

**FOR DEBATE AND GUIDANCE**

FIRST ITEM ON THE AGENDA

**Presentation of the first issue of
the global wage trends report****Introduction**

1. At its March 2007 session, the Committee acknowledged that wages were a central component of decent work and that the ILO should play a lead role in filling the serious knowledge gap that exists in this area. To this end, the Committee requested the Office to prepare periodic reports on trends in wages and wage-setting across the world and their policy implications. It stressed the need to improve wage data and produce reliable and comparable statistics in order to understand and monitor wage developments. The first issue of the *Global Wage Report*¹ is due to appear at the end of 2008. The next issue is envisaged for the end of 2010.
2. The report highlights major global trends with some regional and country flavours to illustrate the trends or exceptions to them. A major effort has gone into developing a new database with information on real average wages, the distribution of wages between different deciles of wage earners, and the level of real minimum wages. In addition to the collection of statistics for global comparison, national studies were carried out in selected countries and meetings of wage experts were held. The wage database used for the report and the country papers will be made available online after the launch of the report. This and future reports are a response to the growing demand for technical assistance in this area from ILO constituents at the country level.² They are also meant to provide insights that will help the Office and the ILO constituents in giving practical effect to the recently adopted Declaration on Social Justice for a Fair Globalization.
3. The purpose of this paper is to share information with the Committee on Employment and Social Policy (ESP) on the main findings and recommendations of the first issue of the *Global Wage Report*. The paper concludes by outlining a number of steps for future work,

¹ ILO: *Global Wage Report 2008–09: Towards policy coherence: Minimum wages and collective bargaining* (forthcoming).

² The following countries' Decent Work Country Programmes (DWCPs) for the 2008–09 biennium feature "wages": Armenia, Brazil, China, Malaysia, Mexico, Mongolia, Russian Federation and Tajikistan. Technical assistance is under way in Sri Lanka and the United Republic of Tanzania.

including possible policy themes that could be examined in the next issues of the Global Wage Report, for debate by the Committee.

Global wage trends

Average wages

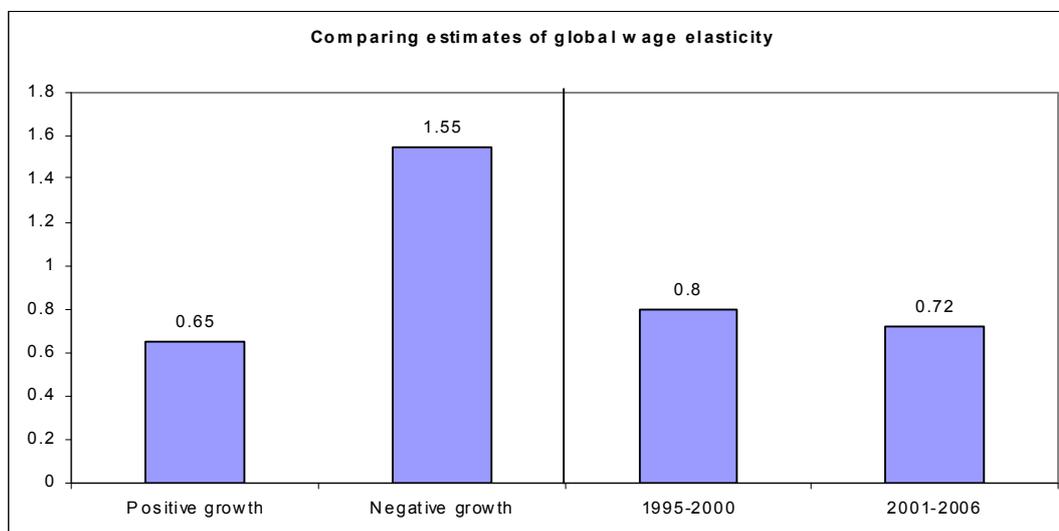
4. Globally, wage employment accounts for about half of total employment and this share is growing almost everywhere for both women and men. Over the period 2001–07, average wages grew at a rate of 3.2 per cent per year in real terms.³ This estimate is based on data for 83 countries from all regions, which represent about 70 per cent of the world's population. Over the same period, per capita GDP grew by 4.6 per cent per year. These averages reflect the strong performance of a number of developing and transition countries. Most countries, however, have experienced lower wage growth. Average wages grew by less than 2 per cent in half of the countries.
5. There were also contrasting developments in different regions. Following standard ILO/KILM regional classifications, wage growth was 0.5 per cent per year in Latin America and the Caribbean, 2.3 per cent per year in European Union (EU) countries and other developed economies (with an average of 1.6 per cent in OECD countries and a substantially higher figure in the new EU Member countries), 2.9 per cent per year in Asia (including a rate above 10 per cent per year in China), and 13.4 per cent in countries of the Commonwealth of Independent States (CIS) and non-EU Central and South Eastern Europe.⁴ In CIS countries, the strong wage growth was part of the recovery from the severe reductions in wages that took place in the early stage of economic transition at the beginning of the 1990s.
6. Over the longer period from 1995 to 2007, economic growth has been associated with positive changes in wages. On average, when per capita GDP grew by an extra 1 percentage point, average wages increased by an extra 0.75 percentage points. This so-called *wage elasticity* of 0.75 confirms that sustained wage growth over several years is possible only when the economy is expanding and when labour productivity is growing.
7. At the same time, while economic growth was positively correlated with changes in real wages, it can be observed that real wages have increased at a slower rate than economic growth. This supports the view that the growth of wages has lagged behind productivity growth. Consistent with these trends, there has also been a downward trend in the share of GDP distributed to wages. A comparison of two different periods (1995–2000 and 2001–07) shows that the wage share fell in three quarters of the countries for which data are available. This downward trend is noticeable in both developed and developing economies. Overall, when taking into consideration all types of countries, a 1 per cent annual growth in GDP has been associated with a 0.05 per cent decrease in the share of GDP accounted for by wages.
8. These observations can be complemented by two additional considerations. First, the relationship between wages and economic growth typically changes in periods of economic decline. Whereas in times of economic expansion wages are less than fully responsive to changes in GDP per capita, during economic downturns wages tend to

