

## Impact case study (REF3)

<b>Institution:</b> University of Greenwich		
<b>Unit of Assessment:</b> Reducing inequality and stimulating economic growth: the transformation of global policies for a wage-led development path		
<b>Title of case study:</b> October 2012 – Nov 2016		
<b>Period when the underpinning research was undertaken:</b> October 2012 – Nov 2016		
<b>Details of staff conducting the underpinning research from the submitting unit:</b>		
<b>Name(s):</b> Dr Özlem Onaran	<b>Role(s) (e.g. job title):</b> Professor of Economics, Co-director Institute of PEGFA	<b>Period(s) employed by submitting HEI:</b> 01/10/2012 – present
<b>Period when the claimed impact occurred:</b> August 2013 – June 2018		
<b>Is this case study continued from a case study submitted in 2014?</b> N		
<p><b>1. Summary of the impact</b></p> <p>By providing empirical evidence demonstrating the positive correlation between increase of labour share in national income and economic growth, Dr Özlem Onaran's research <b>enhanced understanding</b> at global trade union level (<b>Trade Union Advisory Committee to the OECD (TUAC), International Trade Union Confederation (ITUC)</b>) and thereby <b>(1) Shifted public debate at the UN ILO, Global Deal, OECD, World Bank, IMF and G20 in favour of wage-led growth</b>. Against the backdrop of damaging wage-reduction measures taken by many countries in response to the 2008 financial crisis, Onaran's <b>awareness-raising and advocacy support for TUAC and ITUC</b> was further significant in leading to <b>(2) Policy change at the G20 and (3) OECD to recognize the economic, and inequality-reducing, benefits of wage-led growth</b>. In parallel, <b>(4) The Trade Union Development Cooperation Network (TUDCN), European Trade Union Confederation (ETUC), and Prospect UK were empowered</b> to make the case for increasing wages, and <b>advocate</b> for their role in doing so. At country level, the research played a prominent role in <b>(5) Policies of the South Korean Government changing to favour wage-led growth</b>.</p>		
<p><b>2. Underpinning research</b></p> <p>Since 2012, research by <b>Dr Özlem Onaran</b> and her research assistants have <b>analysed the effect of changes in income distribution (the share of wages in aggregate income) on aggregate demand, and thereby on economic growth and equitable prosperity</b>. This research, carried out in the period following the 2008 global financial crisis, was especially important in the context of fragile economic recovery, when it became clear that the recovery was stalled for many economies because of a large deficiency in aggregate demand [context: 5.4]. Over the period from Oct 2012 to Nov 2016, the research was disseminated not only via outputs in peer reviewed journals [3.1-5], but also through reports and policy briefs [5.1a-e] which, whilst also disseminating the research, predominantly facilitated knowledge translation for trade unions and global policy makers grappling with barriers to, and stimulants for, economic growth.</p> <p><b>Highlighting the growth-enhancing role of wages in promoting aggregate demand, the research scrutinised long-standing, but simplistic, perceptions of a trade-off between growth and income equality</b> [context: 5.2], especially relevant in circumstances also revealed by the research: that many countries had taken wage-reduction measures at the onset of the crisis due to the presumption that they would stimulate competitiveness and growth. These countries were therefore contributing to the suppression of global growth and recovery by exacerbating the effects of the financial crisis with declines in the wage share of aggregate income [context: 5.4].</p> <p>In Oct 2012, <b>Onaran</b> and Galanis (then at University of Warwick) established the theoretical basis of the first research study analysing global interactions using a post-Keynesian macroeconomic model. They employed an empirical analysis based on an econometric estimation of the effect of an increase in the wage share on components of aggregate demand, namely consumption, investment, and net exports. If the total effect is positive the model terms the demand regime <b>'wage-led'</b>. If it is negative, it is called <b>'profit-led'</b>. Whilst the first study focused primarily on <b>how falling labour wages had affected economic growth in the G20 countries</b>, the use of the preliminary results [3.1] in a working paper that informed the flagship Global Wage Report of the United Nations International Labour Organisation (ILO) in 2013 [5.1a] meant the research <b>amassed strong interest</b> not only from economists, policy-makers, governments, and unions around the world, but widely within the research community itself. This interest was amplified due</p>		

to the fact that most macroeconomic models prior to this had paid little attention to the effects of income distribution on demand and investment. In addition to forming the basis of subsequent impact pathways, these developments spurred parallel progress in the research itself, which was developed further in **Onaran** and Galanis, 2014 [3.3]. The emerging findings demonstrated **the growth-enhancing impacts of increased wage share, offering a solid evidence base for pro-distributive policies aimed at enhancing socio-economic equality, whilst at the same time stimulating economic growth via increased aggregate demand.**

