



SECOND ITEM ON THE AGENDA

**Wages around the world: Developments
and challenges**

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I. Introduction

1. Wages have a central role in economy and society and individuals' lives. Concerns are increasingly expressed that globalization and intensified competition are having an impact on the level and distribution of wages. The purpose of this paper is to provide a brief overview of wage developments around the world, especially on some of the most relevant issues such as the impact of the opening of markets on wages, the distribution of growth and productivity results, and equity between different categories of workers. The evolution of pay systems and the role of institutional settings will also be examined. While providing information on wage developments, this paper aims at identifying areas in which ILO knowledge is insufficient.¹ It also allows identification of challenges to be taken up by the ILO and by other international and national actors, including employers and trade unions.
2. Wages are a complex matter since they represent both an essential part of employers' labour costs and the main source of income for workers. Wage levels and fixing mechanisms can have not only economic but also social implications. It is for this reason that wages represent the most important element in collective bargaining, as well as in individual labour contracts. Wage fixing is relevant for both microeconomics – in relation to enterprise and worker behaviour, with effects on recruitment, motivation and investment – and macroeconomics (inflation, employment, productivity and consumption). Wage developments also represent a key variable for the State as they impact on the budget and social security – the State notably acting as the employer in the public sector – and also national economic policy goals such as growth, investments, employment and inflation.

II. International sources of wage statistics

3. The main source of information on wages is national surveys. The coverage, frequency and quality of these national surveys vary greatly. The international comparability of the data is also uneven. The patchy nature of national data and difficulties in accessing up to date statistics restricts the capacity to analyse issues.
4. No single international statistical source on wages exists as yet. The most significant is the ILO itself. Wage data can, first, be found in the ILO *Yearbook of Labour Statistics* that presents wage data classified by economic activity and sex. The *Key Indicators of the Labour Market* (KILM) provides data on wages, but also on the working poor and inequality. The ILO (TRAVAIL) has also set up a database on minimum wages. The *October Inquiry* represents the ILO's worldwide survey of wages and hours of work on 159 occupations in 49 industry groups. Its unique data were successfully transformed for comparative purposes by Freeman and Oostendorp (2000).²
5. The OECD *Economic Outlook* and *Employment Outlook* also contain a large amount of wage-related data, such as on wage share and unit labour costs. Eurostat provides data on hourly wages and other wage indicators for the European Union (EU) member countries. From their web sites and publications, the World Bank and the International Monetary Fund (IMF) and other regional organizations, such as the Asian Development Bank, also supply some statistics and information on wages.

¹ This paper complements GB.291/ESP/5.

² Freeman, R.B. and Oostendorp, R. (2000): *Wages around the world: Pay across occupations and countries*, NBER Working Paper 8058.

6. When using these sources, however, the biggest challenge is the lack of information for developing countries, especially for African countries. As an example, the latest version of KILM provides wage data in manufacturing in only 15 countries out of the 55 listed African countries, and only seven countries provided data after 1999.
7. The complexity in the wage area is made even more acute by the wide range of different possible variables that coexist in this area. Wages can be measured on an hourly, monthly or other basis, be given in gross or net figures, calculated in nominal or real terms, or regrouped in total compensation including employers' contributions. They can also be included in total labour costs that can be calculated in unit terms (unit labour costs) to integrate the productivity dimension. It is also essential to distinguish between wage and income.³ One priority is thus to help national governments to improve their collection of data, something that would also contribute to build more reliable and more extensive international statistics on wages.⁴

III. Wage levels, productivity and the opening up of markets

8. According to international trade theory, trade in goods and services, and capital, as well as labour mobility, should help equalize factor prices across countries, including the price of labour – wages. With globalization, a sort of wage convergence could thus be expected, that would be particularly beneficial to workers in developing countries.
9. In a significant number of developing countries, especially countries that have recently opened their trade, average real wages have increased, with substantial variations.⁵ The most impressive growth is in China – of 10 per cent per year on average, i.e. more than 150 per cent between 1995 and 2005⁶ – but also Malaysia – 30 per cent over the same period – and India. In Latin America, real wages increased on average by more than 15 per cent over the same period.
10. However, significant differences in wage levels continue to prevail between developed and developing countries, as witnessed between say, Sri Lanka, with an hourly average wage of US\$0.31 in 2005 compared to US\$17.89 in the United States.

