

# **Indonesia Development Forum 2019**

Plenary: Structural Transformation

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# **Globalization, Technological Progress and the Demand for Labor**

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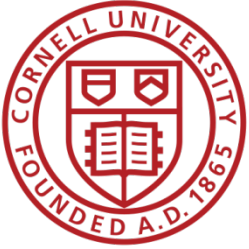
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# Agenda

- State of the World Economy and two challenges:
  - » The Policy Challenge
  - » The Economic Theory Challenge
- The roots of the policy challenge: Technological advance, globalization and what this mean for labor.
- Challenge for economic theory: We speak as though we understand, but we don't.
- Policy Response
- Indonesia and the world: Reason for hope

## Shadows over the Global Economy

- The shadow of the Great Recession
- The shadow of a US-China Trade War
- The shadow of divisive politics and xenophobic protectionism
- The long shadow of globalization and changing relation between technology and labor



## Progress on Growth: Country Level

### Change in real GDP from previous year (%)

|                       | 2016  | 2017 | 2018 |
|-----------------------|-------|------|------|
| <b>United Kingdom</b> | 1.9   | 1.8  | 1.4  |
| <b>United States</b>  | 1.6   | 2.2  | 2.9  |
| <b>Euro Area</b>      | 2.0   | 2.4  | 1.6  |
| <b>Japan</b>          | 0.6   | 1.9  | 0.8  |
| <b>Ethiopia</b>       | 7.6   | 10.2 | 7.9  |
| <b>Brazil</b>         | - 3.3 | 1.1  | 1.1  |
| <b>China</b>          | 6.7   | 6.8  | 6.6  |
| <b>Indonesia</b>      | 5.0   | 5.1  | 5.2  |
| <b>Bangladesh</b>     | 7.1   | 7.3  | 7.9  |
| <b>India</b>          | 8.2   | 7.2  | 7.2  |
| <b>Nigeria</b>        | - 1.6 | 0.8  | 1.9  |

Source: World Bank Group. Global Economic Prospects, June 2019. UK data: UK government.



# Wage as a Share of GDP

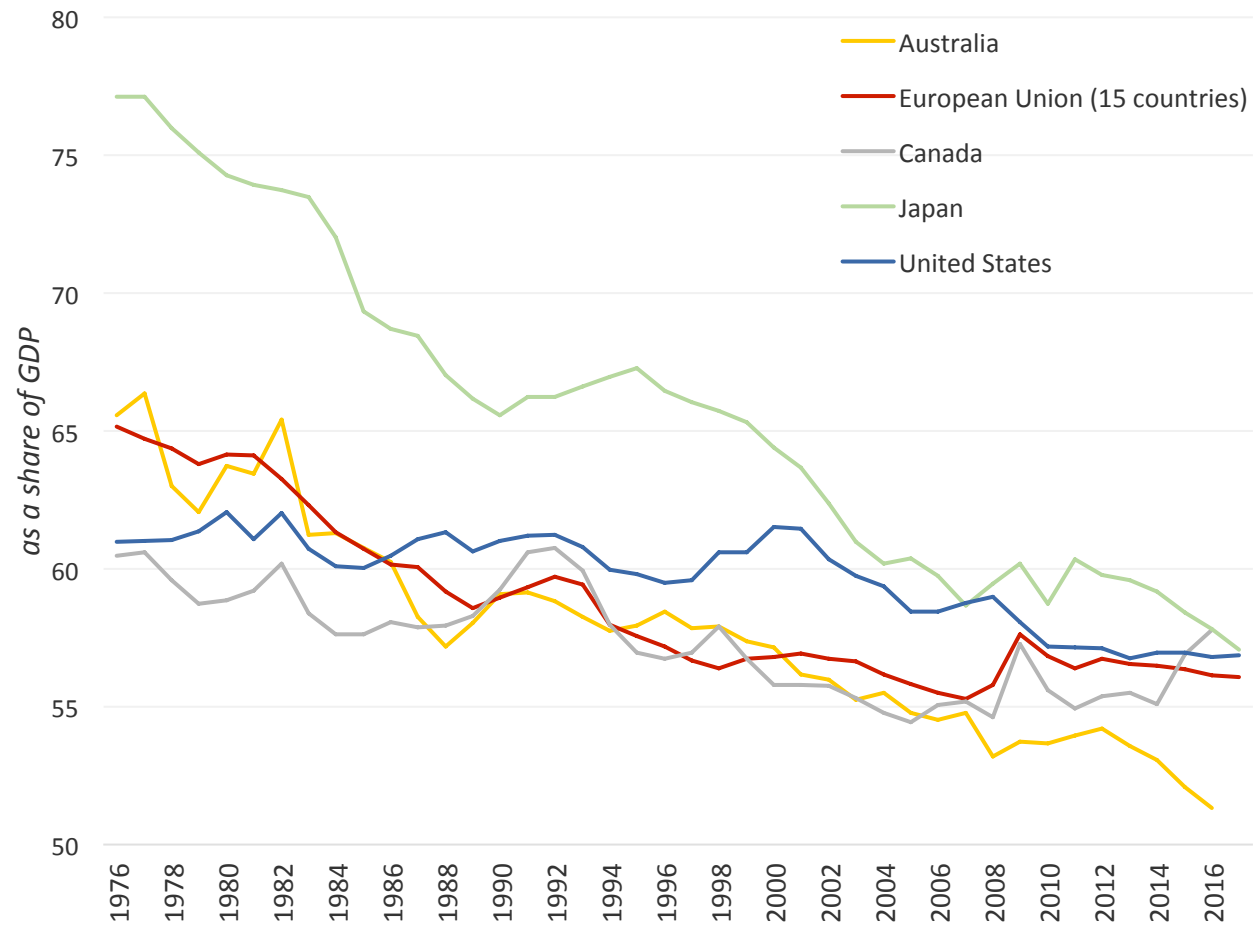
Wage bill is the adjusted labor income as a share of GDP at current prices (%)