³ Throughout this section we use the term “wages” as meaning “real wages”, unless otherwise stated.

⁴ Estimates for African and middle-eastern countries are less robust and are therefore not reported.

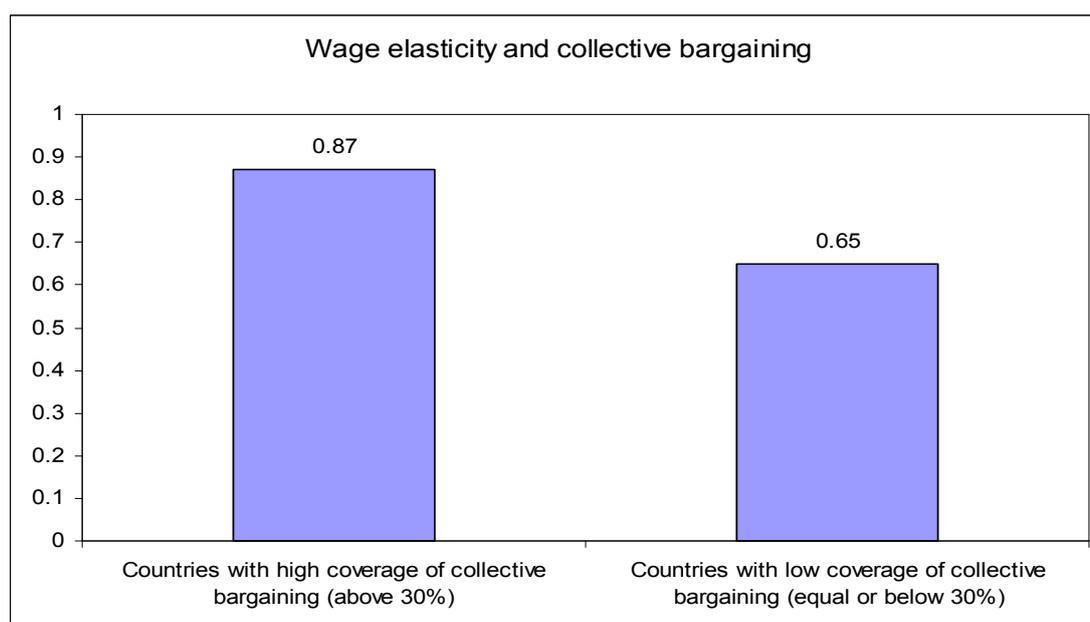
become overly-responsive and fall faster than GDP. Secondly, the responsiveness of wages to economic growth has weakened slightly over time, with an extra 1 per cent in per capita GDP growth resulting in a 0.72 per cent increase in wages between 2001 and 2006, compared to 0.8 per cent between 1995 and 2000 (see figure 1).