In 2014, research built on **Onaran** and Galanis, 2014 [3.3]. The macroeconomic model was developed to **integrate both an increase in equality and public investment, to investigate the resulting impact on economic growth.** This research was at the invitation of the Trade Union Advisory Committee to the OECD (TUAC) and the International Trade Union Confederation (ITUC) and was presented in an article in the Review of Keynesian Economics [3.4]. It demonstrated that **economies in G20 countries would benefit from a policy mix embracing wage-led growth.** The article, and an associated policy brief [5.1b], became a fundamental part of later impact developments involving the G20 and the government of South Korea.

In 2015-16, **Onaran** was funded by the Foundation for European Progressive Studies (FEPS, funded by the European Parliament) to develop the economic model in **Onaran** and Galanis (2014) further, this time for the **EU15 countries** [3.5]. This presented new findings **specific to the new group of countries**, showing how the model applies to different socio-economic settings. Part of the output from this research included a non-technical policy report [5.1e], which contributed to the impacts that arose for the European Trade Union Confederation (ETUC).

Also in 2015-16, **Onaran** and the New Economics Foundation (NEF) were funded by Unions21, a UK-based union forum, to write a policy report regarding the impact of trade unions on equality and wage share and thereby on macroeconomic growth and stability [5.1d]. This research built on much of the previous research [3.2, 3.5] presented via policy briefs [5.1c,d], and presented **new input showing the positive role trade unions play in improving the wage share.**

### 3. References to the research

1. **Onaran** and Galanis, 2012, "Is aggregate demand wage-led or profit-led? National and global effects", ILO Conditions of Work and Employment Series No. 40, [http://www.ilo.org/wcmsp5/groups/public/---ed\\_protect/---protrav/---travail/documents/publication/wcms\\_192121.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_192121.pdf)
2. Stockhammer, E, **Onaran, O**, 2013, "Wage-led growth: theory, evidence, policy", Review of Keynesian Economics, 1, 1: 61–78 <https://doi.org/10.4337/roke.2013.01.04>
3. **Onaran, Ö.** and Galanis, G., 2014, "Income distribution and growth: A Global Model", Environment and Planning A: Economy and Space, 46 (10). 2489-2513 <https://doi.org/10.1068/a46265> [REF2 Submission - Identifier 12503]
4. **Onaran, Ö.**, 2016, "Wage- versus profit- led growth in the context of globalization and public spending: the political aspects of wage-led recovery", Review of Keynesian Economics, 4:4, 458-474 <https://doi.org/10.4337/roke.2016.04.07>
5. **Onaran, Ö.** and Obst, T., 2016, "Wage-led growth in the EU15 Member States: the effects of income distribution on growth, investment, trade balance, and inflation", Cambridge Journal of Economics, 40( 6):1517–1551 <https://doi.org/10.1093/cje/bew009>. [REF2 Submission - Identifier 14868]  
*Grant funded by Foundation of European Progressive Studies, 2014-15, "Demand effects of changes in functional income distribution in the EU member states and the EU overall", PI: Onaran, €25.254, Belgium, code: U1155, 2015 (Project Report: 5.1e).*

### 4. Details of the impact

**Onaran's** research provided trade unions, governments, and global policy makers with empirical evidence demonstrating the positive correlation between increase in labour share and economic growth. It led to the following **five impact strands**:

1. **Enhancing and shifting critical debate at global level via policy influence at the UN International Labour Organisation (ILO), and furthering the Social Dialogue aims of the**

**Global Deal (GD):** The scrutiny entailed in **Onaran's** research provided an evidence-based challenge to the idea that there is a trade-off between increased labour wage share and economic prosperity. In bringing about recognition that higher wage share is conducive to economic growth for all, it was significant in equipping the ILO to influence the OECD, IMF, World Bank, UN, and G20 to consider policies that tackled economic recovery at the same time as increasing wages. At the same time, the research enhanced mechanisms for global multi-stakeholder debate, such as that epitomised by the Global Deal as discussed below in more detail.

