Global Wage Report

International Labour Office
Geneva

UPDATE 2009

Introduction

1. The present report is an update of the Global Wages Report 2008/09 released in November 2008. The latter was the first in a new series of reports to be published every two years to describe and analyse trends in a number of wage indicators, including average wages, wage inequality between men and women, differentials between high and low wages, the share of wages in GDP, and statutory or negotiated minimum wages. The report covered the years 1995-2007, which were characterised by a generally favourable economic context. Since then, the economic context has changed dramatically. In light of the global economic downturn, the Members of the ILO signed the Global Jobs Pact in June 2009, whereby they agreed to consider strengthening social dialogue, collective bargaining and statutory or negotiated minimum wages in order to avoid deflationary wage spirals and to enhance social protection. While a comprehensive assessment will be provided in the next full Global Wage Report in 2010, the present update already provides some indications of wage trends up to the second quarter of 2009 in a number of countries around the world.

I. The Economic Context

2. **The global crisis:** After several years of strong economic growth, the global economy went into recession in 2009 due to a housing and financial crisis that started in the U.S. Triggered by a variety of causes, the crisis also highlighted two wage-related issues.[1] One is the global imbalance in the pre-crisis distribution of profits and wages. Increasing profits prior to the crisis have contributed to high levels of liquidity on financial markets and low rates of interest, while stagnating real wages relative to productivity gains – together with growing wage inequality – have limited the ability of most households to increase consumption other than through debt. This combination provided incentives for unsustainable consumption patterns by over-indebted households, including through sub-prime lending of the kind that has fed the housing bubble in the U.S. The second wage-related issue is the widely-discussed failure of unrestricted markets to set appropriate executive pay. Malfunctioning pay systems and

[1] On this subject see also Stiglitz, Joseph, "The Global Crisis, Social Protection and Jobs", *International Labour Review*, Vol. 148 (2009), No.1-2, ILO, 2009; and International Labour Organisation, *A Global Policy Package to Address the Global Crisis*, Policy Brief, International Institute for Labour Studies, Geneva, 2008

excessive bonuses have distorted the incentive structure in the financial sector, encouraging risk-taking and short-term profits rather than sustained company performance. This has led the G-20 to agree on reforming compensation practices to support financial stability through a number of measures, in particular by ensuring the independence of compensation committees which oversee compensation policies.[2]

3. **Falling output and prices:** As the financial crisis spread to the real economy, output growth severely contracted. After expanding at more than 5 percent per year in 2006 and 2007, global economic growth fell to 3.0 percent in 2008 and is forecasted to decline by 1.1 percent in 2009.[3] Advanced economies were hit first, with growth rates slowing from 2.7 % in 2007 to 0.6 % in 2008 and forecasted to fall by 3.4 % in 2009. In some instances, these changes have been accompanied by falling consumer price indices. Countries at risk of deflation in 2009 include some major G-20 members such as Japan, the U.S., or Spain. The group of emerging and developing countries has also suffered from the crisis more than initially expected, mostly due to reduced demand for their exports, lower foreign direct investment, falling remittances and less tourism. On average, their growth rate declined from 8.3 % in 2007 to 6.0 % in 2008 and is forecasted to reach just about 1.7 % in 2009. The most affected countries have been those with more open policies and hence more exposure to changes in global economic conditions. After sharply increasing in 2008 as a result of surging food and oil prices, inflation figures in emerging and developing countries have slowed down but remain positive at a forecasted rate of 5.5 % on average in 2009.

II. Average Wages

4. **Wage growth in 2008 fell sharply:** To what extent has the crisis affected average monthly wages around the world? We present some data from our updated Global Wage Database, which includes 53 countries for which official wage statistics are available consistently until the end of 2008.[4] Based on this sample it appears that the global growth in average wages declined from 4.3 % in 2007 to 1.4 % in 2008.[5] Overall, while a majority of countries could maintain declining but positive wage growth in 2008, more than a quarter of countries experienced flat or falling monthly wages in real terms. These countries include the U.S.A. (0.0 %), Austria (0.0 %), Costa Rica (0.0 %), South Africa (–0.3 %), Germany (–0.6 %), Switzerland (–0.7 %), Israel (–0.9 %),

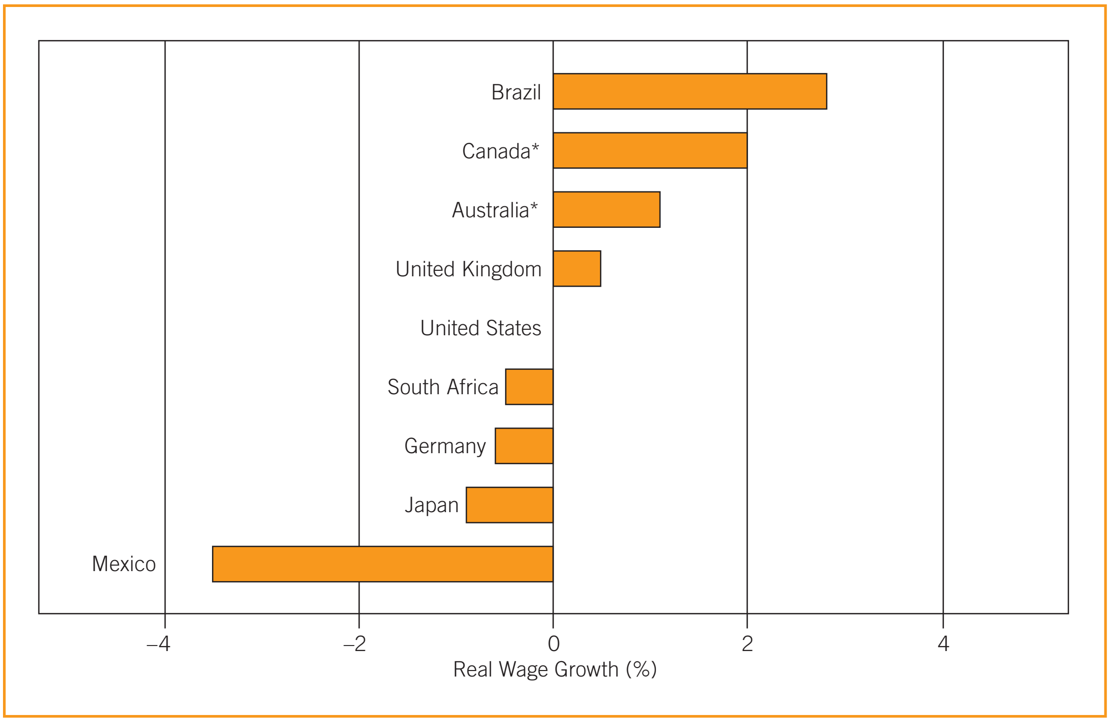
[2] http://www.pittsburghsummit.gov/mediacenter/129639.htm

