# Executive Summary

International Labour Organization

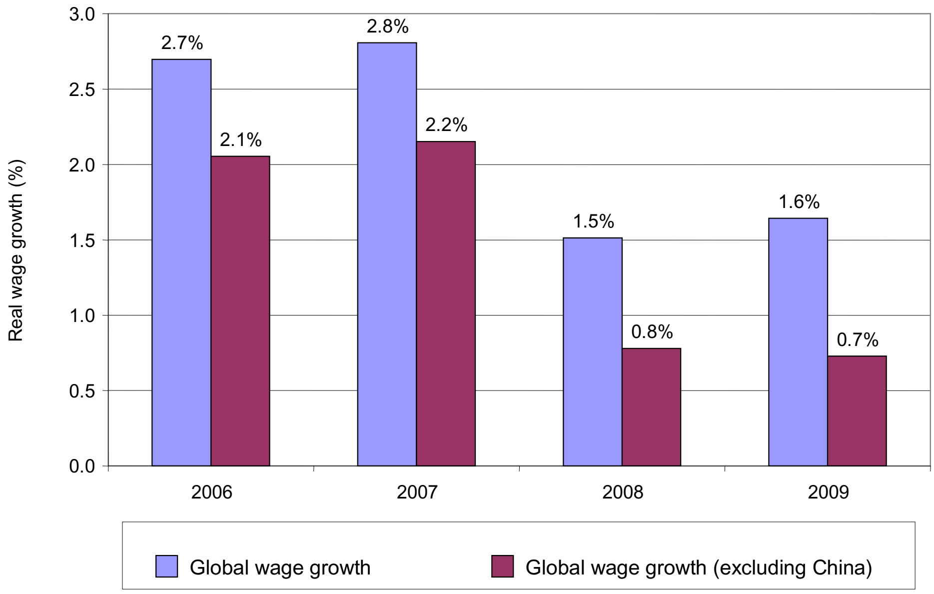
## Global Wage Report 2010/11

Wage policies in times of crisis

### Recent trends

The global financial and economic crisis has led to a considerable slowdown in the rate of growth of real wages around the world. Based on official national statistics from 115 countries and territories, the *Global Wage Report 2010/11* estimates that the growth in real average monthly wages declined from 2.8 per cent before the crisis in 2007 to 1.5 per cent in 2008 and 1.6 per cent in 2009. Excluding China (where official statistics only cover "urban units" linked to the State), the report calculates that real wage growth declined from 2.2 per cent in 2007 to 0.8 per cent in 2008 and 0.7 per cent in 2009. While the rate of wage growth slowed in virtually all countries, it turned negative in more than a quarter of the countries and territories included in our sample in 2008, and in one-fifth in 2009.

**Figure 1 Global wage growth, 2006–09 (year-on-year changes, real terms, in per cent)**




Note: The global wage growth is calculated as a weighted average of actual or estimated year-on-year growth in real average monthly wages in 115 countries and territories, covering 94 per cent of all employees in the world. For coverage and methodology, see *Global Wage Report 2010/11*, Technical appendix I.
Source: ILO Global Wage Database.