From 2013, the **ILO** was empowered to make the economic case for increasing labour income share in meetings with the **G20, IMF and World Bank**. The ILO's 2013 Global Wage Report [5.1a], highlighting the findings from [3.1], informed ILO Director-General Guy Ryder's statement to the International Monetary, Financial and Development Committee in Oct 2013 that evidence shows '*shifts in the distribution of labour income between households and in factor shares between capital and labour have affected the strength, sustainability and balance of growth*'. He emphasised the need for '*fostering income growth of the bottom 40 percent of the population*', concluding that '*Integrating macroeconomic and financial policies with employment and social policies that foster inclusive growth is now widely recognized as the way forward*' [5.6]. Sangheon Lee, Director of the Employment Policy Department at the ILO, acknowledges the significant contribution of **Onaran's** '*extensive and rigorous research*' to these '*policy developments at the ILO and other global avenues*' [5.2]. In this way, **Onaran's** research played a significant role in supporting the ILO's 'Decent Work Agenda' which is in turn directly linked to the UN Sustainable Development Agenda on Goal 8, via Worker and Trade Union participation as a Major Group.

Following on from this, a report to the **G20 Summit** in 2014 by **the ILO, OECD and the World Bank** was steered by the research via direct reference to the ILO's 2013 Global Wage Report [5.1a], when it addressed '*the strong negative spill-over effects of these simultaneous declines in the labour share on the global aggregate demand*' and recognised that '*stagnating wage incomes have constrained both consumption and investment as sources of aggregate demand*' [5.7]. In subsequent **G20** debates on the impact of inequality on growth, and wage-led growth as a policy alternative, specifically in 2015, **Onaran's** research was once again extensively cited [5.2].

In 2016, the **Global Deal (GD)** partnership initiative was launched by the Swedish Prime Minister with the objective of jointly addressing the challenges in the global labour market and enabling all people to benefit from globalisation. The GD is a global multi-stakeholder partnership in line with UN SDG 17, with concrete input to several of the other goals, not least SDG 8 and SDG 10 on decent work, inclusive growth and reducing inequalities. 19 countries are members and a range of business, trade union and international organisations are partners (eg. UN, OECD, ILO, TUAC, ITUC, ETUC). Since its inception, input from **TUAC** based on **Onaran's** research has fed into the GD's 'social dialogue' approach on inclusive growth and decent work, as attested to via , John Evans, General Secretary of the Trade Union Advisory Committee to the OECD (TUAC) 1995-2017 [5.3]. This influence has been most significant in arguing to remove barriers to alignment of state, employer, and trade union objectives via recognition that a boost to workers' purchasing power via better wages is conducive to economic growth for all. This influence is clearly evident in the multiple GD materials addressing these themes (<http://www.theglobaldeal.com/>).

In relation to an overarching **shift in global public debate toward wage-led growth**, John Evans also attested that '*the research undertaken by Prof Onaran was very useful in shifting the narrative on growth and wages in international institutions and the G20*' [5.3]. Furthermore, Sharan Burrow, General Secretary of the International Trade Union Confederation (ITUC) wrote that the research undertaken by **Onaran** has '*contributed to shifting the global narrative on wages within international institutions and processes, notably the ILO and the G20*' [5.4].

**2. Policy change at the G20 via improved understanding of the Trade Union Advisory Committee to the OECD (TUAC) and the International Trade Union Confederation (ITUC), and equipping them to better support the advocacy of Labour20 (L20):** In 2014 the **OECD** was tasked with evaluating country measures aimed at achieving a G20 commitment to enhance economic recovery via increase in GDP forecasts by over 2%. To help support the **L20** (official Engagement Group for the labour movement with the G20), **TUAC** and **ITUC** (co-secretariats of the L20) made use of **Onaran's** policy brief, which raised awareness on, and highlighted the

argument for, economic growth measures steered by a policy mix of wage-led recovery and public investment [5.1b, later published in 3.4] in the L20 statement presented to the Labour Ministers Meeting of the G20 in Sep 2014 [5.8, 5.3, 5.4]. It thus played a critical role in awareness raising for, and enhancing the advocacy capabilities of, TUAC and ITUC at this critical juncture.