[3] IMF World Economic Outlook, October 2009

[4] The statistics on wages used in this report, which are those commonly available, consist of the total monthly remuneration received by employees. The entire wage database is available at http://www.ilo.org/travail. Note that international comparability of wage levels is affected by the different measurements in national surveys.

[5] In this section we report the growth in average wages in the median country of the sample. This provides more robust information on the central tendency of wage growth than the mean of average wages, which is influenced by extreme values. In general the median value is preferred to average values when distributions are skewed and influenced by outlier values. Real wage growth is calculated as nominal wage growth from official national statistical sources adjusted for country-level CPI figures published by the IMF.

Chart 1: Wage Growth in Select G-20 Countries (2007–2008)



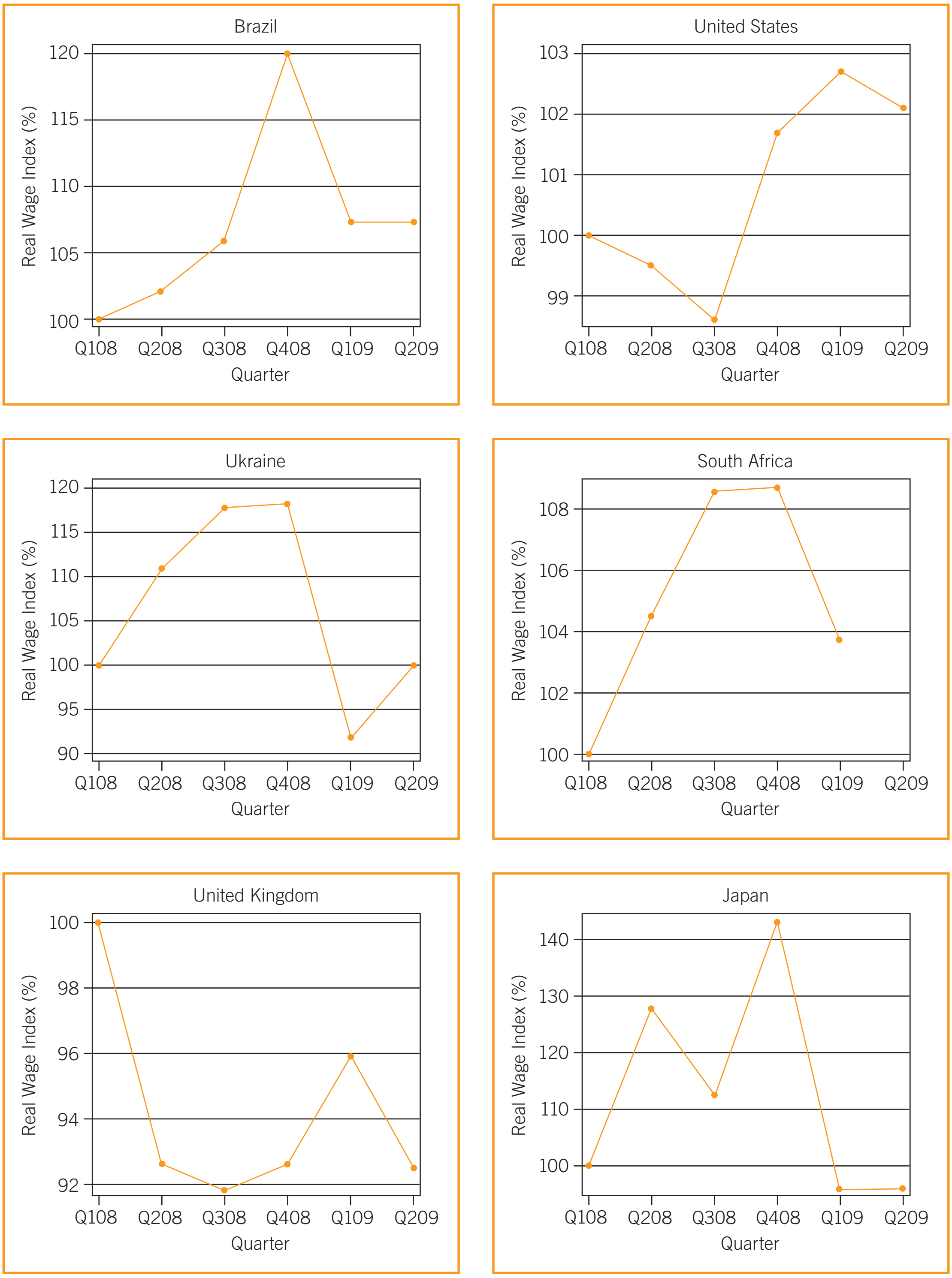
Source: ILO, Global Wage Database.

