International
Labour
Organization

Executive Summary

Global Wage Report 2008/09

Minimum wages and collective bargaining: Towards policy coherence

Wages in the financial and economic crisis

Erosion of wages in 2009. The ILO's first *Global Wage Report* predicts that difficult times lie ahead for workers. Slow or negative economic growth, combined with highly volatile prices, will erode the real wages of many workers, particularly the low-wage and poorer households. In many countries, the middle classes will also be seriously affected. Tensions are likely to intensify over wages, and the workplace may become more vulnerable to wage-related disputes. Based on International Monetary Fund (IMF) estimates and forecasts of global economic growth released in October 2008, and given the past statistical relationships between economic growth and wages, the report estimates that in 2009 wages will grow at best by 0.1 per cent in industrial countries and by 1.7 per cent globally. Revised figures released after the preparation of this report suggest that in 2009 wages will in fact decline by 0.5 per cent in industrial countries and grow by no more than 1.1 per cent globally.

Labour market institutions have been never as relevant as today. In the present context, governments are encouraged to display a strong commitment towards protecting the purchasing power of their populations and hence stimulating internal consumption. Firstly, social partners should be encouraged to negotiate ways to prevent a further deterioration in the share of wages relative to the share of profits in GDP. Secondly, the levels of minimum wages should be increased wherever possible to protect the purchasing power of the most vulnerable workers. Thirdly, minimum wages and wage bargaining should be complemented by public intervention through, for instance, income support measures. Overall, the report supports the view that there is a need to reassert the value of labour market institutions.

Global Wage Report 2008/09 • ISBN 978-92-2-121499-1

Major trends in wages, 1995–2007

There is low wage growth in the majority of countries. Globally, wage employment accounts for about half of total employment and this share is growing almost everywhere for both women and men. This report estimates that over the period 2001–07 real average wages grew by 1.9 per cent per year or less in half of all countries. However, there were very wide regional variations. Among developed countries, wages in the median country grew by about 0.9 per cent per year. Comparable figures were 0.3 per cent in Latin America and the Caribbean, 1.7 per cent in Asia, and a much higher 14.4 per cent in the Confederation of Independent States (CIS) and non-European Union Central and South-Eastern European countries, which are recovering from the severe reductions in wages that took place in the early stages of economic transition at the beginning of the 1990s.[1] These variations can also be seen at the country level. So for example, real wages growth was close to 0 per cent in Japan, Spain and the United States, but reached 10 per cent per year or more in China, Russia and Ukraine. Wage growth close to the median of about 2.0 per cent per year was observed in countries as diverse as India, Mexico, Poland and South Africa

Wages lag behind GDP per capita. Over the whole period from 1995 to 2007, when GDP per capita grew by an extra 1 percentage point, average wages only increased by an extra 0.75 percentage points (figure 1). This so-called "wage elasticity" of 0.75 confirms that wage growth has lagged behind GDP per capita, and strongly suggests that the growth in real wages has lagged behind productivity growth. Over time, this elasticity has declined from 0.80 per cent during 1995–2000 to 0.72 per cent since 2001. Consistently, in almost three-quarters of countries, there has been a downward trend in the share of GDP distributed to wages, compared to profits and other forms of income. Noteworthy also is the fact that while wages are less than perfectly responsive during times of economic expansion, they tend to become overly responsive in times of economic decline. Typically each extra 1 per cent decline in GDP per capita leads to a fall in wages of 1.55 per cent.