The consultative status of TUAC at the OECD, and its scale (59 trade union centres globally, representing over 59 million workers [5.3]), combined with that of ITUC as the world's largest trade union confederation (331 national trade union affiliates in 163 countries, representing over 207 million workers [5.4]) indicates the extensive reach of these first tier impacts, and helps to explain their high-level role with regards to the next-tier impacts for, and through, the L20.

Following this, John Evans, TUAC General Secretary 1995-2017, states that **Onaran's** 'research work had a significant impact and influenced the decision of the Labour and Employment Ministers the following year [2015] in Turkey to undertake a project to develop a set of **G20 Policy Priorities on Labour Income Share and Inequalities** that were endorsed by the Ministers' meeting that year' [5.3]. According to Sharan Burrow, ITUC General Secretary, **Onaran's** policy brief 'had a significant impact on the G20 policy discussions and subsequent commitments' [5.4].

The result of **Onaran's** evidence supporting wage-led growth and pro-distribution policies was plainly evident in the **two initial commitments of the resulting G20 Policy Priorities**:

- 'Strengthening labour market institutions (social dialogue, collective bargaining, wage setting mechanisms, labour legislation) based on respect for the Fundamental Principles and Rights at Work
- Reducing wage inequality, through policy tools such as minimum wages and the promotion and coverage of collective agreements, ensuring fair wage scales and that work pays' [5.9].

**3. Policy change at the OECD via strengthened advocacy of the Trade Union Advisory Committee to the OECD (TUAC):** In 2014 and 2015, TUAC used **Onaran's** research [5.1b] in submissions to the OECD Ministerial and Liaison Committee meetings to influence the position of the OECD about the importance of wages to support growth and stability. This shifted the OECD to favour inclusive growth policies, recommending wage rises and income inequality reduction in 2016 and 2017, as illustrated in the OECD's Economic Outlook (2017), stating 'a durable and stronger upturn in household incomes and consumption requires stronger wage growth' [5.11]. The role of the research in bringing about this policy change is again attested to by John Evans, TUAC General Secretary 1995-2017 [5.3].

**4. Better understanding and provision of advocacy tools for trade unions at international and national level:** Similar to the first-tier impacts for TUAC and ITUC detailed above on the pathways to G20 and OECD policy changes, **Onaran's** research transformed the approach of other trade unions across the world through enhanced understanding of wage-led growth, and empowering them to make the economic case for it.

- **The Trade Union Development Cooperation Network (TUDCN)** brings together trade unions and confederations from around the world to give them a voice in international development policy debates, and thus has extremely broad reach. '**Professor Onaran's** research on wages [was] used to inform numerous union advocacy materials at international level, including the TUDCN's 2017 position statement [on 'Fighting Poverty and Promoting Gender Equality'] to the United Nations 2017 High-Level Political Forum for Sustainable Development' [5.4]. In so doing so, it supported its advocacy work surrounding the Decent Work Agenda, on behalf of all its international members.
- **The European Trade Union Confederation (ETUC)** is another organisation who benefitted from **Onaran's** work, particularly in using 3.5 in their policy position stating 'European Member States and Europe as a whole is 'wage led'', and that 'an increase in the labour share pushes the economy up' [5.10]. To influence EU policies, ETUC launched a campaign "Europe needs a pay rise" [5.12] echoing **Onaran's** report [5.1e, based on 3.5].
- **Prospect**, a UK trade union representing 143k professionals, used **Onaran's** report 'Working for the Economy: The economic case for trade unions' [5.1d] (heavily based on 3.1, 3.3, 3.5, 5.1b) to show the positive impact of higher collective bargaining coverage and union density

on wage share and the positive impact of higher wage share on growth in the UK and EU15. In the face of a steep decline in union membership and coverage, Mike Clancy, Prospect General Secretary, stated they *'used that evidence [from 5.1d] extensively to campaign and lobby,'* adding the research *'has been of significant value to the Union'* in doing so [5.5].