Figure 1



9. Countries with a higher collective bargaining coverage have experienced less of a gap between the growth in per capita GDP and the growth in wages. For the “low coverage” countries (defined as coverage lower than or equal to 30 per cent), the “wage elasticity” stands at about 0.65, a figure below the world average of 0.75. In the case of “high coverage” countries, this wage elasticity is much higher: an extra 1 per cent growth in per capita GDP is accompanied on average by a 0.87 per cent increase in average wages. Hence, in the presence of significant collective bargaining coverage, real wages are more strongly connected to economic growth (see figure 2).

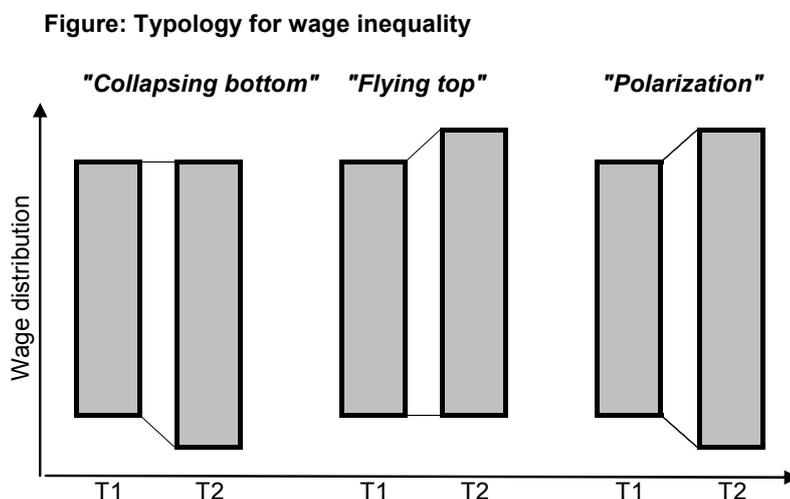
Figure 2



Wage inequality

10. Since 1995, inequality between top wages and bottom wages has increased in more than two-thirds of the countries for which we have data.⁵ Such increases in wage inequality can be due to a number of factors which need to be distinguished before conclusions can be drawn regarding policy implications. Figure 3 shows a typology with three different types of increases in wage inequality. The first type – the “collapsing bottom” – refers to the situation in which wage inequality is growing as a result of some deterioration in bottom wages. The second type – the “flying top” – presents the opposite case in which top wage earnings are increasing faster than other wage groups. The final one is the case of both movements taking place simultaneously, which results in a “polarization” of wage earnings. While the reality is usually a mixture of these types, in practice we observe that “flying top” wages and “collapsing bottom” wages are equally common in the countries where inequality has increased. More often than not, these trends go together, leading to growing polarization.

