Executive summary

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International Labour Organization

Global Wage Report 2016/17
Wage inequality in the workplace

Part I. Major trends in wages

The context

Over the past few years there has been a growing recognition of the need to monitor wage trends and implement sustainable wage policies that prevent wage stagnation, raise the levels of pay for the millions of working poor around the world, ensure fair distribution, reduce excessive wage and income inequalities, and buttress consumption as a key pillar of sustainable economies.

Lower wage growth globally

Part I of this year's *Global Wage Report* shows that in the wake of the financial crisis of 2008–09, global real wage growth started to recover in 2010, but has decelerated since 2012, falling from 2.5 per cent to 1.7 per cent in 2015, its lowest level in four years. If China, where wage growth was faster than elsewhere, is not included, real wage growth has fallen from 1.6 per cent in 2012 to 0.9 per cent in 2015.

Lower wage growth in emerging and developing economies

During most of the post-crisis period global wage growth was driven to a large degree by relatively strong wage growth in emerging and developing countries in Asia and the Pacific, most notably in China, as well as in some other developing countries and regions. More recently, this trend has slowed or reversed. Among emerging and developing G20 countries real wage growth fell from 6.6 per cent in 2012 to 2.5 per cent in 2015. Looking at regional wage growth, the report shows that in 2015 real wage growth remained at a relatively robust 4.0 per cent in Asia, declined to 3.4 per cent in Central and Western Asia, and was tentatively estimated at 2.1 per cent in the Arab States and at 2.0 per cent in Africa. In 2015, real wages dropped by 1.3 per cent in Latin America and the Caribbean (mostly due to falling wages in Brazil), and by 5.2 per cent in Eastern Europe (mostly due to falling wages in the Russian Federation and Ukraine).

Higher wage growth in developed countries

In contrast, wage growth increased in the developed countries. Among developed G20 countries, real wage growth went from 0.2 per cent in 2012 to 1.7 per cent in 2015, the highest rate of the last ten years. In 2015, real wage growth rose to 2.2 per cent in the United States, 1.5 per cent in Northern, Southern and Western Europe, and 1.9 per cent in the countries of the European Union (EU). Faster wage growth in the United States and Germany explains an important part of these trends. It is as yet unclear whether such wage growth will be sustained into the future or whether developed countries will return to their previous pattern of wage stagnation. In an economic context in which risks of deflation have increased in many countries, falling wages could themselves become an important risk factor, potentially leading to deflationary wage–price spirals.

Globally, the recovery in Northern America and some European countries was not sufficient to offset the decline in emerging and developing economies. The lower differential in wage growth between developed and developing countries also implies a slowdown in the process of wage convergence between the two groups of countries.

Mixed trends in labour income shares

Trends in real wages are influenced by economic factors such as GDP growth and price inflation, but other factors also come into play. There is now a large literature showing that in a majority of countries across the world wage growth in recent decades has lagged behind the growth of labour productivity, leading to a fall in the labour share of GDP. This is likely due to a combination of factors including globalization, skills-biased technology, the weakening of labour market institutions, and the growing pressure from financial markets to shift surpluses generated by large businesses towards investors. This year's report shows that, after some expected countercyclical upward movement in the labour share in many countries during the years 2007–10, the labour share has resumed its long-term decline in a small majority of countries during 2010–15. Exceptions include China, Germany and the United States, but even in these countries the labour shares remain far below their peak levels.

Wage inequality and minimum wages

Average wages do not tell the story of how wages are distributed among different groups of wage earners. It is a well-established fact that during recent decades wage inequality has increased in many countries around the world. While some level of inequality reflects differences in workers' individual and productive characteristics, growing concerns have been expressed about the adverse social and economic consequences of excessive inequality. The report highlights the frequent correlation between greater wage inequality, greater household income inequality and declining labour shares.

In the most recent years, many countries have adopted or strengthened minimum wages, as one way of supporting low-paid workers and reducing wage inequality. Recent evidence shows that, when set at an adequate level, minimum wages can raise the income of low-paid workers – many of whom are women – without significant negative effects on jobs. The setting of minimum wages, however, is a balancing act; it should be evidence-based and done in full consultation with social partners and, where appropriate, with their direct participation on an equal footing. The report provides some comparative figures on the level of minimum wages relative to median wages in a range of countries.

Gender pay gaps

Within the overall wage distribution there are also pay gaps between different groups of workers. One of these is the gender pay gap, the percentage shortfall in the average wage of women relative to the average wage of men. Various studies have shown that across most countries for which data are available, the gap has generally narrowed over time but has not been closed. The report provides the most recent available estimates of the hourly gender pay gap for a wide range of countries, showing its huge variation across countries, from about zero to almost 45 per cent.