**5. Policy change in the Korean Government favouring wage-led growth, via direct engagement with Professor Onaran:** In 2017, the **office of the South Korean President Moon** issued the policy paper *'Economic Paradigm Shift'*, including for the first time *'income-led growth'* as one of four policy pillars. This builds heavily on the concept of 'wage-led growth' proposed in 3.2, 3.3, and 5.1e. To present on these, **Onaran** was invited to a number of engagements with South Korean government officials at the time [5.13], and subsequently asked to assess the first year of the Moon Administration's policies in June 2018. Dr Sangheon Lee participated in these activities in his capacity as Director of the Employment Policy Department of the ILO and, regarding the South Korean government's policy shift, states that *'in designing policies for income-led growth, Professor Onaran's work was one of the major references'* [5.2]. The research was discussed in an interview with **Onaran** in a major Korean daily newspaper, Hankyoreh, on 13 Oct 2017. The headlines were *'when wage is raised, productivity will also be raised'* and, most poignantly, *'Distribution is not the result of the growth, but the source of the growth'* [5.13].

### 5. Sources to corroborate the impact

1. *Reports and policy briefs key in translating the research for policy makers:* (a) ILO Global Wage Report 2013; (b) ITUC Policy Brief "The Case for a Coordinated Policy Mix of Wage-led Recovery and Public Investment in the G20" 2014; (c) Centre for Labour and Social Studies (CLASS) Policy Paper "State intervention for wage-led development" 2014; (d) New Economics Foundation and University of Greenwich Project Report "Working for the economy: The economic case for trade unions" 2015; (e) Foundation for European Progressive Studies (FEPS) Policy Report "Policies for wage-led growth in Europe" 2016.
2. Testimonial, July 2018: Sangheon Lee, Director, Employment Policy Department, ILO
3. Testimonial, June 2018: John Evans, former Secretary General, OECD TUAC and Research Consultant ITUC at the time of G20 2014
4. Testimonial, June 2018: Sharan Burrow, General Secretary, ITUC
5. Testimonial, July 2018: Mike Clancy, General Secretary, Prospect Union
6. Guy Ryder (2013) ILO Director-General's Statement to International Monetary and Financial Committee and Development Committee, 12.10.2013, *pdf p3 par 2-6*, <https://www.imf.org/External/AM/2013/imfc/statement/eng/ILO.pdf>
7. ILO, OECD and World Bank Report to G20 Summit 2014, *pdf p15 par 1, p3 par3*, [http://www.g20.utoronto.ca/2014/OECD-ILO-WB-G20\\_labour\\_markets.pdf](http://www.g20.utoronto.ca/2014/OECD-ILO-WB-G20_labour_markets.pdf)
8. L20 statement to G20 Labour Ministers Meeting (2014), **Onaran cited numerous times p2 & 4** <https://www.ituc-csi.org/l20-trade-union-statement-to-the-15032>
9. G20 Labour and Employment Ministers Statement, 2015, Ankara, Turkey, *p1 par4 (a) & (b)* <http://www.g20.utoronto.ca/2015/G20-Policy-Priorities-on-Labour-Income-Share-and-Inequalities.pdf>
10. ETUC's policy position on the Annual Growth Survey 2016, *pdf p4 par2*, <https://www.etuc.org/en/document/etuc-position-annual-growth-survey-2016-europe-works-workers-and-citizens>
11. OECD Economic Outlook Vol 2017 Issue 1, *p24 par3*: [https://www.oecd-ilibrary.org/sites/eco\\_outlook-v2017-1-2-en/index.html?itemId=/content/component/eco\\_outlook-v2017-1-2-en](https://www.oecd-ilibrary.org/sites/eco_outlook-v2017-1-2-en/index.html?itemId=/content/component/eco_outlook-v2017-1-2-en)
12. ETUC's *Europe-wide campaign* "Europe needs a pays rise", <https://www.etuc.org/en/issue/collective-bargaining-wage-policy-pay-rise-campaign>
13. (a) Onaran speaker listing at Karl Polanyi Institute Asia, 12/10/17, *pdf p 4*, <http://www.kpia.re.kr/?p=8851>;  
(b) Korean daily newspaper, Hankyoreh, article 13/10/17 [http://www.hani.co.kr/arti/economy/economy\\_general/814287.html](http://www.hani.co.kr/arti/economy/economy_general/814287.html)