Japan (–0.9%), Singapore (–1.0%), Mauritius (–1.0%), Kazakhstan (–1.1%), the Republic of Korea (–1.5%), Panama (–2.8%), Mexico (–3.5%), Ecuador (–4.1%), Iceland (–4.8%), and Seychelles (–15.5%). Declines of 3.6 per cent and 6.2 per cent were recorded in Taiwan, China and Hong Kong, China, respectively.

5. **The difficult outlook for 2009:** The picture on wages is likely to get worse in 2009 – despite the beginning of a possible economic recovery. Compared to the annual average of 2008, the real wages in the first quarter (Q1) of 2009 fell in more than half of the 35 countries for which recent data is available. For example, Chart 2 illustrates the behaviour of wages in a small sample of six countries – up to the second quarter of 2009 wherever available[6]. While quarter-to-quarter changes may also reflect cyclical changes, we see that in three countries out of the six, wages are lower in early 2009 than they were in the same quarters in 2008. The downward trend in wages raises some questions about the extent to which the consumption of workers and their families will be able to sustain aggregate demand for economic production once the effects of government rescue packages peter out.

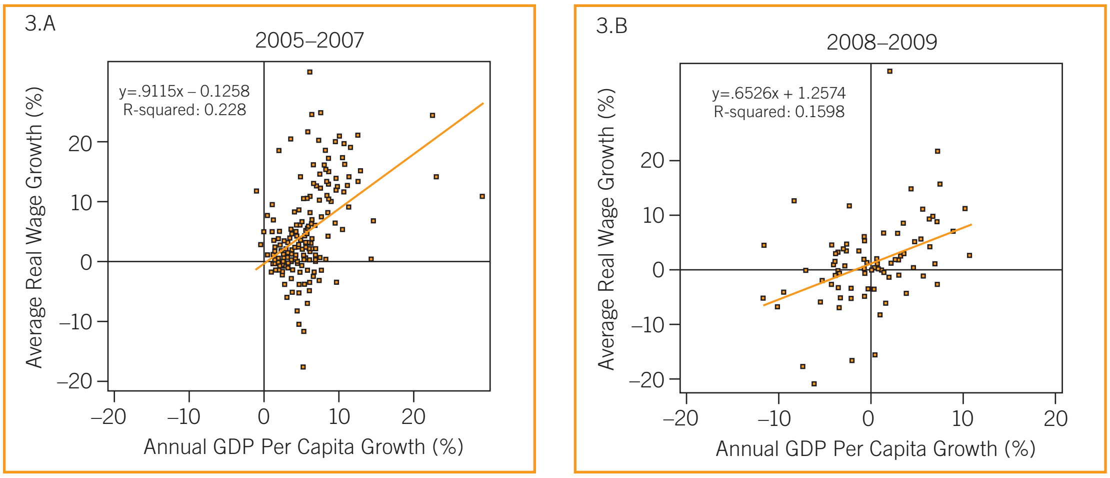
[6] Note that the scale of the graphs differ by country and therefore visual comparison of the magnitude of changes should not be made.

Chart 2: Quarterly Real Wages Index in Selected Countries (Base Year = 1st Quarter of 2008)



Note: The real wage index divides nominal quarterly wages by the IMF CPI. In the case of the U.S., the quarterly wage figures are seasonally adjusted. In general, quarter-to-quarter changes may reflect cyclical changes, and therefore quarterly figures should best be compared with the same quarter of the previous year.
Sources: National Statistical Sources.

Chart 3: Recent Trends in GDP per capita and Average Wages (real terms, % changes)

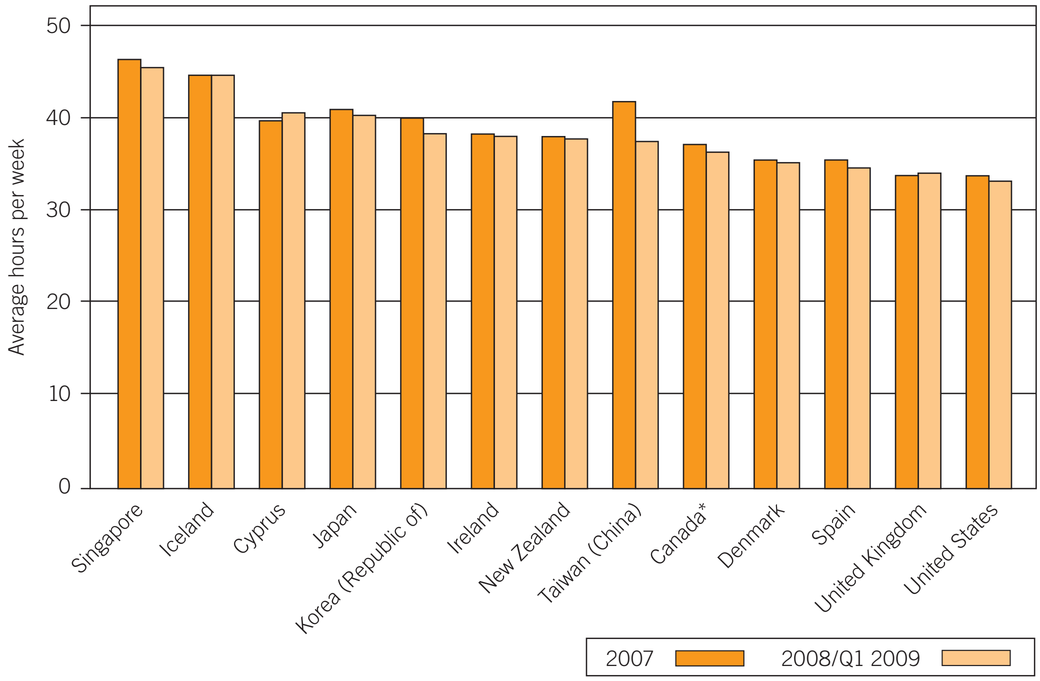


Sources: IMF, World Economic Outlook and ILO, Global Wage Database.