Figure 3. Growing inequality in different types: An illustration

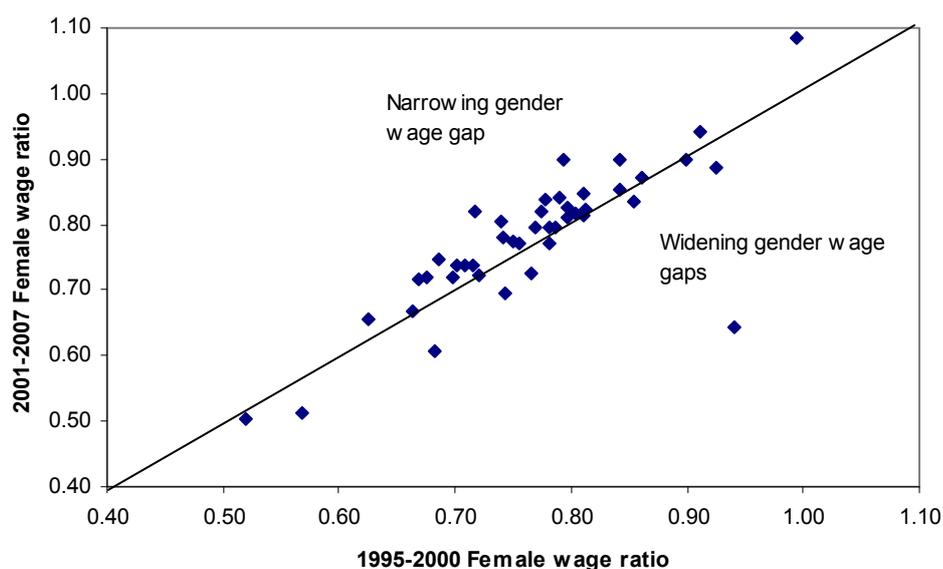


Note: T1 refers to the initial condition while T2 refers to the new condition.

11. Another fundamental dimension of inequality is the differences in wages between women and men. The pay gap between women and men is still wide and closing only very slowly. Although about 80 per cent of the countries for which data are available have seen an increase in the ratio of female to male average wages, the change is small and in some cases negligible (see figure 4). This is disappointing in the light of women’s recent educational achievements and the progressive closing of the gender gap in work experience. In a majority of countries, women’s wages represent on average between 70 and 90 per cent of men’s, but it is not uncommon to find much lower ratios in other parts of the world, particularly in Asia.

⁵ We measure wage inequality by the ratio “D9/D1”, where D9 denotes the upper limit of the ninth decile in the wage distribution (or the lower limit of the top decile), while D1 is the upper limit of the bottom decile.

Figure 4. Changes in the gender pay gap (1995–2007)



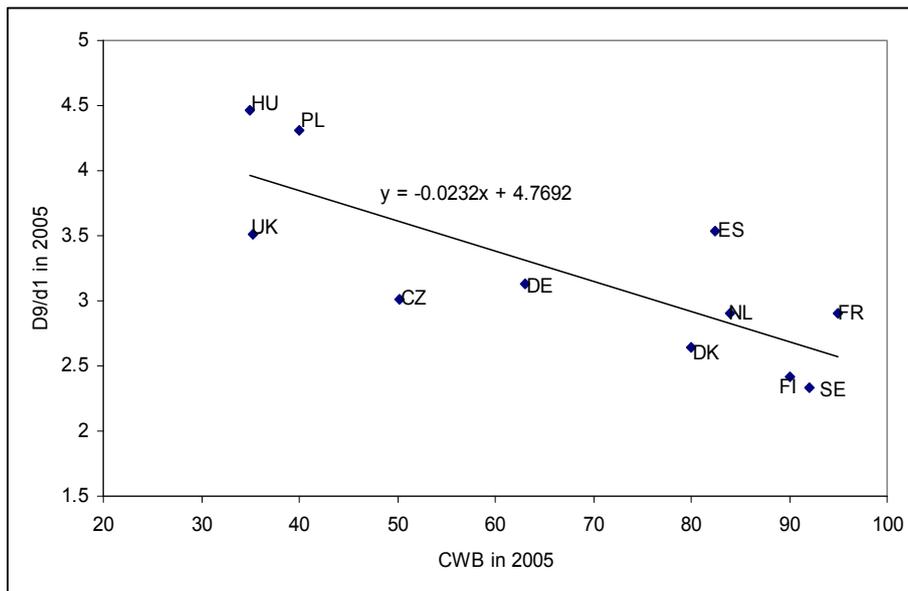
Note: The figures refer to the ratio of female to male average wages. The values less than 1.0 mean that women workers are on average earning less than male counterparts.

Source: ILO wage database.

12. Countries with a relatively higher coverage of collective bargaining (above 30 per cent) have significantly less wage inequality, both overall and in the lower half of the wage distribution.⁶ In the case of European countries, the link between collective bargaining coverage and overall wage inequality can be visualized through a simple correlation (see figure 5). Although other factors also affect inequality, we note that Finland, Sweden, Denmark, the Netherlands and France have both high collective bargaining coverage and low wage inequality, while the United Kingdom, Hungary and Poland have low coverage and higher wage inequality.