³ Wage is what the worker gets from work and is generally composed of a basic part and additional bonuses. Income represents all sources of monetary compensation from work or outside work. We shall carefully specify in this paper when we use one or the other. In between wages and incomes the term “earnings” is often used to include wages plus other monetary benefits (e.g. overtime pay or shares of the company).

⁴ The availability of statistics on line may also facilitate the better collection of comparative data. Efforts should also be made in obtaining harmonized data either through the use of common questionnaires (methodology used by Eurostat or by the ILO in its *October Inquiry*) or by obtaining data on similar variables across countries that can be easily compared.

⁵ As supported by the ILO *October Inquiry* data on dozens of occupations in 70 countries (Freeman and Oostendorp, op. cit., 2000).

⁶ This growth in China is for the whole economy while the data for Malaysia – as for many Asian countries – are for the manufacturing sector.

11. Different studies have shown that most of the variance in wages between countries could in fact be explained by differences in productivity and economic development.⁷ Differences in wage levels are also considerably reduced when calculated in terms of purchasing power parity (PPP) which confirms the need to take into account differences in prices and the role of economic policies – including wage policies – to keep inflation under control.
12. A further qualification about the relationship between opening to trade and trends in real wages is the need to distinguish between short-term and long-term effects. According to the evidence so far the expected positive effects of openness are not immediate. Indeed, openness may involve a temporary decline in real wages, even though the long-term effects of trade and mobility are expected to be large enough to offset the short-term losses.⁸
13. The quality of the openness process is also important. For instance the catching-up process may not operate if the opening up of the economy fails to attract foreign capital, or if it does not bring the expected boost of exports, but rather a growth in imports which can deter local producers and also lead to imported inflation, as happened in many Central and Eastern European countries in their first years of transition.
14. Foreign direct investment has been found to have a positive effect on wages. Performance in terms of exports also explains fast catching up in terms of wages, as witnessed by the growth of real wages in China and Asian countries. In contrast certain countries that have had trouble in finding their place in international competition, such as Peru and Zimbabwe, have also lagged behind in terms of real wages.
15. Studies have shown that it may not be the openness in itself that has a positive effect on wages, but whether such openness converts into balanced and sustainable growth.⁹ For instance it should lead to a catching up not only in urban but also in rural areas, and also be geographically spread across the different regions of a country. In China, institutional reforms and consequent significant increases in income in rural areas – also experienced in India – have represented an important ingredient in the impressive continuous average real wage growth, even if the income gap between urban and rural communities continues to widen.
16. Exceptional events such as financial crises that have become more likely alongside globalization and greater international capital mobility – and which are often precisely the sign of unhealthy or unsustainable economic growth – were found to have a direct effect on real wages. In the countries most affected, they interrupted their wage convergence process. Indonesia and the Republic of Korea experienced a real wage decrease, of 42 per cent and 15 per cent respectively, during the 1997–98 Asian crisis. Similar effects were felt in Argentina (2000–02) and the Russian Federation (1998).

⁷ As shown by Trefler, D. (1993): “International factor price differences: Leontief was right”, *Journal of Political Economy* 101(6): 961–87; but also Freeman, R. (1994): “A global labor market? Differences in wages among countries in the 1980s”, World Bank, Washington, DC; and more recently Rodrick, D. (1999): “Democracies pay higher wages”, *Quarterly Journal of Economics* 114(3):707–38.

⁸ Majid, N. (2004): *What is the effect of trade openness on wages?* Employment Strategy Paper 2004/18 (Employment Strategy Department, ILO, Geneva).

