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

Wages per hour in the manufacturing sector

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


Norland, E. (December 12, 2019) “High-flyer Mexico under pressure”. beyondbrics, Financial Times