⁶ Overall wage inequality is measured by the ratio of high earners and low earners (D9/D1).

Figure 5. Wage differentials (D9/D1) and collective bargaining rate (2005), EU countries



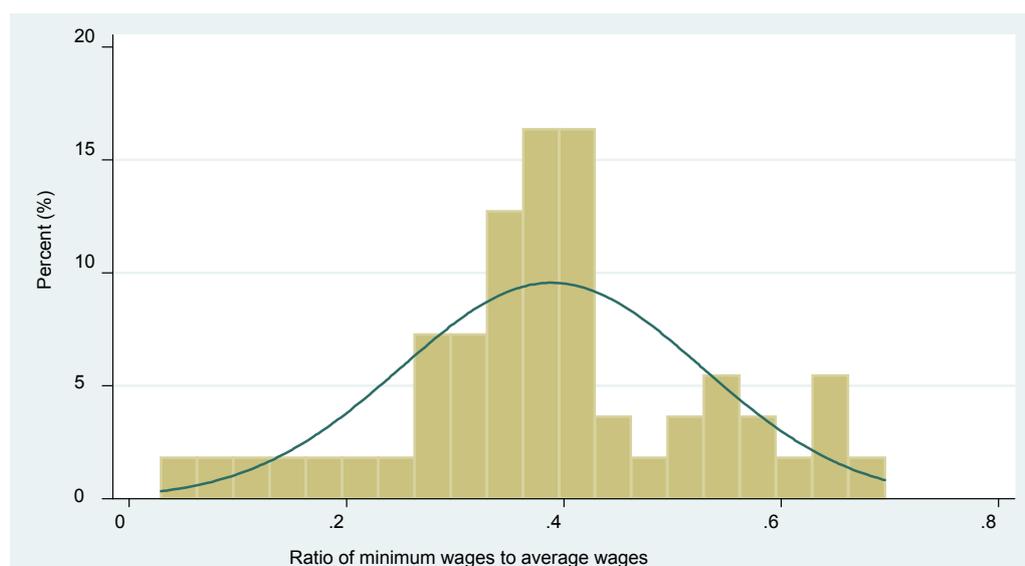
Minimum wages

13. In both developed and developing regions, minimum wages have been reactivated to reduce the social tensions resulting from the growing inequalities in the lower half of the labour market. Recent trends reveal that minimum wages have enjoyed something of a revival. Globally, minimum wages were raised by an average of 5.7 per cent per year (in real terms)⁷ over the period 2001–07. This represents a substantial gain in the purchasing power of minimum wage earners, and also contrasts with some previous periods when the real value of the minimum wage had declined. Real gains for minimum wage earners were substantial both in the EU and other developed economies (+3.8 per cent) and in developing countries (+6.5 per cent).
14. Perhaps most symbolic of the revival of minimum wages in developed countries is the case of the United Kingdom which, after dismantling its system of industry-level minimum wages in the 1980s, adopted a new minimum wage with national coverage in 1999. Since then, it has increased its level by 3.5 per cent per year in real terms. In 2000, Ireland also introduced a national minimum wage, for the first time in its history. Among the newer members of the EU, the minimum wage was generally raised substantially with a view to progressively catching up with the levels in the older Member States.
15. Developing countries, too, have regularly increased their minimum wages to provide social protection to vulnerable and non-organized categories of workers. Large countries, such as Argentina, Brazil, China and South Africa, have been among the main drivers of this upward trend. In China, for example, new regulations on minimum wages were issued in 2004 in the face of growing concerns about the widening of wage inequality. In South Africa, minimum wage floors were introduced in 2002 to support the wages of millions of low-paid workers in different economic sectors. In Brazil and Argentina, the minimum wage policy has been revitalized to help reverse the decline in the wages of low-paid workers since the early 2000s.

⁷ Throughout this section we use the term “minimum wages” as meaning “real minimum wages”, unless otherwise stated.