⁹ *idem.*

IV. Changes in the wage share

17. The growth in real wages observed in many developing countries does not seem to be automatically translated into a higher share of wages in GDP.¹⁰ On the contrary, since the early 1990s, this share has declined most in fast-growing countries, such as Brazil, China and the Republic of Korea.¹¹ It has also declined significantly in the United States – by 10 percentage points between 1970 and 2005. According to the OECD: “nominal wage growth (in member States) has fallen well short of increases in productivity for several years, driving the share of national income to a low level. This unusual moderation of wages appears to be an international phenomenon”.¹²
18. Economists take the view that such evolution of the wage share depends on two main factors: first changes in the ratio of capital to labour; and second shifts in the return on labour over the return on capital.
19. The first puts the emphasis on higher demand for technology and capital in today’s economy with consequent technological and sectoral changes – for instance, with new technologies replacing middle-income workers or the growth of banks and financial companies. An increased capital–labour ratio could also be due to a general fall in the number of employees due to restructuring.
20. The second goes beyond the capital–labour ratio and emphasizes the fact that the rate of return to capital could grow more than the rate of return to labour. And indeed in some countries a declining ratio of wages to profits has been observed, for instance, in China but also in industrialized countries like Australia, Austria, Canada¹³ and several Central and Eastern European countries, which have also experienced some wage moderation.
21. Various factors have been put forward to explain these trends: global trade, immigration, higher corporate earnings, declining workers’ bargaining power and, more generally, the lack of labour institutions. In reality, however, economists do not know what factors dominate and according to what local or national conditions. Nor can they predict when the wage share may stop falling.¹⁴ It is thus evident that more research is needed on the declining wage share to better identify its determinants and their respective weight. There is also a need for more comparative research on wages and productivity.
22. The impact of trends in real wages on consumption is another area which has been neglected. The effects of declining wage shares or increased wage inequality on the propensity of consumption by income categories are likely to alter aggregate consumption in an economy and thus the rate of growth. The experience of Central and Eastern

¹⁰ The wage share is an indicator of the distribution of income between capital and labour. It represents the ratio between the total compensation of employees (according to the system of national accounts) and gross domestic product (either at market prices or factor cost).

¹¹ ILO calculations.

¹² OECD (2006): *Economic Outlook 79* (Paris), p. 12.

¹³ ILO calculations.

¹⁴ As recognized by eminent economists like Alan B. Krueger (Princeton University): “It’s a bit of a mystery why the labor share is falling so much”; or Olivier Blanchard (MIT): “The complete, integrated story remains to be told”; or David Grubb (OECD): “The decline in the wage share is bound to level off, but the question is, when will it stop falling, and how”, in “After years of growth, what about workers’ share?”, in *The New York Times*, 15 Oct. 2006.

European countries in their first years of transition has shown that the fall in real wages – due to tax-based incomes policies to control wage progression alongside price liberalization – had a detrimental effect on consumption that contributed to the prolonged and unexpected fall in output in these countries.¹⁵ In a different context, the growth of the Chinese economy is showing imbalances between its export capacity and the still rather low relative level of domestic consumption. To a lesser extent, a number of commentators believe that in Germany the wage moderation process has squeezed private consumption thus depressing employment. Wage trends should thus be studied also according to their potential effects on consumption.

V. Trends in wage disparities

23. According to neoclassical economics, wages would reflect market forces and be fixed at the equilibrium between labour demand and labour supply. The evolution of wage disparities may thus be traced back to the current changes in market forces. At the same time non-market forces, including social norms about job hierarchies, can also affect wage levels. Wage differences between different categories of workers may result from discriminatory practices vis-à-vis particular groups of workers – practices that may also be influenced in one way or another by the current fast-changing and more competitive economic context.
24. Wage data show a trend towards increased income and wage disparities both between countries and within national boundaries.
25. Studying wage disparities across countries involves comparing the levels and evolution of wages in a similar occupation across countries. Freeman and Oostendorp (2002) in a study of 161 occupations in over 150 countries in the period 1983–98, conclude that there has been a widening of pay disparities for similar work across countries.
26. There is a general increase of wage and income disparities within national boundaries between the workers at the top and those at the bottom. Latin American countries all continue to have a degree of income inequality (with an average Gini coefficient¹⁶ of 0.54 as, for instance, in Brazil). Wage and income inequality also increased significantly across Asia (in 13 out of 18 countries) in the last decade,¹⁷ in contrast to Asia's past record of equitable growth experienced until the early 1990s. In China, increased average wages have been accompanied by a high increase in income differentials with the Gini coefficient reaching 0.45 in 2005 compared to 0.33 in 1980.