6. **The relationship between variations in GDP per capita rates and wages:** Do these wage trends simply reflect the fall in economic activity? Our last Global Wage Report, while confirming the general association between the direction of economic growth and wages, observed that in the ten years before the crisis wages had increased at a slower rate than the economy. On average, each additional 1 % increase in annual GDP per capita was associated with a 0.75 % increase in annual growth of wages. As Chart 3.A shows, the more recent pre-crisis period of 2005-2007 witnessed a stronger correspondence between economic growth and wages (an elasticity of 0.91) – perhaps the beginning of a catch-up process after a decade of "wage moderation". This process ended with the crisis. Chart 3.B shows that in 2008 and 2009 there was considerable variation in the behaviour of wages across countries. Some countries managed to maintain positive wage growth despite the economic recession, while others have experienced deep wage cuts. This diversity is likely to reflect cross-country differences in the speed of wage adjustments (which are typically lagged in periods of rapid economic change) as well as variations in countries' industry and occupational structure, including skill sets, institutional settings, the coverage of collective bargaining, and the policy responses to the crisis.

7. **Hourly and Monthly Wages:** Changes in monthly wages are the product of average changes in hourly wages and in the number of hours worked. This fact points towards the important role of employment trends in analysing wage data for at least two reasons. First, significant changes in the employment rate of different categories of workers can lead to a so-called "composition effect" on wages: when a majority of those who lose their jobs are in low paid occupations, the average hourly wage in the labour market goes up – even though people's actual wages remain unchanged. In such a scenario, trends in average monthly wages may actually underestimate the true extent to which the crisis has hit workers' wages. The available evidence, however, does not yet permit to determine the direction of this "composition effect". Secondly, our data suggests that a substantial part of the decline in monthly wage growth can be attributed

Chart 4: Weekly Hours of Work 2007–2008/Q1 2009



Note: Data are either for all employed or full-time workers.
Source: ILO, Global Wage Database.

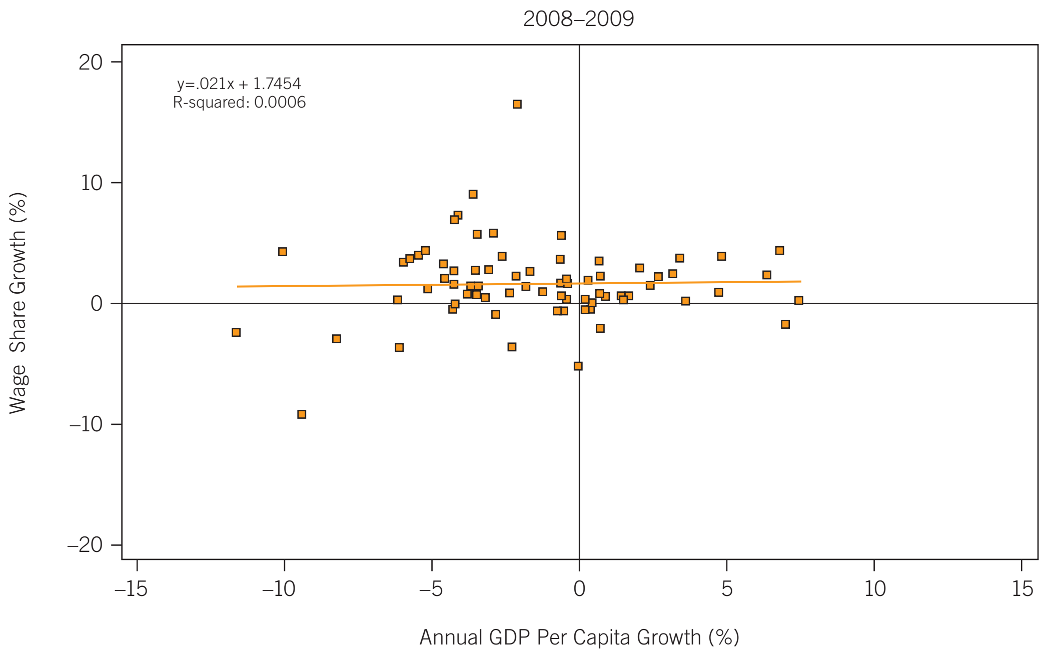
to cuts in the number of hours worked among those who remain employed. Overall, out of 13 examples of published statistics on hours worked in 2008 and/or 2009, 11 registered a decline in working time compared to 2007 (Chart 4). The average working time among these 13 examples has declined from 39 to 38.2 hours per week. Men and women have both been affected. Among the six examples with disaggregated data, we find that hours worked by women declined from 36.4 hours to 35.8 while hours worked by men declined from 40.7 hours to 40.0 hours.

8. **Wage arrears:** One particular concern about the impact of the crisis on wages is the extent to which wage-arrears have increased. In regions where this has been an issue in the recent past, the crisis may have made things worse. In Ukraine, for instance, wage arrears had been considerably reduced in the last few years before doubling with the economic crisis, to reach UAH 1,189 million in the beginning of 2009.[7] It is significant that wage arrears did not only affect bankrupted or inactive enterprises, but also economically active enterprises that represented 64 percent of total wage arrears in 2009, compared to 36 per cent the previous year. Similarly, in Russia, official statistics show that temporary wage arrears have increased substantially since December 2008 with a peak between April and June 2009.[8]

[7] On January 1st, 2009, one US$ was worth about 7.86 Ukraine Hryvnia

[8] http://www.gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d03/152.htm

Chart 5: Recent Trends in the "Wage Share"



Sources: IMF, World Economic Outlook, and ILO, Global Wage Database.