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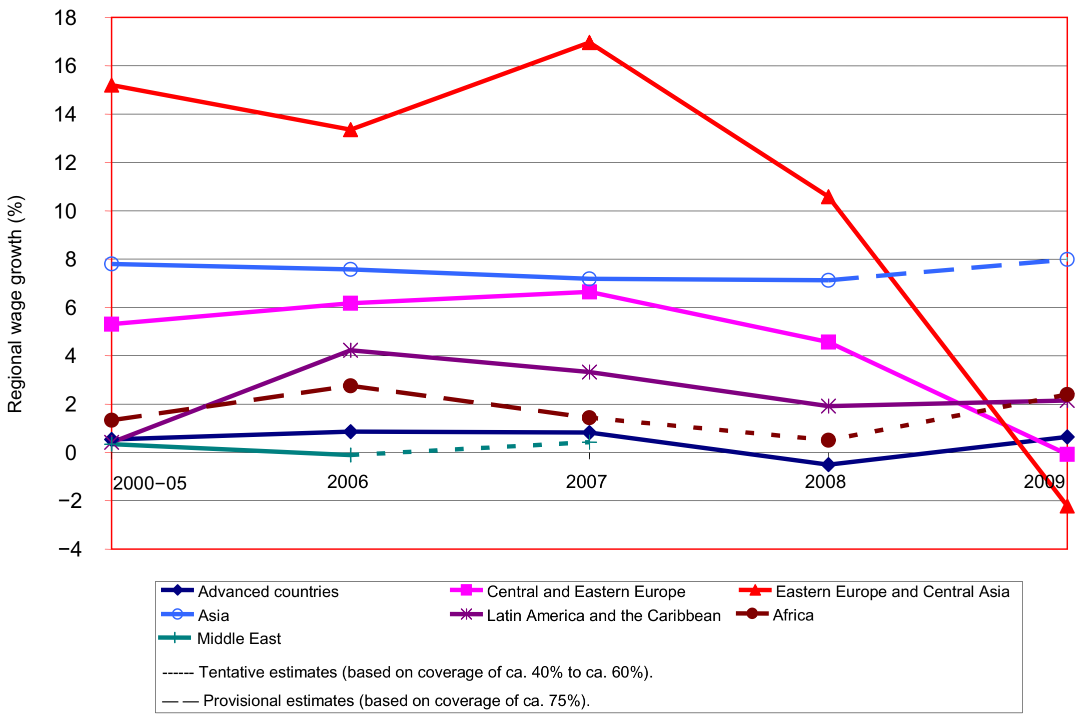
There are considerable regional variations in wage growth (see figure 2). In advanced countries, the report estimates that, after having grown at about 0.8 per cent per year before the crisis, real wages actually fell by −0.5 per cent at the onset of the crisis in 2008 before growing at a rate of 0.6 per cent in 2009. In Eastern Europe and Central Asia, real wage growth fell from an average of about 17.0 per cent in 2007 (when wages were still recovering from the collapse that took place in the early stages of transition) to 10.6 per cent in 2008 and to −2.2 per cent in 2009.[1] In Central and Eastern Europe, real wage growth fell from 6.6 per cent in 2007 to 4.6 per cent in 2008 and −0.1 per cent in 2009. In Asia, real wages have grown in excess of 7 per cent throughout the period 2006–09, with rates of 7.2 per cent in 2007 to 7.1 per cent in 2008 and 8.0 per cent in 2009. In Latin America and the Caribbean, it is estimated that real wage growth slowed from 3.3 per cent in 2007 to 1.9 per cent in 2008 and 2.2 per cent in 2009. For Africa, our provisional estimates indicate that in 2007 real monthly wages grew at about 1.4 per cent before declining to 0.5 per cent in 2008 and rebounding to 2.4 per cent in 2009. In the Middle East, it is too early even for a tentative estimate on wage growth in 2008 and 2009, as too few countries have reported their wage data so far. However, available data for earlier years suggest that wages of workers in the Middle East (a large share of whom are migrant workers) did not increase very rapidly even before the crisis.

**Figure 2 Regional wage growth, 2000–09 (in per cent p.a.)**




[1] As highlighted in the *Global Wage Report 2008/09*, fast wage growth prior to the crisis in countries of the Commonwealth of Independent States (CIS) was an intrinsic part of the recovery process that followed the collapse in wages which took place in the early stages of economic transition at the beginning of the 1990s. In addition, employment growth in the CIS countries was relatively weak in the years before the crisis, so GDP growth was driven mainly by productivity gains, which, in turn, allowed for wage growth.

## The crisis before the crisis and the role of wage policies

In advanced countries, the short-term impacts of the crisis on average wages should be seen against the backdrop of a long-term decline in the share of wages in GDP before the crisis and a protracted period of wage moderation. Taking a more long-term perspective, table 1 presents data on how wages have evolved over the full decade of the 2000s (taking 1999 as the base year). The table shows that global average wages increased by almost one-quarter over this period. This increase was driven by developing regions such as Asia, where wages have more than doubled since 1999, and countries in Eastern Europe and Central Asia where wages more than tripled (which partly reflects the depth of the wage decline in the 1990s). By comparison, real wages in advanced countries increased by only about 5 per cent in real terms over the whole decade, reflecting a period of wage moderation.