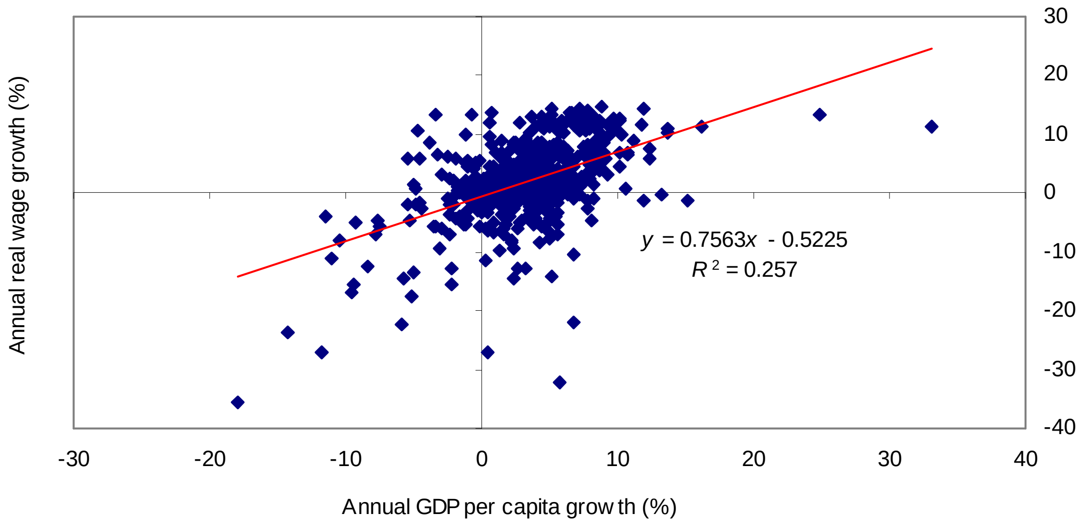
Wage inequalities keep rising. Since 1995, inequality between top wages and bottom wages has increased in more than two thirds of the countries for which data are available.[2] Among developed countries, Germany, Poland and the United States are amongst the countries where the gap between top and bottom wages has increased most rapidly. In other regions, inequality has also increased sharply, particularly in Argentina, China and Thailand. Some of the countries which have succeeded in reducing wage inequality include France and Spain, as well as Brazil and Indonesia, though in these latter two countries inequality remains at a high level. The pay gap between genders is still high and closing only very slowly. Although about 80 per cent

[1] These global and regional estimates are based on wage data for 83 countries, representing about 70 per cent of the world's population. Estimates for African and Middle-Eastern countries are less robust and are therefore not reported.

[2] We measure wage inequality by the ratio called D9/D1, where D9 denotes the upper limit of the 9th decile in the wage distribution (or the lower limit of the top decile), while D1 is the upper limit of the bottom decile.

of the countries for which data are available have seen an increase in the ratio of female to male average wages, the size of change is small and in some cases negligible. In the majority of countries, women's wages represent on average between 70 per cent and 90 per cent of men's wages, but it is not uncommon to find much lower ratios in other parts of the world, particularly in Asia.

Figure 1. GDP per capita growth and change in real wages, 1995–2007



Source: ILO Wage Database.

Minimum wages and collective bargaining

Minimum wages are back on the social agendas of many countries. In recent years, minimum wages have been reactivated to reduce social tensions resulting from the growing inequalities in the lower half of the labour market. Globally, over the period 2001–07, minimum wages were raised by an average of 5.7 per cent per year, in real terms. This 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 developed economies and the European Union (+3.8 per cent) and in developing countries (+6.5 per cent). Minimum wages have also increased relative to average wages, from 37 per cent in 2000–02 to 39 per cent in 2004–07.

Collective bargaining coverage has declined, but remains high in some countries. Developments in the coverage of collective bargaining around the world are more contrasted. In many countries collective bargaining is low and decreasing due to a variety of factors, including the increase in the number of workers in smaller firms or under atypical forms of contracts. At the same time, collective bargaining coverage remains high – and sometimes increasing – in some European countries, such as

Denmark, Finland, Portugal, Slovenia, Spain and Sweden, and a number of countries in other regions have also succeeded in stimulating collective bargaining, including Argentina and South Africa.

Collective bargaining and minimum wages can improve wage outcomes. Higher coverage of collective bargaining ensures that wages are more responsive to economic growth, and also contributes to lower wage inequality. In "high coverage" countries (defined as coverage above 30 per cent of employees), the wage elasticity is 0.87. In other words, when GDP per capita grew by an extra 1 percentage point, average wages increased by an extra 0.87 percentage points. This compares with a lower wage elasticity of 0.65 in countries with lower coverage. At the same time, higher minimum wages can reduce wage inequality in the bottom half of the wage distribution, and reduce the gender pay gap.

Coherent policy design is essential. Good practices related to the design of a complementary and coherent set of minimum wages and collective bargaining policies include:

- avoiding using minimum wages as a substitute for collective bargaining;
- keeping the minimum wage fixing system as simple and manageable as possible;
- 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;
- accompanying minimum wages by credible enforcement mechanisms which involve labour inspectors as well as social partners; and
- extend the coverage to include vulnerable groups such as domestic workers, who are often excluded from the protection of minimum wage laws. This is particularly important in order to maximize the impact of minimum wages on gender equality.

Department of Communication and Public Information
International Labour Organization
4 route des Morillons, 1211 Geneva 22, Switzerland
For more information, visit our website **www.ilo.org**