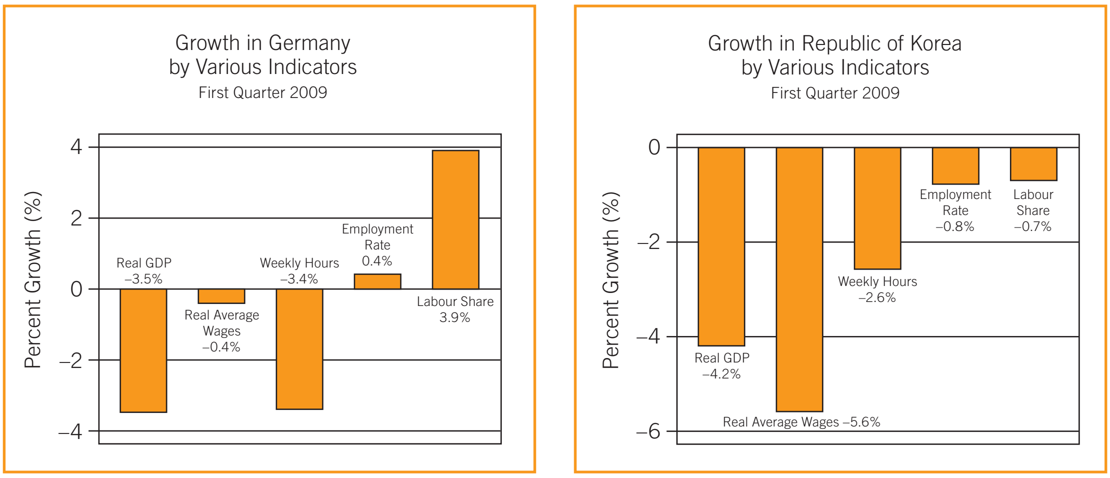
III. The Wage share and the Distribution of Wages

9. **The wage share has gone up:** Despite their relatively weak performance, wages have so far resisted better to the crisis than profits in a majority of countries. This has resulted in a rise in the share of wages in GDP among most of the 38 countries included in our sample. As shown in Chart 5 – which displays changes in GDP per capita on the horizontal axis and changes in the wage share on the vertical axis – the wage share typically increased between 0 and 5 per cent in the year 2008/09, irrespective of the size of GDP growth or decline. However, this trend needs to be interpreted with caution. The relative increase in the wage share may be just a temporary phenomenon, mainly due to the widely-observed fact that wage adjustments tend to be slower than other economic and labour market variables, especially in the case of downward adjustments. In particular, it may be due more to the temporary decline in labour productivity than to rising wages. It should also be noted that the direction and size of the change in the wage share depends very much on country-specific institutions, as well as the policy responses to the crisis.

10. In **Germany**, for example, the Government has taken vigorous measures to promote work sharing arrangements with wage subsidies during the crisis in order to avoid layoffs.[9] This has led to moderate reductions in monthly wages, alleviated

[9] See Messenger, Jon C., "Work sharing: a strategy to preserve jobs during the global jobs crisis", TRAVAIL Policy Brief No.1, ILO, Geneva, June 2009

Chart 6: The Wage Share in Germany and the Republic of Korea, First Quarter 2009



Note: The figures refer to changes, compared to the same quarter of the previous year. Figures are ILO estimates using national sources.

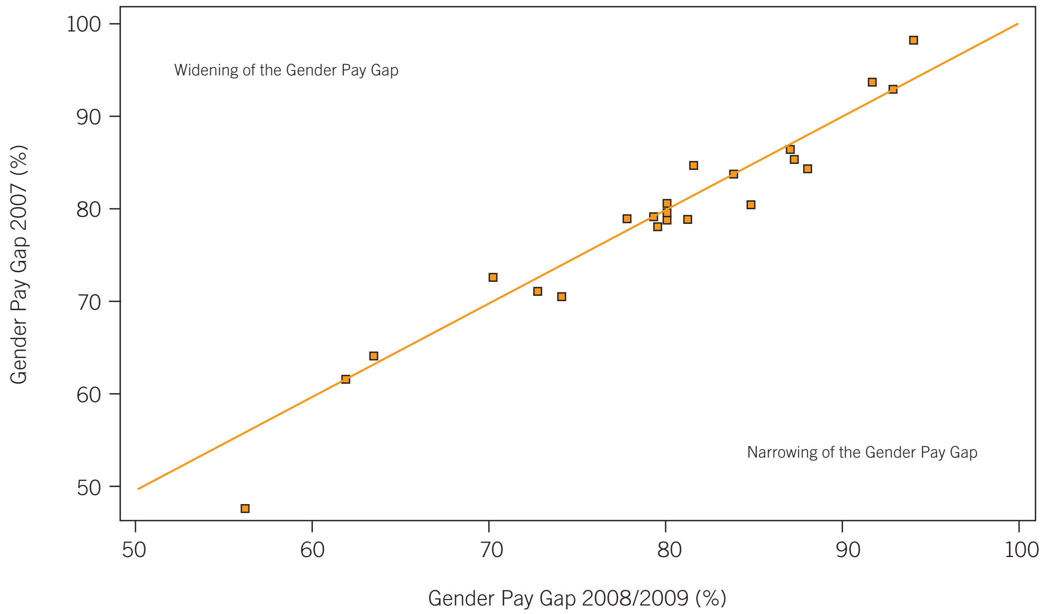
by partial wage compensation. The overall effect of such a policy on the wage share can be appreciated in chart 6. The decline in GDP of 3.5 % in the first quarter of 2009, combined with the important reduction in working hours (–3.4 %), has been associated with a slight decline in real monthly wages but positive employment growth. As a result, the share of wages in GDP is expected to increase by 3.9 % in 2009. By contrast, in the **Republic of Korea** the contraction in GDP (–4.2 % in Q1, 2009) has had a negative impact on both wages and employment. In Q1, wages fell at a rate of 5.6 %, mostly as a result of a cut in overtime work and in quarterly collective bonuses, and employment contracted at 0.8 %. As a result the share of wages in GDP is also projected to decline.