¹⁵ Vaughan-Whitehead, D.: *EU enlargement versus social Europe: The uncertain future of the European social model* (Edward Elgar, 2003).

¹⁶ The Gini coefficient is a measure of inequality across the income distribution from 1, at which all income would go to a single person, to 0 in which everybody would get the same. Wage disparities are not the same as income disparities. Because of the lack of data on wage disparities, most experts use the Gini coefficient that measures income and not wage inequality. Although it is a reliable alternative variable – since wage variations generally explain the most important part of income variation – there is an urgent need to collect more data also on wage disparities.

¹⁷ IMF: “Rising inequality and polarization in Asia”, in *Asia and Pacific Regional Economic Outlook* (Washington, DC, 2006). See also Freeman and Oostendorp (2005): “Occupational wages around the world database” available at www.nber.org/oww.

27. Developing countries have registered larger increases in income disparity,¹⁸ on average, than developed countries (IMF, 2006).¹⁹ This contradicts predictions derived from standard international trade theory (Heckscher-Ohlin model) that the pattern of international specialization by reflecting countries' relative factor endowments should lead to higher demand for unskilled labour in developing countries – and the opposite pattern of specialization on skill-intensive products in industrialized countries – and thus to an eventual increase in the wages of poorer workers and reduced inequality. Explanations for the widening of income inequalities have highlighted the preference of foreign investors and exporters producing for a global market for a skilled labour force which, since such workers are relatively scarce, has had the consequence of bidding up skill premiums. There is however a need for further research in this area.
28. The phenomenon of inequality also affects the industrialized countries. A recent OECD study on 21 countries shows that income disparities have widened significantly since the early 1990s in 11 countries, whilst in no country did they experience a fall. This gap, which also mirrors the widening of wage relativities, partially reflects differences between industries and sectors – between for instance finance and manufacturing. Such wage differentials can thus also be traced to skill-biased technological change that favours skilled over unskilled labour.
29. The growth of inequality in China – as in India – is partly explained by an increased regional gap and a gap between urban and rural areas. In 2005, the average income per capita of urban residents in China was 3.2 times that of farmers, compared to 2.8 in 1995. Between 1998 and 2002, the contribution of the urban–rural gap to national inequality rose from 38 to 43 per cent.²⁰ This relatively sharp and rapid rise in urban–rural income disparity has become a cause for concern for economic development and social stability.
30. Some interesting patterns emerge in examining the annual growth of real wages by skill or education level. Almost all countries – developing and developed – in the sample of a comprehensive recent study show a rising skill or education premium.²¹ We also observe that foreign direct investment while paying higher wages may not contribute to reducing wage differentials because of their high demand for skilled labour – even in low-skill intensive sectors.²²
31. While there has been a decline in the gender gap in some countries, overall, the gap remains significant. In Latin America, women's average income per hour in non-agricultural sectors increased from 68 per cent to 78 per cent of men's between

¹⁸ In the next paragraphs, the discussion deals with incomes rather than wages reflecting data availability. More research is needed but it is likely that wage disparities have moved in a similar way.

¹⁹ Milanovic, B. and Squire, L. (2005): *Does tariff liberalization increase wage inequality? Some empirical evidence*, World Bank Policy Research Working Paper 3571 (Washington, DC).

²⁰ China Human Development Report 2005, UNDP.

²¹ Blau, F.D. and Kahn, L.M (2006): *ILR impact brief – The sources of international differences in wage inequality*, ILR collection (Cornell University, Ithaca).