16. Overall, minimum wages have also tended to increase slightly relative to average wages (from 37 per cent in 2000–02 to 39 per cent in 2004–07 in those countries for which such data are available). Figure 6 shows that the ratio of the minimum wage to average wages varies widely from one country to another, but is most commonly around 0.4 times average wages. Statistical analysis also shows that higher minimum wages are also associated with reduced wage inequality in the bottom half of the wage distribution.⁸ Compared to per capita GDP, however, the minimum wage has remained stable in developed countries and has tended to decline in the rest of the world. This may reflect the strong growth in average labour productivity in developing countries, which has not necessarily been reflected in corresponding increases in minimum wages at the lower end of the labour market.

Figure 6



Policy implications

17. Findings show that both labour productivity and wage policies improve wage outcomes. Whereas economic growth is a necessary condition for wage growth, higher collective bargaining coverage improves the responsiveness of wages to growth in per capita GDP and contributes to lower wage inequality. Minimum wages can also be used effectively to reduce wage inequality in the bottom half of the labour market. Overall, these results support the view that there is a need to enhance the role of labour market institutions.
18. It is important to reiterate the principle that bargaining and negotiation are among the most effective methods of wage determination, since they reflect the needs and interest of both workers and employers. Recent studies have increasingly recognized the positive effect of collective bargaining on wages and cast doubt on the assumption that bargaining must be detrimental to economic performance.⁹ From this perspective, it is interesting to

⁸ Inequality in the lower half of the wage distribution is measured by the ratio of median wages (D5) to the upper wage of the bottom decile (D1).

⁹ A comprehensive review of the literature published by the World Bank a few years ago concluded that comparative studies “reveal little systematic difference in economic performance” between countries that effectively guarantee freedom of association and collective bargaining and countries that do not. See T. Aidt and Z. Tzannatos: *Unions and Collective Bargaining: Economic effects in a global environment* (World Bank, Washington, DC, 2002).

emphasize some contrasting developments in collective bargaining coverage around the world. While in many countries collective bargaining remains low and is actually decreasing owing to a variety of factors, including the increase in the number of workers in smaller firms or employed under atypical contracts, there have also been some important counteracting developments. First, collective bargaining coverage remains high – and sometimes increasing – in many European countries. This is the case, for example in Denmark, Finland, Spain, Sweden and Portugal. Secondly, a number of countries in other regions, such as South Africa, Argentina and Slovenia, have also succeeded in stimulating collective bargaining.

19. Minimum wages, if set at reasonable levels, can increase the number of workers with access to minimum living wages and reduce the gender pay gap, with little or no adverse impact on employment levels.¹⁰ However, minimum wages should not be used as a substitute for collective bargaining. Complicated systems of industry, sectoral or occupational minimum wages, which set wage rates for many categories of workers in different industries, can end up discouraging collective bargaining instead of stimulating it. While some experiences show that the negotiations between social partners over minimum wages has helped to stimulate collective bargaining, in most cases complex minimum wage setting systems were found to “crowd out” collective bargaining.
20. This negative experience points towards the importance of careful and coherent policy design. Good practices related to the design of a complementary and coherent set of minimum wages and collective bargaining policies include: (1) keeping the minimum wage simple and opting, whenever possible, for a national minimum wage instead of complex sectoral and/or occupational minimum wages; (2) Trying to ensure that social benefits are, whenever possible, disconnected from the minimum wage level, since this practice often prevents governments from increasing minimum wages for fear of the adverse impact on social security budgets; (3) ensuring that minimum wages are accompanied by credible enforcement mechanisms which involve labour inspectors as well as social partners; and (4) extending the coverage to include vulnerable groups such as domestic workers, who are often excluded de jure or de facto from the protection of minimum wage laws. This is particularly important in order to maximize the impact of minimum wages on gender equality.
21. Finally, it is advisable to increase the minimum wage regularly in order to avoid occasional major shocks to the economy and to maintain the purchasing power of affected workers in the face of price increases. In the current context of sharply increasing food and oil prices and high inflation forecasts for 2008 and 2009, minimum wages should be increased wherever possible to protect the most vulnerable workers. Minimum wage policies should be used in conjunction with other policies such as income transfers. Much of the public debate has so far focused narrowly on keeping wage increases low with a view to avoiding a “wage–price” spiral.¹¹ While this is an important objective, it should be embedded in the broader policy objective of maintaining people’s purchasing power, especially for those at the bottom of the wage distribution, in the face of current difficult economic circumstances.