11. **The crisis has impacted women at least as much as men:** Overall, data on average wages by sex have been collected for 22 countries for 2008 and 11 countries for Q1 of 2009. This data indicates that the crisis has hurt women's wages as much as men's wages. On average, across the 22 countries in the sample, the gender pay gap has frozen with women earning about 80 % of men's wage, thus interrupting the slow, but consistent, long-term trend towards more gender equity. In some countries, the situation of women has deteriorated. This is the case in the U.K. for example, where the gender pay gap – after decreasing in the last few years – increased in 2008. The widening of the median hourly pay gap between men and women can be explained by the fact that a significant number of women have recently moved into full-time jobs with low pay. Overall, the gap in hourly pay of women compared to men increased from 12.5 % in 2007 to 12.8 % in 2008, and – because women work fewer paid hours per week – the median weekly earnings of women employees in 2008 was 21 % less than for men.[10]

12. In the U.S., the gender pay gap (by median wage) has increased, with women's wages declining from 80.2 % of men in 2007 to 79.9 % in 2008, comparing full-time wage and salaried workers. As can be seen in chart 8, the gender pay gap still varies

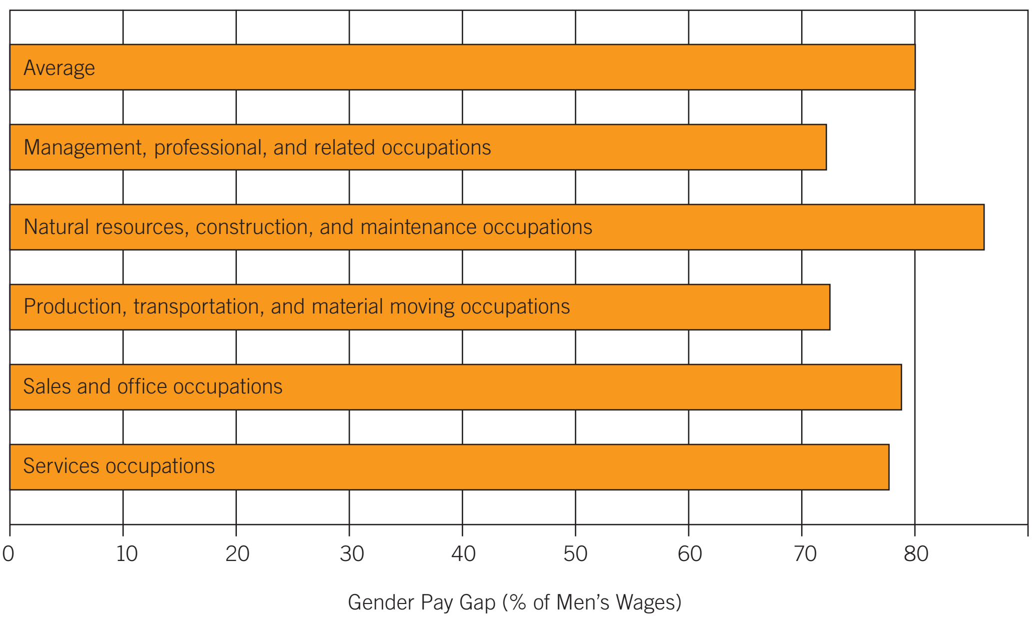
[10] http://www.statistics.gov.uk

Chart 7: The Gender Pay Gap 2007–2008/09



Source: ILO, Global Wage Database.

Chart 8: The Gender Pay Gap in the U.S.A. by Occupation, 2008



Source: ILO estimates using data from the U.S.A Bureau of Labor Statistics.

considerably across occupations. Interestingly, the category which employs the highest proportion of women, “management, professional, and related occupations”, is also the occupational group with the widest gender-pay gap. Women also remain overrepresented among low paid workers. In 2008, nearly 30 % of full-time women earned less than two-thirds the median wage, compared to only 20 % of men. Given that since the onset of the financial crisis American women comprise a growing percentage of the employed labour force and have unemployment rates which are consistently lower than those of men, the pay gap raises real concern for both the earnings of women and the families they increasingly support.

13. **Wage inequality has widened in the countries at the heart of the crisis:** Although little systematic global data is available so far on how the crisis has changed the distribution of wages, the crisis seems to have increased wage disparities in the U.S. and U.K. – two advanced economies that have been at the centre of the global economic turmoil. In both countries, the ratio D9/D1 which measures the distance that separates the 10 percent of highest paid workers and the 10 % of lowest paid workers has increased slightly.[11] One possible explanation for the increase in inequality in these two countries is related to changes in industry-level average wages. However, this requires further investigation.

IV. Minimum Wages: Trends and policy lessons

Trends

14. Minimum wages are an important policy tool for social protection. They are “the lowest level of remuneration permitted …which in each country has the force of law and which is enforceable under threat of penal or other appropriate sanctions. Minimum wages fixed by collective agreements made binding by public authorities are included in this definition”[12]. Minimum wages are a nearly universal policy instrument implemented by most countries in all regions, except the Middle East.

