# Growth to rise but wages continue to fall, says IMF

**By Nick Beams**
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The International Monetary Fund (IMF) upgraded its forecast for global growth in its latest *World Economic Outlook* report, issued on Tuesday. It is clear from the report itself, however, that the situation facing workers around the world is worsening, not improving.

The IMF predicts that global growth this year will be 3.6 percent, and 3.7 percent next year. In both cases, this is 0.1 percent above previous forecasts, and well above the 3.2 percent for 2016. The world economy has not grown this fast since the temporary recovery of 2010 following the recession of 2008–2009.

According to IMF chief economist Maurice Obstfeld, the “really good news” was the increase was not a bounce back from a sharp deceleration, but an “acceleration from the fairly tepid growth rates of recent years.”

Setting out the IMF’s policy agenda at its annual meeting in Washington this week, Obstfeld wrote that the current acceleration was notable because it was broad-based and this offered a “global environment of opportunity” for policies to “raise economic resilience in the future.”

Within this upbeat assessment, however, he noted that the “recovery” was “still incomplete in many important respects” and the window for action provided by the current “cyclical upswing” would not be open forever.

The use of the term “cyclical” is significant because it indicates that economic conditions have not returned to those that prevailed in the years before the global financial crisis of 2008–2009.

On the growth data, the report said that in the advanced economies per capita growth was projected to be only 1.4 percent annually during 2017–2022, compared with 2.2 percent in 1996–2005. Moreover, the IMF projects that 43 emerging market and developing economies will grow even less in per capita terms than the advanced economies over the next five years.

Obstfeld said the recovery was “incomplete,” with low-income commodity-exporting countries facing “challenges.” Nearly a quarter of emerging market and developing economies were expected to have negative per capita growth rates for 2017, a situation he described as a “sobering outlook.”

Another area of concern was trade growth, which was barely above the rate of economic growth, compared to before the financial crisis, when it was double the rate of increase in global output.

Furthermore, Obstfeld noted, “predicted longer-run potential growth rates are lower than they were in the past.”

The main area of “incompleteness” of the “recovery” was wages growth, which remained low. “This wage sluggishness follows many years during which median real incomes grew much more slowly than incomes at the top, or even stagnated,” Obstfeld wrote.

The IMF is clearly concerned that this phenomenon has significant social consequences. Higher income and wealth inequalities were fueling “political disenchantment and scepticism about the gains from globalisation.”

The IMF devoted a chapter of its *World Economic Outlook* to examining the reasons for the continuing low growth in wages. They were bound up with far-reaching changes in the nature of labour markets in the major economies, including the growth of involuntary part-time employment, the spread of “zero hours” contracts and the rise of casualisation.

The report began by pointing out that “nominal wage growth in most advanced economies remains markedly lower than it was before the Great Recession of

2008–2009.”

Wage growth would continue to remain subdued “until involuntary part-time employment diminishes or trend productivity growth picks up.”

Neither is about to take place. Productivity levels remain persistently below pre-crisis rates in all major economies and the imposition of “flexible” employment conditions is increasing.

The report noted that “involuntary part-time employment (workers employed fewer than 30 hours a week who report they would like longer hours)” remained above 2007 levels in three-quarters of the countries surveyed.

The IMF pointed to the growth of “zero hours contracts” in the UK, with similar arrangements in countries such as Australia and Canada. If these contracts are not a feature in the US, it is only because such arrangements have long been a feature of the labour market there.

The report underscored the fact that headline unemployment rates are now virtually useless as a guide to judging the level of “slack” in the labour market, noting that for virtually all advanced economies nominal wages growth remained below pre-recession levels. This was “particularly notable for economies where unemployment rates have declined relatively rapidly and are now close to or below pre-Great Recession ranges.”

The fall in wages is not a recent development but part of a longer-term trend. At its meeting last April, the IMF produced an analysis pointing to the decline in the labour share of income over the past 30 years.

In that report it noted: “Labour’s share of income declines when wages grow more slowly than productivity, or the amount of output per hour worked. The result is that a growing fraction of productivity gains has been going to capital. And since capital tends to be concentrated in the upper ends of income distribution, falling income shares are likely to raise income inequality.”

In the advanced economies, that report found labour income shares had been trending down since the 1980s and were now 4 percent lower than they were in 1970. With global gross domestic product estimated to be around $75 trillion, wage payments are some $3 trillion lower than they would have been had the previous share been maintained.

The 2008 financial crisis did not create the downward movement of wages and the labour share of income. It has significantly accelerated the trend, however, bringing about a structural transformation of the labour market. In other words, the new situation is not a conjunctural downturn, after which there will be a return to what was once regarded as normal.

The *Financial Times*, one of the leading mouthpieces for finance capital, said in an editorial on the IMF report: “Wage growth has been one area in which normality has definitely not returned. The first step is to acknowledge that the old world has vanished.”