²² Feenstra, R.C. and Hanson, G. (1997): "Foreign direct investment and relative wages: Evidence from Mexico's maquiladoras", in *Journal of International Economics*, Vol. 42, pp. 371–393.

1990–2000.²³ In some Asian countries where the gap was wider, there has also been a narrowing most significantly in Japan, the Republic of Korea and Malaysia. Despite this trend, men in these countries still earn 40 per cent more than women. In the Islamic Republic of Iran, the Philippines and Thailand, the gap remains at 30 per cent.²⁴

- 32.** Another explanation of the increase in wage disparities is related to the growth of new forms of contracts such as fixed-term, temporary agency, part-time, on-call and self-employment. While these new contracts may offer new employment possibilities, they have also been found to bring disadvantageous wage positions to vulnerable groups of workers – women, young people, older workers, migrants, ethnic minorities – who have more recourse to these forms of contract. As an example the growing inequalities in the Republic of Korea are mainly explained by the growth of fixed-term and self-employment contracts – 37 and 30 per cent of the labour force respectively (IMF, 2006). According to research on the 27 EU Member States while these new types of contract can serve as a stepping stone into the labour market they are often associated with prolonged employment in low-quality and low-paid jobs.²⁵
- 33.** Widening wage dispersion could also be leading to the social polarization reported both in developing and developed countries. There is evidence of a shrinking middle class in some of Asia’s low- and middle-income countries.²⁶ Polarization in industrialized countries is also often equated with the disappearing middle class, a problem that has captured the attention of the media and policy-makers, for instance in the United States.²⁷ There is a need to better investigate this issue, especially from a wage policy perspective.
- 34.** Finally, the phenomenon of the working poor also deserves particular attention, since it affects for instance 200 million people in South Asia, and 150 million in sub-Saharan Africa.²⁸ The increase in real wages has contributed to a reduction in the number of working poor, especially in China and other Asian countries. The percentage of the world’s labour force living below US\$1 per day decreased from 25.7 to 18.3 per cent between 1995–2005.²⁹ Other countries, especially in sub-Saharan Africa, where the working poor rate remains high (56.3 per cent in 2005) have not experienced a similar trend. It would also appear that many of those who have escaped US\$1 a day extreme poverty are now in the less than US\$2 a day band.

²³ ILO: *Time for equality at work*, Report of the Director-General, Global Report under the follow-up to the ILO Declaration on Fundamental Principles and Rights at Work, International Labour Conference, 91st Session, 2003.

²⁴ ILO: *Labour and Social Trends in Asia and the Pacific 2005*, Geneva.

²⁵ Eyraud, F. and Vaughan-Whitehead, D. (eds) (2007): *Evolving world of work in the enlarged EU: Progress and vulnerability* (Geneva, ILO).

²⁶ IMF (2006): “people in the report are counted as middle class if their income or consumption does not deviate by more than 50 per cent from the median”.

²⁷ Dobbs, L.: *War on the middle class* (Penguin Viking, 2006).

²⁸ Here with incomes below US\$1 (KILM fourth edition).

²⁹ ILO: *Global Employment Trends Brief*, Jan. 2006, Geneva.

35. There are also 7.8 million working poor in the United States and 8 million in former EU-15.³⁰ Although wages are definitely an important factor, the working poor phenomenon is due to a combination of several factors, such as housing, health and family situation. There is thus a need for more research to better identify the contribution of low wages to the working poor phenomenon and the exact combination of conditions that contribute to it.