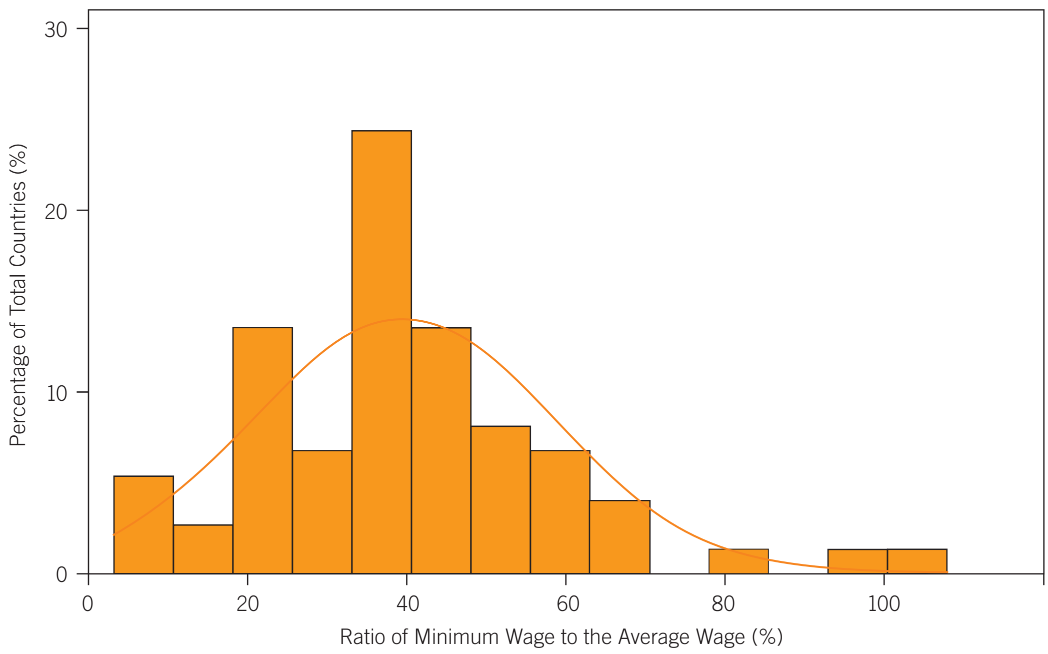
15. Levels of minimum wages vary greatly across countries. The most frequent scenario is that countries set their minimum wages at around 40 per cent of average wages (see Chart 9). This finding is based on a sample of 63 countries, including 25 developed economies, 12 transition countries from Europe and the CIS region, and 26 developing countries. Interestingly, the ratio of minimum wages to average wages is uncorrelated with countries’ GDP per capita and, therefore, appears to be the result of a policy decision that does not depend on countries’ level of economic development. A number of countries also seem to have either excessively high or irrelevantly low minimum wages.

16. During the pre-crisis period 2001–07, there had been clear indications, compared to earlier periods, of a more vigorous use of minimum wage policies in both

[11] By 0.15 percentage points over 2007-09 in the U.S. according to the US BLS Current Population Survey, and by 0.24 percentage points over 2007-08 in the U.K. according to the UK National Statistics Office.

[12] ILO: *Minimum wages: Wage-fixing machinery, application and supervision*, Report III (Part 4B) (General Survey), International Labour Conference, 79th Session, Geneva, 1992.

Chart 9: Ratio of Minimum Wages to Average Wages, using Latest Data (2008, 2007 or 2006)



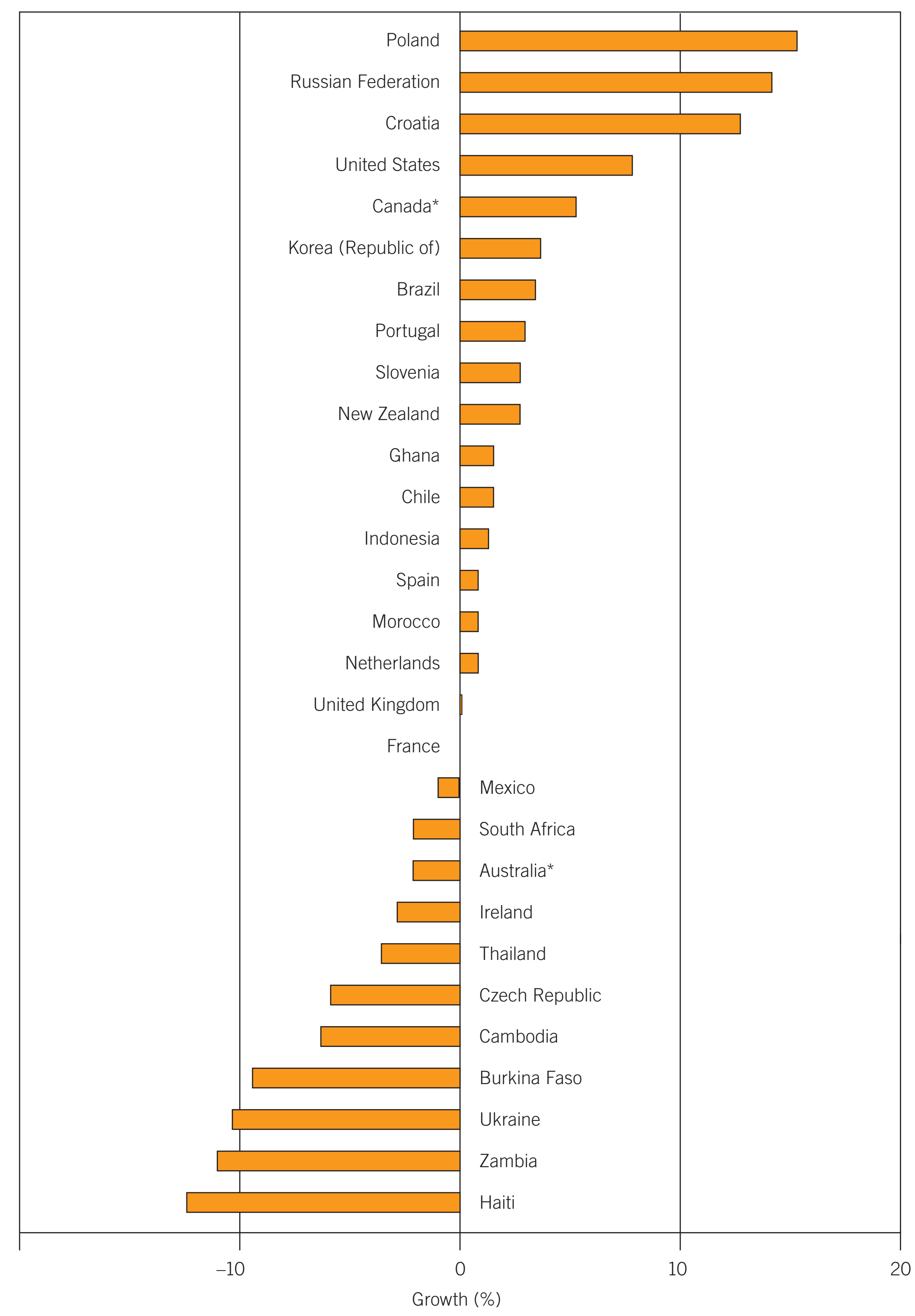
Source: ILO, Global Wage Database.