Part II. Inequality at the workplace

Wage inequality gets steep at the top

Wage inequality in a country can be measured in different ways. Ranking all of a country's salaried workers in ascending order of their wages and dividing them into ten groups (deciles) or 100 groups (centiles), the report shows that in most countries wages climb gradually across most of the wage distribution and then jump sharply for the top 10 per cent and, especially, for the highest-paid 1 per cent of employees. In Europe, the highest-paid 10 per cent receive on average 25.5 per cent of the total wages paid to all employees in their respective countries, which is almost as much as what the lowest-paid 50 per cent earn (29.1 per cent). Although the data are not strictly comparable, the share of the top 10 per cent is even higher in some emerging economies, for example Brazil (35 per cent), India (42.7 per cent) and South Africa (49.2 per cent). In South Africa and India, the lowest-paid 50 per cent receive, respectively, just 11.9 per cent and 17.1 per cent of all wages paid out.

Worker characteristics fail to explain a substantive part of the wage distribution

The report shows that wages and wage inequality are not determined only by the skills-related characteristics of individuals (such as level of education, age or tenure) but that a host of other factors also play crucial roles: these include, for example, gender, enterprise size, type of contract and the sectors in which workers work. Descriptive statistics for a sample of both developed and developing countries document that a university degree does not necessarily guarantee a highly paid job; that the real estate and financial sectors are over-represented among top-paid workers; and that the proportion of women continuously declines as one moves towards the higher-paid deciles. In Europe, for example, women make up on average 50–60 per cent of workers in the three lowest pay deciles; this share falls to about 35 per cent among the best-paid 10 per cent of employees, and further to 20 per cent among the highest-paid 1 per cent of employees. In some emerging and developing countries, the contrast is even greater. The report also runs a standard model which seeks to explain wages on the basis of individual skills-related characteristics such as the level of education, age and tenure, but this model fails to explain a substantial part of the observed variation in wages. Indeed, there are large – sometimes enormous – differences between individuals' actual wages and those predicted by individual skills-related characteristics.

The role of inequality between enterprises[1]

The failure of classical skills-related arguments to explain a substantial part of the observed variation in wages has triggered an interest in the workplace as a determinant of wage inequality. Recent literature shows that increasing inequality *between* enterprises (as measured by differences in average wages among enterprises) has played an important part in the increase in US wage inequality between 1981 and 2013, as well as in the fall in Brazilian wage inequality between 1996 and 2012. In the United States, the higher inequality between enterprises has been mainly attributed to growing polarization, with high-skilled workers clustering in some enterprises and low-skilled workers clustering in others, consistent with the trend towards restructuring and outsourcing peripheral activities to subcontractors or franchisees. In Brazil, a large share of the decline in inequality between enterprises has been attributed to a higher minimum wage.

How high is inequality between enterprises?

Our report shows that in many countries there is indeed some level of correspondence between a low level of wage inequality among individuals and a low level of wage inequality between enterprises (such as in Sweden or Norway), or a higher level of inequality of both types (such as in the United Kingdom or Romania), though in some countries there is a large difference between the two types of inequality. Inequality between enterprises tends to be greater in developing than in developed countries. While in developed countries the average wages in the top 10 per cent of enterprises tend to be two to five times as high as those in the bottom 10 per cent, this ratio goes up to eight in Viet Nam and even 12 in South Africa. We also show that Norway has a high proportion of enterprises which pay middle-of-the-range average wages, compared to the United Kingdom, which has a higher proportion of enterprises with either low or high average wages. Reflecting structural differences, developing countries tend to have a large gap between a majority of low- and medium-paying enterprises, and a minority of enterprises with much higher average wages.

The role of inequality within enterprises

While inequality between enterprises has played a crucial role in recent wage trends, it is not always the largest contributor to total wage inequality. It has been documented previously that in the United States, a larger share of total wage inequality can be attributed to inequality *within* enterprises than to inequality *between* enterprises. And, although the latter accounts for much of the recent rise in wage inequality, among workers of “mega-firms” employing more than 10,000 workers both types of inequality have increased considerably, by roughly equal magnitudes.