VI. Evolving pay systems

36. Growing competition, fast-changing production requirements, the more complex nature of work, and the demand for a more adaptable and motivated labour force have also modified the use of pay systems.³¹ In general we are witnessing an increased diversity in the structure of wages, with a great variety of systems across countries.
37. While the basic fixed wage (traditionally time-based) continues to represent the main component of total wages received by workers it is increasingly complemented – sometimes substantially – by a number of other sources of monetary income (such as bonuses for specific working conditions, premia for seniority, payment by performance, profit-sharing schemes, and so on) and non-monetary income (such as fringe benefits, payments in kind, and so on). As an example, in the Russian Federation the basic wage represents on average only half of total wages.
38. Payments in kind continue to represent an important source of income in developing countries. At the same time we observe a decrease in fringe benefits provided by enterprises in some countries. For instance in Central and Eastern European countries, workers suffered from the withdrawal of benefits formerly distributed by the companies where they worked. A similar phenomenon is being observed in China.
39. While the piece-rate system (pay per unit produced) remains important – especially in developing countries – in some traditional manufacturing and in agriculture, its scope is progressively decreasing especially in more developed countries since it cannot reflect the more complex nature of work. At the same time more “task-based” pay systems are observed related to the growth of outsourcing and self-employment.³²
40. With large-scale changes in the content of work for many groups of wage earners, it would seem that pay systems are changing in a constant search to improve the relationship between rewards and performance. A number of payments by result (bonuses related to individual or small group performance) have been emerging in the last decade.
41. The development of profit-sharing schemes (variable portion of pay directly linked to some measure of enterprise performance) is also being witnessed – especially in the United

³⁰ While the threshold used for calculating the working poor in developing countries is an absolute measure (US\$1 or 2 per household member per day) the working poor calculation in developed countries is generally made on the basis of a relative measure (generally below 50 or 60 per cent of median household income). In some developed and developing countries the number of working poor is sometimes calculated on the basis of a national poverty or subsistence minimum level according to a basket of essential goods.

³¹ A pay system may be defined as the various procedures and rules established within an enterprise to determine the basic entitlements of workers to different elements of remuneration.

³² Systems where workers are paid for the accomplishment of specified tasks rather than time-based employment, often associated with forms of self-employment.

States and in the European Union – where it was initially developed the most in France and the United Kingdom, before being extended to countries such as Greece, Spain and others. Introduced by employers mainly for their positive effects on employees' commitment, European institutions have also emphasized their positive effects both on productivity and employment stability.³³ However these schemes related to enterprise performance remain rather limited in other parts of the world despite some successful isolated experiences as in Brazil.

42. As far as the complex relationship between wages, wage setting and employment is concerned, a major difference between countries can be observed. Some countries adjust to shocks through wage flexibility, others adjust through employment flexibility. In fact wage flexibility – that is wages going up or down automatically according to economic performance – has not much developed compared to employment flexibility – which consists in more freedom to hire and fire – and to a lesser extent also flexibility in working hours.³⁴ The trend instead is towards collective bargaining agreements accepting wage moderation to avoid or minimize employment losses. There is also a trend towards reduction in non-wage labour costs and thus the reduction of tax wedges.³⁵ While this has led to incremental employment in a number of countries, prolonged phases of wage moderation have led in other countries to consumer restraint with possible adverse effects on employment and social security financing. The whole complex relationship between wages, pay systems, labour costs and employment would merit further investigation.

VII. The impact of institutional settings

43. The studies available so far tend to show that countries with strong collective bargaining institutions, including trade unions and employers' organizations, also have a narrower income distribution.³⁶ Trade union density also has an effect on equalization by increasing wages at the lower end of the labour market.³⁷
44. The increase in wage inequality and the declining share of wages in some countries may thus be partly explained by the reduced membership of the trade unions, and the decrease in the coverage rate of collective bargaining. This has been observed in many countries, with the most evident shift being reported in transition countries such as the Russian Federation, Ukraine and countries of Central Asia, Central and Eastern Europe and South-

³³ For instance, from the European Commission (1992): The promotion of employee participation in profits and enterprise results (The PEPPER I Report), *Social Europe*, Supplement 3/91; from the European Council: Council recommendation of 27 July 1992 concerning the promotion of employee participation in profits and enterprise results, *Official Journal of the European Communities*, No. L.245, 26 Aug. 1992. See also the regular publications on financial participation (notably the PEPPER II in 1997 and PEPPER III in 2006) by the European Commission and the European Foundation for the Improvement of Living and Working Conditions.