developed and developing countries. More than 70 per cent of the countries included in our database had increased minimum wage levels – by an average of 5.7 per cent per year in real terms (i.e. adjusted for inflation). What have been the trends during the economic crisis? While, during past downturns, concerns about the impact of minimum wages on labour costs and job displacements were more widespread, in the current crisis, a number of countries have adjusted minimum wages upwards. Based on a sample of 86 countries, in 2008 half the countries (43) have increased minimum wages in real terms (i.e. by more than inflation figures), while the other half has allowed inflation to erode their real value (see Chart 10).

17. In many countries, despite the crisis, minimum wages continue to increase, either through long-term adjustment plans (e.g., Brazil and UK) or through annual or ad-hoc reviews of their domestic economic and labour market situations (e.g., US, Pakistan and Jordan). In Brazil, during the first three quarters of 2008, cumulative real GDP growth was 6.4 per cent but then contracted by 3.6 per cent in the fourth quarter of 2008. In response, the government took decisive actions both to deter the crisis and to strengthen social protection. On the economic side, the main interventions were to assure liquidity to the financial sector and to continue implementing a multi-billion dollar national infrastructure investment programme. [13] With regards to social protection, the government raised the income level for eligibility in the *Bolsa Familia* programme

[13] These investments are set forth in the PAC (Programme to Accelerate Growth, 2007-2011).

Chart 10: Changes in the Real Level of Minimum Wages, 2007–2008



Source: ILO, Global Wage Database.

(conditional cash transfers) and put into effect a 6 per cent real increase of the minimum wage in February 2009, which had originally been scheduled for April 2009.

18. At the same time, a number of countries have decided to consider changes to their current minimum wage systems. In Costa Rica, for instance, the National Wage Council, with the technical assistance from the ILO[14], is exploring ways to enhance the empirical evidence and increase the number of statistical indicators available to social partners in the process of adjusting the minimum wage twice a year. The Government of Armenia is also considering improving its minimum wage-fixing institutional set-up as well as the current pay determination system in the public sector. The Government of the Philippines, through the National Wages and Productivity Commission (NWCP), has requested continued ILO's technical support in improving the current minimum wage system with the aim of protecting non-standard workers. Likewise, the Government of Vietnam has embarked, with ILO's assistance, on a process of reform of its minimum-wage fixing policy, as part of a broader process geared towards enhancing its industrial relations system. In Africa several countries, including Namibia, Rwanda, Cape Verde and Sao Tomé, have approached the ILO in the past few months to obtain its advice on issues such as the desirability of a national minimum wage versus minimum wage rates by occupation. The Government of Burundi is also considering the possibility to embark on a coherent national wage policy.

Policy lessons

19. Minimum wage policy decisions are to be based on the careful monitoring of variations in wage earnings and other sources of income of the most vulnerable groups of workers. This should provide the basis for decisions about how to maintain their purchasing power, through a combination of minimum wages and other income support policies and/or tax reductions, as in the case of Brazil.

20. Effective policy responses require strong social dialogue and close monitoring of the impact of the crisis on the most vulnerable workers. The methods and processes whereby minimum wages are set are as important as the minimum wage levels. While no universal system of minimum wage fixing exists, as national institutional arrangements reflect the level of collective bargaining development and the role of the State in wage policy, evidence shows that the involvement of social partners matters. As a result of social dialogue, minimum wages are more likely to be adjusted more regularly and more in line with productivity levels, economic performance and enterprises' capacity to pay, while preserving workers' purchasing power.

21. An indispensable condition is that social partners have equal access to all relevant information and data and have the means and capacity to comprehend fully the implications of minimum wages on inequality in the lower half of the wage distribution, productivity, inflation, employment and wage bargaining.

[14] With the support of the ILO technical cooperation project on the Promotion of Social Dialogue in Central America, Haiti, Panama, and the Dominican Republic

22. The active involvement of social partners in both the design and operation of minimum wage enforcement regimes is also essential to enhance their impact. Recently, in the United Kingdom, in the face of growing problems of underpayment of minimum wages, the Government organized consultative meetings with interested parties to discuss the suitability and implications of suggested changes to the minimum wage enforcement regime. Both workers' and employers' organizations put forward a number of constructive proposals. Minimum wage enforcement is typically more problematic in SMEs. Well-tailored, awareness-raising campaigns, in cooperation with employers' and workers' organizations, can help address this situation.

23. Ultimately, the impact and usefulness of a minimum wage policy depends on whether minimum wages are paid. This, in turn, depends on the effectiveness of the enforcement mechanism. Penalties for violators, adequate compensation for workers whose rights have been breached and suitable resourcing of the enforcement authority, are all crucial factors. But even such measures may not be sufficient, particularly in developing countries with a large informal economy. In such a context, one way to make the minimum wages binding is by ensuring consistency with any existing employment guarantee scheme. Through such schemes, the government can act as an "employer of last resort", employing the entire excess supply of labour at the stipulated minimum wage rate.[15] State procurement policies may also be used to promote adherence to minimum wage laws.

[15] Murgai, R and Ravallion, M. "Is a Guaranteed Living Wage a Good Anti-Poverty Policy?", World Bank Policy Research Working Paper No.3640

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