1. In this report the terms “enterprise” and “establishment” (or “firm”) are used interchangeably.

The wage inequality pyramid in Europe

In Europe in 2010, wage inequality within enterprises accounted for almost half of total wage inequality. Ranking enterprises by their average wages and looking at the minimum and maximum wages they pay, our report documents that in Europe there is considerable wage inequality, particularly within enterprises that register relatively high average wages. When comparing the wages of individuals to the average wage of the enterprises in which they work, we find that most people (about 80 per cent) are paid less than that average wage. At the very low end of the curve, some workers earn wages far below the average wages of the enterprises in which they work, pointing towards large inequality within such enterprises as a cause of unduly low pay. At the very top end of the curve, the top 0.1 per cent of individuals are paid €211 per hour, while the enterprises in which they work pay on average €45 per hour. In the report we illustrate by means of graphics how the payment of extremely high wages by a few enterprises to a few individuals leads to a "pyramid" of highly unequally distributed wages, highlighting the extent and degree of wage inequality not only between enterprises but also within enterprises. While it would be desirable to undertake this analysis for both developed and emerging economies, in practice few "matched" data sets (that is, data sets that have information on both workers and the enterprises in which they work) are available for the latter group.

Gender pay gaps in the workplace

In our report we also calculate the gender pay gap, using "matched" data for Europe. We find that the gender pay gap declined from 2002 to 2010 but remains positive – and is higher at the top than at the bottom or middle of the distribution – in a large majority of European countries. While the overall hourly gender pay gap for Europe is about 20 per cent, in the top 1 per cent of wage earners it reaches about 45 per cent. Among CEOs, who are among the best-paid 1 per cent of wage earners, the gender pay gap is above 50 per cent. The gender wage gap is wider in enterprises that pay higher average wages. In the 1 per cent of enterprises with the highest average wages in Europe, the gender pay gap is almost 50 per cent. The report also shows that the gender pay gap is present in the labour market from an early age but increases substantially for workers who are above 40 years old.

Part III. Summary and conclusions

The need for policy coordination at the global level

Stagnating average wages and a declining labour share can have both social and economic consequences. On the social side, the disconnect between economic growth and wage growth means that workers and their families do not feel that they are receiving a just share of the fruits of economic progress, which fuels their frustration. On the economic side, low wage growth dampens household consumption, which can reduce aggregate demand, particularly when wages stagnate in many large economies at the same time. In this respect, the higher wage growth seen in 2015 in various countries has had positive economic effects beyond their borders. Where economically feasible, higher wage growth should be sustained or further encouraged. This cannot be the case in every single country, as in some countries higher wage growth may increase labour costs in a way that is not sustainable for enterprises and jobs, and may result in significant reductions in exports or investment. Differentiated country-specific approaches are thus needed.

Previous editions of the *Global Wage Report* called for global-level policy coordination to avoid either the simultaneous pursuit by too many countries of wage moderation policies, or competitive wage cuts with a view to increasing exports, either of which could lead to a fall in regional or global aggregate demand or deflation. In this respect, the inclusion of wage policies on the agenda of recent G20 meetings has been a positive development. In 2016 the G20 called for the implementation of macroeconomic policies to achieve substantial wage and productivity growth, and for sustainable wage policy principles in which strengthened labour market institutions and policies – such as minimum wages and collective bargaining – could help wage increases to better reflect improvements in productivity growth.

Areas for possible country-specific policy measures

Vigorous and ambitious action is needed to implement at every level policies that ensure sustainable wage growth and a just share of the fruits of progress to all. These policy responses need to take into account longer-term trends as well as recent developments. Above all, adequate policy responses must address the specific factors that drive wage developments and wage inequality in a positive or negative direction. In that light, national policies should be based on the patterns and drivers in each economy, while recognizing that many trends have a broad effect across countries at similar levels of development.

- ***Minimum wages and collective bargaining.*** Minimum wages and collective bargaining have the potential to simultaneously reduce inequality between and within enterprises. But differences in the way collective bargaining is organized have different effects. When collective bargaining takes place at the national, industry and/or branch level in multi-employer settings with coordination across levels, a larger proportion of workers are covered and inequality is likely to be reduced both within and between enterprises. The extension of collective agreements by governments to all workers in a particular sector or country can reinforce these effects. When the collective bargaining system is narrow, taking place at the company or workplace level, the effect is restricted to wage inequality within these enterprises. The ILO has international labour standards on collective bargaining and minimum wages, and has recently published policy guides on both subjects, also pointing to the complementarity of minimum wages and collective bargaining as policy tools.