³⁴ More research is needed on wage flexibility to better investigate the potential of schemes relating wages to profits.

³⁵ The tax wedge is the difference between workers' take-home pay and what it costs the firm to employ them.

³⁶ Hayter, S. (2002): "Collective bargaining and income equality in an integrating world", in *Labour Education 2002/03*, No. 128, Integration Department, ILO.

³⁷ Blau and Kahn, op. cit., 2006.

East Europe,³⁸ but it is also present in the older EU members. The fact that Western European countries have so far seen a smaller reduction in the wage share and less wage disparities than the United States is often explained by the greater role of collective bargaining and social dialogue in the former. Trade union membership rates and collective bargaining coverage rates have also decreased in most African, Latin American and Asian countries, with few exceptions (Brazil, Cambodia and South Africa).³⁹

45. There is also a trend towards decentralization of the wage-fixing process. In several countries, sectoral or regional wage bargaining has been progressively replaced by wage bargaining at enterprise level. An increasing number of trade-offs for wage concessions have been negotiated at local level. In many African countries enterprise-level bargaining has arisen as the dominant bargaining level, a similar trend being reported throughout Latin America. Similarly in Asia the vast majority of collective agreements are reached at the level of the enterprise.⁴⁰ In some European countries such as Germany, exception or opening clauses allow employers and workers' representatives to negotiate enterprise-level conditions of pay and work less favourable than the upper levels in regional or national collective agreements.
46. A trend towards multi-level wage bargaining is also observable, notably the combination of national tripartite pacts or agreements on incomes policy – that are then used at a lower level as a frame – and negotiations on wage issues at more decentralized levels. Social pacts have multiplied in the EU and often started by addressing wage issues – especially wages to productivity – before being extended to a wider range of economic and social issues. Ireland's economic recovery and growth can be traced back to its tripartite agreements.
47. Wage bargaining is an important labour market institution. However, many enterprises and workers are not covered by collective bargaining. This is the case of all those working in the informal economy who generally experience lower wages and harder working conditions. The informal economy may also influence the outcome of wage bargaining in the formal sector. A major issue in this respect is how sustainable a bargaining system may be when the bulk of the economy is operating in the informal economy.
48. Other wage-setting mechanisms complement wage bargaining. The minimum wage in particular has been recognized as playing a significant role in limiting wage differentials and also constituting a useful wage-floor tool against poverty.⁴¹ This role has been found also to influence wage determination in the informal economy, notably in Brazil, India, Indonesia and South Africa, where the minimum wage was found to act as a sort of reference for individual bargaining in informal activities.⁴² Globalization has also led some countries to reconsider the minimum wage issue: as an example Germany is currently discussing introducing a minimum wage in part to ensure that new migrant workers from much poorer countries do not undercut wage levels by accepting

³⁸ The changing nature of trade unionism in transition countries however – toward free and autonomous organizations – should be taken into account.

³⁹ GB.297/ESP/2, pp. 9–11.

⁴⁰ GB.297/ESP/2, footnote 38.

⁴¹ GB.291/ESP/5. See also the overall review in Eyraud and Saget: *The fundamentals of minimum wage fixing* (Geneva, ILO, 2005).

⁴² Saget, C. (2006): "Wage fixing in the informal economy: Evidence for Brazil, India, Indonesia, and South Africa", *Conditions of Work and Employment Series No. 16* (Geneva, ILO).

considerably lower wages than had previously been the norm. In the United States, proposals for a substantial increase in the federal minimum wage as a means of combating working poverty are currently under discussion.

49. At the same time, over-reliance on the minimum wage may act as a disincentive to develop a comprehensive wage policy. For instance, in some countries the linking of social benefits to the level of the minimum wage has contributed to the downward rigidity of the minimum wage which has lost its function as a wage floor. In many transition countries of Central and Eastern Europe, but also currently in Viet Nam, the importance attached to the minimum wage has impeded the emergence of other wage-fixing mechanisms – such as wage bargaining, pay systems related to performance, or pay autonomy in the public sector. This confirms the need to promote not one but different complementary tools on wages and incomes policy.