¹⁰ This is shown in an increasing number of recent empirical studies in both developed and developing economies. In the United States, for example 650 leading economists in 2006 signed a statement stating that federal and state minimum wage increases “can significantly improve the lives of low-income workers and their families, without the adverse effects that critics have claimed”. A similar conclusion was reached in various studies in developing countries. See, for example S. Lemos: “Minimum Wage Effects across the Private and Public Sectors in Brazil”, *Journal of Development Studies*, Vol. 43, No. 4, 2007.

¹¹ A “wage–price spiral” is a situation in which wages and prices chase each other upwards.

Future work

22. The first issue of the Global Wage Report focuses on macro-level developments across the world and pays less attention to important developments within countries, such as wage trends across different sectors and between different groups of workers. For the Global Wage Report to contribute richer insights for policy-making, including in the framework of DWCPs, it is important to go on improving the collection of global data and to carry out more systematic research on a number of key issues. The following steps are suggested.
23. First, it is imperative to enhance the quality and geographical coverage of wage statistics, particularly for Africa and the Middle East. As for occupational wage data, the Global Wage Report puts forward some suggestions aimed at streamlining the October Inquiry with a view to making it more useful and user-friendly. The new wage database was created with the cooperation of the OECD and other organizations such as EUROSTAT, as well as several ILO field offices, especially the Labour Analysis and Information System (SIALC) in Latin America and the Caribbean. Discussions are under way with SIALC and other ILO regional offices on ways of better coordinating the production of wage statistics for the purpose of the Global Wage Report series, as well as related regional reports.
24. With regard to themes warranting more in-depth research, the issue of the pay gap between men and women and between workers with different contractual arrangements merits a special mention. In respect of the gender pay gap, it is essential to obtain an accurate picture of the evolution of the size of this gap and the underlying causes, especially in the developing world. This is necessary to better orient policy decisions in the present context of growing female labour participation rates, and the narrowing of gender gaps in terms of work experience and educational attainment. Equally opportune is the analysis of the implications for wages and labour productivity of the growing diversification of employment patterns and the variety of non-standard forms of employment across the world, as the risk of discriminatory treatment against non-standard work raises concerns of unfairness and productivity losses.
25. The issue of pay systems (that is, the way in which wages are structured and paid) is another one that merits further analysis. Different wage-fixing mechanisms can in fact generate different incentives for workers and result in different wage outcomes. Performance-based pay and profit-sharing schemes, which relate wages to different aspects of an enterprise's performance, are attracting growing attention in both developed and developing countries. Research in this area should seek to understand the circumstances in which such schemes can best reconcile the employers' goal of aligning wages with productivity and overall enterprise performance with workers' desire to preserve and improve the purchasing power of their wages. Closely related to this is the question of pay determination in the public sector. In the wake of public sector reform and modernization, it is imperative to ensure that decisions concerning the structure and levels of wages in the public sector take into account the broader developments affecting wages.
26. The high incidence of low pay and the growing numbers of working poor require further research efforts on the issue of how minimum wages can best be designed and articulated with other social and economic policy measures with the aim of maintaining the purchasing power of the wages of the least protected workers. This acquires special relevance in the present context of growing inflationary pressures; the challenge lies in identifying appropriate schemes that make it possible to adjust the minimum wages of low-paid workers, while avoiding the risk of accelerating inflation. The March 2009 session of the ESP, at which the review of minimum wages was identified as an agenda item, will certainly supply useful guidance in this respect.

27. The issue of the need for, and benefits of, a coherent articulation between minimum wage setting and collective bargaining has been addressed by the first issue of the Global Wage Report. Another question which would be worth exploring is how to extend collective agreements on wages to non-union members, particularly workers in non-standard employment or informal workers, especially in the developing and transition countries. It would be equally important that the Office intensify its technical assistance at the country level to enhance the quality and reliability of national wage statistics.
28. The Committee may wish to consider and discuss whether the issues referred to in paragraphs 22–27 are suitable candidates for analysis in subsequent issues of the Global Wage Report. It may also wish to discuss whether it would be useful to envisage periodic presentations of the global trends in wages and policy implications to the Committee.

Geneva, 3 October 2008.

Submitted for debate and guidance.