment up by 0.2% in euro area and by 0.3% in the EU28," eurostat newsrelease euroindicators, 136/2014, September 12.
23 UNCTAD (2013) Trade and Development Report 2013.
24 OECD (2012) Employment Outlook.

Figure 16: Productivity and wage index (G20 advanced economies)

Note: Labour productivity is defined as GDP per employed person and uses GDP in constant 2005 PPP$ for all countries. G20 advanced economies include: Australia, Canada, France, Germany, Italy, Japan, the Republic of Korea, the United Kingdom and the United States. Both indices are based on a weighted average of all the countries in the group that takes into account labour productivity and the size of paid employment.

Source: OECD, ILO, World Bank (2014) "G20 labour markets: outlook, key challenges, and policy responses," p. 6.

The Economist concluded in a recent article: "A healthy and sustained recovery in the rich world will remain elusive until the pay squeeze ends."[25] The results of a modelling exercise carried out for the L20 by the University of Greenwich[26] underpins this statement. It shows that the world economy, in aggregate, is wages-led – that is, an increase in the wage share results in an overall positive growth effect. In contrast, every one percentage point of simultaneous decline in the wage share has led to a decline in the global GDP by 0.36 percentage points. The L20 has proposed a balanced policy mix of restoring the wage share by between one and five percentage points of GDP over a five-year-period in G20 countries and an increase in infrastructure investment of 1 percentage point of GDP that could create up to 5.84 percentage points more growth (equivalent to 1.17 percentage points annually) and 33 million jobs by 2018 compared to business as usual.

6 Conclusion

The IMF and the OECD have argued in recent months that infrastructure investment to kick-start economies and demand would be not detrimental for debt levels and would lift medium and long term growth prospects. The developments of recent years have proven that expansionary monetary policy has to go along with an adequate fiscal expansion. Specifically with regard to the ever-growing inequality which has further increased after the crisis, the need for a more targeted political intervention has become apparent. Infrastructure investment is certainly crucial to help employment creation and to stimulate demand. However, an appropriate policy response which results in a real recovery requires a supportive wage policy to enlarge the financial space of the middle class and foster demand. This needs to happen by strengthening collective bargaining institutions and rebalancing bargaining power between workers and employers. Such a policy mix would help reverse the inequality trend, return to a sustainable growth model and lift the prosperity prospects of future generations.

25 The Economist (2014) "Wage stagnation - The big freeze," September 6.
26 Ozlem Onaran (2014) "The case for a coordinated policy mix of wage-led recovery and public investment in G20,"University of Greenwich, L20 Working Paper.

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