IMF-OCP-Brunel Workshop on Global Labor Markets:
Labour Market Institutions as nominal anchors

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1-2 September 2016

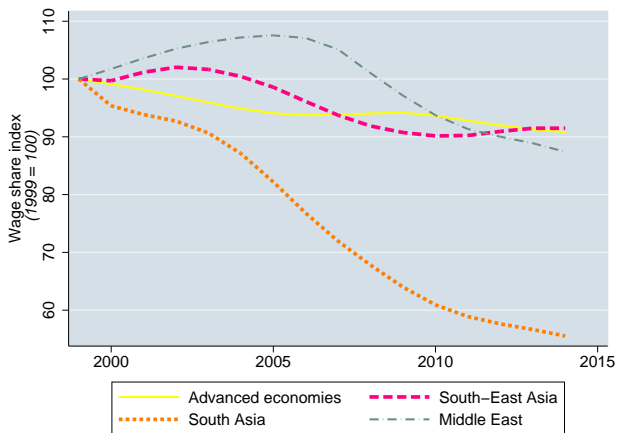International
Labour
Organization

Key trends in LM institutions

▶ Drop in unionization rates (not necessarily in coverage rates of collective agreements)

▶ Fall in the labour income (wage) share

▶ Reduction in social spending to cut into public expenditures

▶ Some attempts to lift wage growth through minimum wages, but only after labour market recoveries

▶ Question: Are wages/household incomes the missing link to growth?

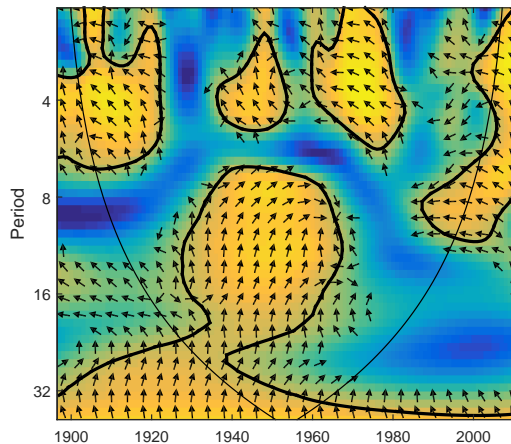$$Y \rightarrow E \rightarrow \overset{?}{W} \rightarrow Y$$

How to set up minimum wage and social security systems to act as nominal anchors?

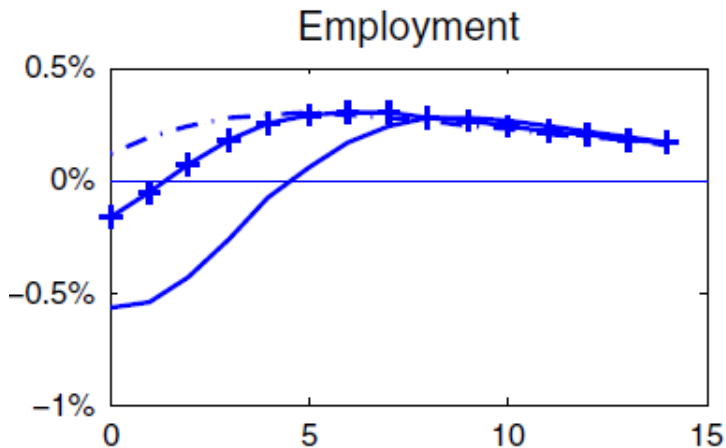# Wage shares have been falling around the globe

Source: Ernst *et al.* (2016)
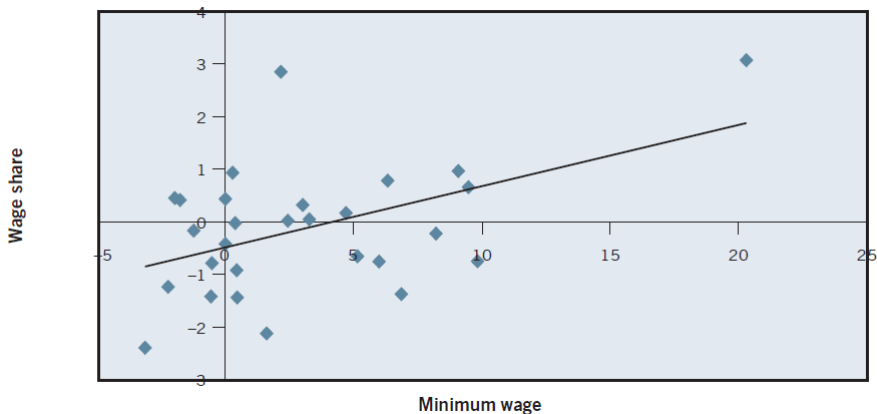
Wage shares drive growth over the long run: France

Source: Charpe & Bridji (2016)

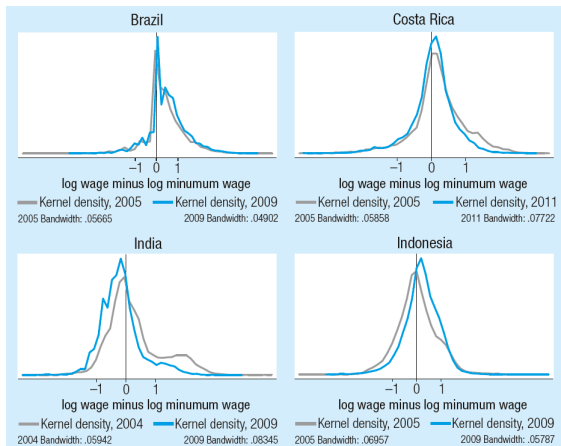# Loss in bargaining particularly harmful at ZLB