|                               | 1975 | 1995 | 2015 |
|-------------------------------|------|------|------|
| <i>High income countries</i>  |      |      |      |
| Australia                     | 66.5 | 58.0 | 54.2 |
| Canada                        | 60.6 | 57.0 | 55.4 |
| European Union (15 countries) | 66.0 | 57.6 | 56.7 |
| Japan                         | 77.3 | 67.3 | 59.8 |
| New Zealand                   | -    | 45.8 | 47.2 |
| United States                 | 61.4 | 59.8 | 57.1 |
| <i>Emerging economies</i>     |      |      |      |
| China                         | -    | 52.8 | 47.0 |
| Mexico                        | -    | 38.7 | 34.5 |
| Russian Federation            | -    | 40.8 | 42.1 |
| Turkey                        | -    | 43.1 | 33.4 |

Notes: The unadjusted labor income only includes compensation of employees, whereas the adjusted labor income share makes an adjustment to account for the self-employed as well. For China, the share is unadjusted. The Russian Federation's share excludes hidden wages and mixed incomes.

Source: ILO (2014)

# Falling wage share of GDP (1)



Source: ILO (2014), European Commission Ameco, Rosstat (see Lukyanova, forthcoming) for Russia, ILO calculations based on data from the China Statistical Yearbook.



# Challenges of Policymaking and Globalization

## Tax Rate Coordination Game

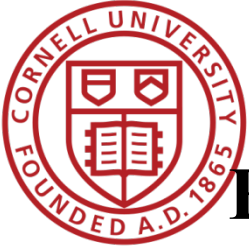
|                          |   | Country B (Tax Rates) |                  |      |
|--------------------------|---|-----------------------|------------------|------|
|                          |   | N                     | L                | M    |
| Country A<br>(Tax Rates) | N | 1, 1                  | 3, $\frac{1}{2}$ | 3, 0 |
|                          | L | $\frac{1}{2}$ , 3     | 2, 2             | 4, 1 |
|                          | M | 0, 3                  | 1, 4             | 3, 3 |

N = Negligible, L = Low, M = Moderate









## **Early-industrial revolution attitude**

In promoting his newly-invented roller spinning machine to Britain's textile industry, John Wyatt wrote in 1741, "Adopting the machine, a clothier formerly employing a hundred spinners might turn off thirty of the best of them but employ an additional ten infirm people or children ..."

The attorney general was awed by the machine & in granting a patent noted how "even Children of five or six Years of age" could operate it.

## New thinking in economic theory

- Industrial revolution and new thinking in economics
- The need for new thinking now
  - The digital revolution and changing market equilibria
  - Digital platforms, increasing returns and inequality

## Policy reforms

- Need for radical reform
- We could grow much faster here on, as we did after the Industrial Revolution
- Faltering antitrust law: Is this the end of the antitrust century?
- The nature of education
- The changing content of growth

## Reason for Hope: Indonesia

- Robust economic growth
- Labor market conditions buoyant at the beginning of 2019. The employment rate at record high in February 2019
- Unemployment rate at record low.
- Labor force participation rate at four-year high in February 2019.
- Employee wages saw a recovery with average net monthly employee wages growing 5.2 percent.
- Falling inequality