- ***New initiatives by employers and workers to reduce inequality through collective bargaining.*** New proposals and initiatives have been put forward in recent years to address the growing inequality between enterprises, particularly between buyers and their subcontractors, aimed at ensuring the inclusion of all parts of the supply chain in collective bargaining agreements. At the international level, some enterprises have highlighted the difficulty of raising wages at the enterprise level in a competitive environment where buyers can shop for the lowest prices. One interesting move in this respect is the decision of some major global brands to start a joint initiative with manufacturers and trade unions to promote multi-employer collective bargaining at the industry level in garment-producing countries.[2]

- ***Top salaries: enterprise self-regulation or more regulation?*** Given the magnitude of wage inequality within enterprises documented in this report, it is clear that enterprises have their own role to play in self-regulating to keep wage inequality within socially acceptable bounds. Many CEOs effectively determine their own pay, and shareholders have often been unable to ensure fair executive remuneration in line with social values or even with company performance. The ILO considers that "sustainable enterprises engage in social dialogue and good industrial relations, such as collective bargaining and worker information, consultation and participation. These are effective instruments to create win–win situations, as they promote shared values, trust and cooperation, and socially responsible behaviour" (ILO, 2007, p. 5). Initiatives to regulate top wages have focused in the past on the transparency of remuneration and on shareholders' "say over pay". Now there are also questions as to whether more regulation is necessary to discourage compensation packages based on short-term shareholder value rather than long-term enterprise performance.
- ***Productivity growth for sustainable enterprises.*** Given that differences in average wages between enterprises are an important determinant of overall wage inequality, promoting productivity growth among sustainable enterprises may simultaneously permit higher average wages and reduce wage inequality. There need not be a trade-off between growth and inequality. Yet if growing inequality between enterprises is due to polarization and outsourcing, there may be little scope for improving productivity at the low value added segment. More generally, the 2007 ILO *Conclusions concerning the promotion of sustainable enterprises* recognize that inequality and discrimination are incompatible with sustainable enterprise development, and emphasize the importance of an environment that is conducive to the creation and growth or transformation of enterprises on a sustainable basis. Such an enabling environment combines the legitimate quest for profit, which is one of the key drivers of economic growth, with the need for development that respects human dignity, environmental sustainability and decent work.
- ***Addressing unequal wages between groups of workers, including women and men.*** Labour market institutions and wage policies will be truly effective in reducing inequality only if they include and protect groups that are vulnerable, disadvantaged or subject to discrimination. Gender pay gaps – differences in average wages between men and women – remain a global concern. The report highlights the fact that although gender pay gaps are found in all types of enterprises, they are particularly large among enterprises with high average wages. This suggests

2. See the ACT initiative at http://www.ethicaltrade.org/act-initiative-living-wages.

that enterprise-level job evaluations remain an essential complement to legislation guaranteeing the right to equal wages for work of equal value, effective enforcement of this right by governments, and effective access to justice for workers to claim this right. Measures to keep CEO pay within certain boundaries are also likely to narrow the wide pay gap between men and women CEOs documented in the report.

Other measures to reduce inequality

The measures just discussed are not, of course, the full story of how inequality can be reduced. In this regard it is worth recalling that the *Global Wage Report* is published every two years and that the previous edition examined the relationship between wages, household incomes and broader inequality, suggesting a number of other policy measures to reduce inequality.

Fiscal policies, in the form of taxes and transfers, to address wages and inequality. In many developed economies taxation systems have become less progressive in recent years, amplifying the inequality that arises in the labour market. Reforms that address corporate and individual tax avoidance and offer targeted tax relief for low-income households can restore some of the lost progressivity to tax systems. Steeper and more progressive taxation may also contribute to lower executive pay, reducing incentives for CEOs to demand higher compensation. It is also essential that fiscal policy addresses inequality through transfers where payments are made to lower-income households, whether directly, as cash, or in the form of public employment opportunities or employment guarantees, or else as subsidized food. Although many countries have expanded their social protection systems, a large share of the world's population still remains without health insurance and old-age benefits, and an even larger proportion lives without child and family benefits and protection in case of unemployment, disability, work injury or maternity (ILO, 2014b).

Policies that affect wages and wage distribution indirectly as important elements of a comprehensive response. These include access to quality education, ongoing programmes to improve the skills of the workforce, and better matching between jobseekers and jobs. They also include policies to address wage differentials often incurred by workers in non-standard forms of employment (particularly temporary and temporary agency workers), which are on the rise in many industrialized countries and tend to grow in developing countries in segments of the labour market previously associated with standard jobs. Measures to be adopted should seek to extend to workers in non-standard forms of employment protections that are enjoyed by workers in "standard" arrangements as well as better aligning the protections available through different employment arrangements. This would lead to the implementation of the principle of equality of treatment between workers, avoiding discrimination based on occupational status as well as reducing indirect gender-based discrimination and ensuring that non-standard work is not used only with the aim of lowering labour costs by offering worse remuneration and working conditions to particular groups of workers (ILO, 2016b).