**Table 1 Cumulative wage growth, by region since 1999 (1999 = 100)**

| | 1999 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| Advanced countries | 100 | 104.2 | 105.0 | 104.5 | **105.2** |
| Central and Eastern Europe | 100 | 144.8 | 154.4 | 161.4 | **161.3** |
| Eastern Europe and Central Asia | 100 | 264.1 | 308.9 | 341.6 | **334.1** |
| Asia | 100 | 168.8 | 180.9 | 193.8 | **209.3*** |
| Latin America and the Caribbean | 100 | 106.7 | 110.3 | 112.4 | **114.8** |
| Africa | 100 | 111.2* | 112.8* | 113.4** | **116.1**** |
| Middle East | 100 | 101.9* | 102.4* | … | … |
| World | 100 | 115.6 | 118.9 | 120.7 | **122.6** |

* Provisional estimates (based on coverage of ca. 75%). … No estimate available.
** Tentative estimates (based on coverage of ca. 40% to ca. 60%).
Note: For coverage and methodology, see *Global Wage Report 2010/11*, Technical appendix I.
Source: ILO Global Wage Database.

The report also shows that the proportion of people earning low pay – defined as less than two-thirds of median wages – has increased since the mid-1990s in more than two-thirds of the countries for which data are available. This includes countries such as Argentina, China, Germany, Indonesia, Ireland, the Republic of Korea, Poland and Spain. In these and other countries with a high or growing share of low pay, there is a risk that a large number of people will be left behind. The probability of moving into better-paid jobs remains low, and the risk of being trapped into low-paid jobs is high. This, in turn, may lead to increased social tension, particularly if certain groups of people consider that they have paid a high price during the crisis while the benefits of the earlier expansionary period – and perhaps future recovery – have been unevenly shared. Our report also argues that there are strong discriminatory elements involved in the persistence of both low pay and wage gaps. In both industrialized and developing countries, low-paid workers tend to be young, are disproportionately female, and are more likely to be members of a disadvantaged ethnic minority, racial or immigrant group. The concentration of these characteristics among low-paid workers leads to the undervaluation of their jobs.

Another emerging concern is the fact that wage stagnation before the crisis may actually have contributed to the crisis and also weakened the ability of economies to recover quickly. Although many other factors were involved in triggering the global financial and economic crisis, one view is that the crisis had its structural roots in the decline in the aggregate demand that preceded the crisis. Redistribution from wages to profits and from median-wage earners to high-wage earners reduced aggregate demand by transferring income from individuals with a high propensity to spend to people who save more. Before the crisis, some countries were able to maintain household consumption through increased indebtedness, while other countries based their economic growth mainly on exports. This model, however, has proved to be unsustainable. In the future, countries may find it in their interest to base their economic growth on stronger household consumption, and on household consumption that is anchored in earned income rather than based on increasing debt.

Our report argues that wage policies can make a positive contribution towards a more sustainable economic and social model. Both collective bargaining and minimum wages can help to achieve a more balanced and equitable recovery by ensuring that working families and households with low wages obtain a fair share of the fruits of every single percentage point of economic growth. The *Global Wage Report 2008/09* showed that the connection between wages and productivity is stronger in countries where collective bargaining covers more than 30 per cent of employees, and that minimum wages can reduce inequality in the bottom half of the wage distribution. Our current report shows that collective bargaining and minimum wages can also contribute to reducing the share of workers earning low pay.

At the same time, however, there are considerable challenges still facing unions in trying to reach out to vulnerable workers and in the establishment of an effective system of minimum wages. Along with the improvement of the wage determination mechanism, this report highlights the need for policy measures which can help reduce the risk of low-wage earners falling into poverty. In-work benefits such as tax credits are certainly helpful, especially when accompanied by effective wage-floor regulations. In countries where in-work benefits are not a feasible option, due, for instance, to the presence of massive informal employment, more direct income support policies for poor families (such as cash transfers) need to be considered. Wage and income polices should therefore be developed within a broader regulatory framework where different policy elements are carefully articulated in a consistent and coherent manner. The importance of securing "minimum income" for vulnerable working families cannot be overestimated in times of crisis and recovery.



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