VIII. Conclusions: Issues and challenges

50. This paper has provided a condensed overview of major issues emanating from wage trends around the world, while identifying areas in which insufficient information makes it difficult to draw hard conclusions.
51. Studies in this area are constrained by the limitations in the availability of statistics on wages, on which the ILO could take the lead. It could further help national governments to carry out regular national surveys to improve their wage collection especially on variables such as labour costs, wage differentials, wages by occupation or by sex. Particular focus should be put on data collection in African countries. The ILO could progressively build a single international source of comparative information and further strengthen its capacity to analyse it.
52. Filling the knowledge gaps identified in this paper – wages and the opening up of markets; changes in the wage share; trends in wage disparities; pay systems and institutional settings – calls for an enlarged ILO research strategy, aimed at placing the ILO as a centre of excellence on wage policy. The ILO also needs to build stronger partnerships with academic institutions and other agencies such as the EU and the OECD – that are collecting, disseminating and analysing wage information for their members – in order to continue providing the broader picture of wage developments worldwide.
53. With the aim of contributing to global and national policy debates, the ILO within its resource constraints could also provide an original approach that would investigate both social and economic dimensions of wage policy:
- the economic implications of various forms of wage determination, in particular their link with productivity, its effects on consumption and its complex relationship with employment; and
 - the social implications of wage trends, especially on aspects such as polarization and the development of a middle class, and in particular on the determinants – including the role of low pay – of working poverty.
54. With the global trend towards diversity of jobs, tasks and the nature of work, relating reward to effort or result is increasingly complex. More and better wage policy tools are needed by constituents: while a particular emphasis should continue to be placed on the minimum wage, research and policy should also focus on for example wage bargaining, decentralized pay systems, tools of wage flexibility, and better wage-fixing mechanisms in the public sector. The ILO could provide assistance to constituents in terms of capacity

building to assist efforts to diversify and strengthen wage tools. A further issue is the way such mechanisms can take account of the interrelationships with other policy areas that can directly or indirectly influence wage policy efficiency, such as employment, education, training, public administration, social protection, taxation, the fight against informality and poverty, and agricultural policies.

55. In this regard social dialogue is essential to wages. Wage bargaining has been found to influence wage levels and wage-fixing mechanisms. Tripartite forums have also been found in some countries to provide an essential space for discussions on wages, enabling a balance to be sought between broad economic and social objectives. The ILO could assess the situation regarding wage bargaining while further investigating how it may interact with tripartite approaches on wage policy.
56. At a time when in some countries pay systems, wage disparities and the wage share are changing significantly, and having further consequences for the overall distribution of income, the ILO provides a forum for its constituents to analyse these trends and their policy implications.
57. Wages are a major component of decent work. The make-up of wages and their determination is extremely varied. The world of work is becoming more complex and there is also considerable diversity within and between countries. The role of the ILO is therefore primarily to ensure a strong international database of comparable information on wages, undertake or stimulate others to undertake relevant research in the areas still uncovered, and to provide a forum for discussion of current issues. It could further strengthen its assistance to constituents in this area – including technical cooperation – and the promotion of relevant ILO standards.
58. Improving national wage data is vital to the success of Decent Work Country Programmes (DWCPs). A better understanding of trends in earnings from work – including in agriculture and the informal economy – is needed to support a working out of poverty strategy in increasingly open economies. DWCPs could also support the identification of priority issues in wage policy through the promotion of social dialogue and capacity building on wage issues. Adaptation to wage determination systems and the enlarging of the range of wage tools needed for modern pay systems are areas in which ILO advisory services can support constituents in the development of wage policies for decent work.
59. ***The Committee on Employment and Social Policy may wish to recommend to the Governing Body that it invite the Office to develop and implement, in consultation with constituents, a programme of work along the lines suggested in paragraphs 51–58.***

Geneva, 13 February 2007.

Point for decision: Paragraph 59.