Employment

Source: Charpe & Kühn (2015)

Minimum wages fix the income distribution
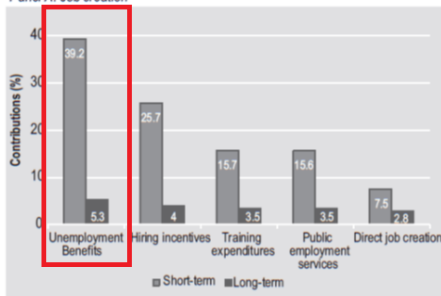
...and serve as a nominal anchor

Source: Rani *et al.* (2013)

Unemployment insurance helps stabilize job growth

Figure 3. Long-term versus short-term estimates of policy effects

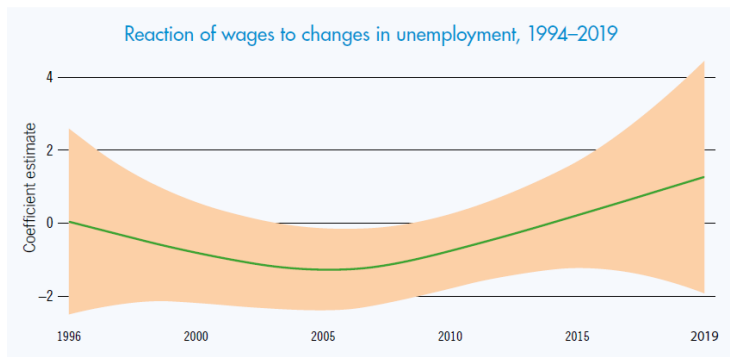Note: The chart presents the short-term (left-hand column) and long-term (right-hand column) contributions of different labour market policies to job creation (panel A) and job destruction rates (panel B).

Source: Ernst (2015)

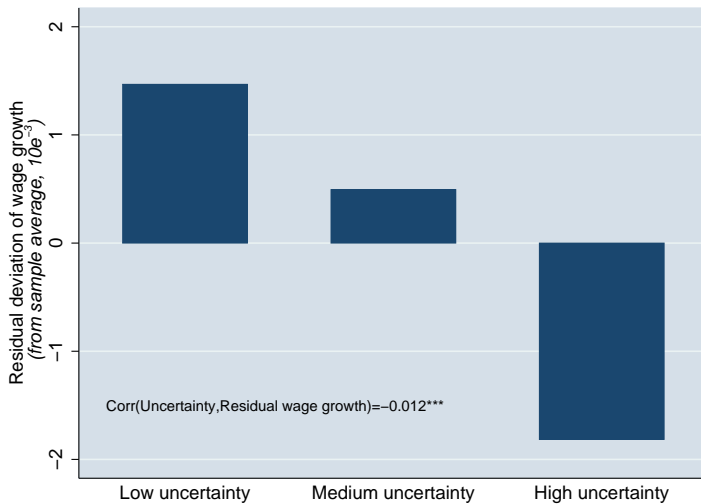# Wages have become less reactive to economic conditions

Reaction of wages to changes in unemployment, 1994–2019

Note: The chart shows the time-varying coefficient, μ_t, of the elasticity of real wage growth with respect to changes in unemployment between 1994 and 2019, including forecast changes beyond 2014, for the Developed Economies and EU region. The shaded areas represent the confidence interval. Estimates have been established using P-splines with the estimation equation:

$$w_t = \beta^w \sum_{i=1}^{4} w_{t-i} + \left(\beta^u + \mu_t\right)\sum_{i=0}^{4} \Delta u_{t-i} + \varepsilon_t$$

where w_t: (regional) real wage growth, Δu_t: change in the (regional) unemployment rate and β^w, β^u: the (constant) elasticities of real wage growth with respect to past wage growth and changes in unemployment.

Source: ILO (2015)

Uncertainty hits wage growth

Some policy considerations

Three policy principles

- Household incomes important support for growth via aggregate demand
- Wages and replacement income need to be linked to economic conditions
- Strong institutional framework to limit uncertainty

What needs to be done

- Current uncertainty and lack of ineffective macro policies call for alternative approaches
- Properly set up minimum wage systems and social insurance systems can help to anchor expectations...
- ...and support wage growth, especially in countries where collective bargaining has been falling

Suggested reading

Charpe, M., & Bridji, S. 2016. *The impact of the labour income share on growth: A time-frequency analysis*.

Charpe, M., & Kühn, S. 2015. Demand and supply effects of bargaining power shocks. *Economic Modelling*, **51**, 21–32.

Ernst, E. 2015. Supporting jobseekers. How benefits can help unemploymed workers and strengthen job creation? *International Social Security Review*, **68**(3), 43–67.

Ernst, E., Duda, M., Narasimhan, V., & Viegelahn, C. 2016. *Predicting wages around the globe*.

ILO. 2015. *World employment and social outlook. Trends*. Geneva: International Labour Organization (ILO).

Rani, U., Belser, P., Oelz, M., & Ranjbar, S. 2013. Minimum wage coverage and compliance in developing countries. *International Labour Review*, **152**(3-4), 381–410.