

Global Wage Report

Patrick Belser
ILO, Social Protection Sector
(TRAVAIL)



Why wage statistics?

- When the ILO was created in 1919, as part of the Treaty of Versailles after World War I, it was based on the observation that “universal and lasting peace can be established only if it is based upon social justice”. Therefore the Preamble of the ILO Constitution called for urgent improvements in the conditions of labour, including the “provision of an adequate living wage”.
- The 2008 ILO *Declaration on Social Justice for a Fair Globalization*, which expresses the contemporary vision of how to achieve progress and social justice in the era of globalization, called for “policies in regard to wages and earnings, hours and other conditions of work, designed to ensure a just share of the fruits of progress to all and a minimum living wage to all employed and in need of such protection”.

Why wage statistics?

- The Global Jobs Pact adopted by the International Community at the ILO in June 2009 states that linking social progress with economic development requires support to low-wage men and women hit hard by the global economic crisis, and avoidance of “deflationary wage spirals and worsening working conditions”.
- The same document states that to avoid wage deflation Governments should be guided by principles of social dialogue, collective bargaining, and statutory or negotiated minimum wages that can “reduce poverty and inequity, increase demand and contribute to economic stability”.

Why wages statistics?

- In light of the importance of wages as a key indicator of working conditions the ILO elaborated Convention No.63 concerning Statistics of Wages and Hours of Work (1938), which considered that “all Members of the Organisation should compile statistics of average earnings and hours actually worked”, “publish the data” and “communicate the data (...) to the International Labour Office” (Art.1)
- Later Convention No.63 was revised and wages statistics became part of the ILO Labour Statistics Convention No.160 (1985) which broadens the scope beyond wages but calls for statistics on average earning, the wage structure and distribution, as well as labour cost

The Global Wage Report

- In March 2007, the ILO Governing Body highlighted “wages as a major component of decent work” and asked the Office to work on the “the collection and dissemination of statistics”, and to give priority to the following issues:

“wage-setting mechanisms and wage bargaining”,
“wages, productivity and economic performance”
“wage differentials and disparities”.

- The Governing Body also called for a programme of country-level assistance, including in decent work country programmes.

=> First Global Wage Report was issued in November 2008 and has two parts: Part I: dissemination of statistics and analysis of wage trends; Part II good practices in minimum wages and collective bargaining => an Update will be published in October 2009 and the next full report is due in October/November 2010

The Global Wage Report: Part I

- For the trend analysis, the report focused on 4 basic indicators (covering the period 1995-2007):

Average wages, by sex

The distribution of wages (D9/D1) or (Gini)

The “wage share” in total GDP

The level of minimum wages

- Definition: earnings = remuneration in cash and kind paid to employees (ICLS 1973)
- ICLS 1998 distinguishes between income related to paid employment (of which wages is the major component) and income related to self-employment

The Global Wage Report: Part I

- Data Coverage by indicator:

Average wages: 83 countries (5 African countries)

Wage share: 72 countries (11 African countries)

Wage distribution: 62 countries (0 African countries)

Minimum wages: 100 countries (29 African countries)

- This findings were reported in December 2008 to the 18th International Conference of Labour Statisticians (ICLS), where there was consensus on need to improve Office work on collection and dissemination of wage statistics. The delegates supported the efforts by the ILO to “expand country coverage” and also committed to improve communication with the ILO

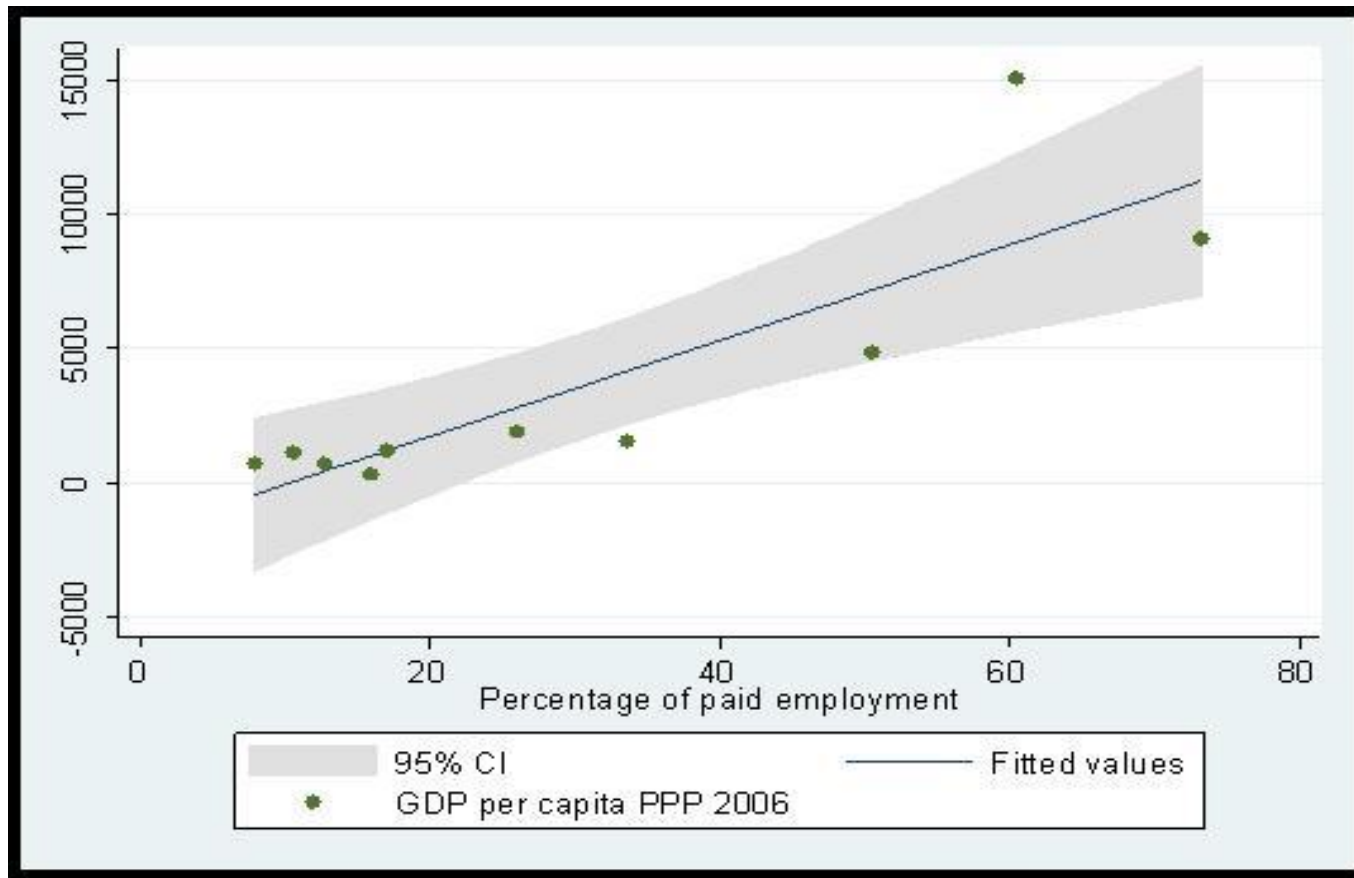
*Finding 1: During the high growth period (1995-2007),
the share of wage-employment has increased*

- ❑ Developed countries: 82% to 84%
- ❑ East Asia: 32% to 43%
- ❑ South Asia: 17% to 21%
- ❑ Sub-Saharan Africa: 21% to 23%
- ❑ North Africa: 54% to 58%
- ❑ Latin America: 64% to 63%
- ❑ World Average: 43% to 47%

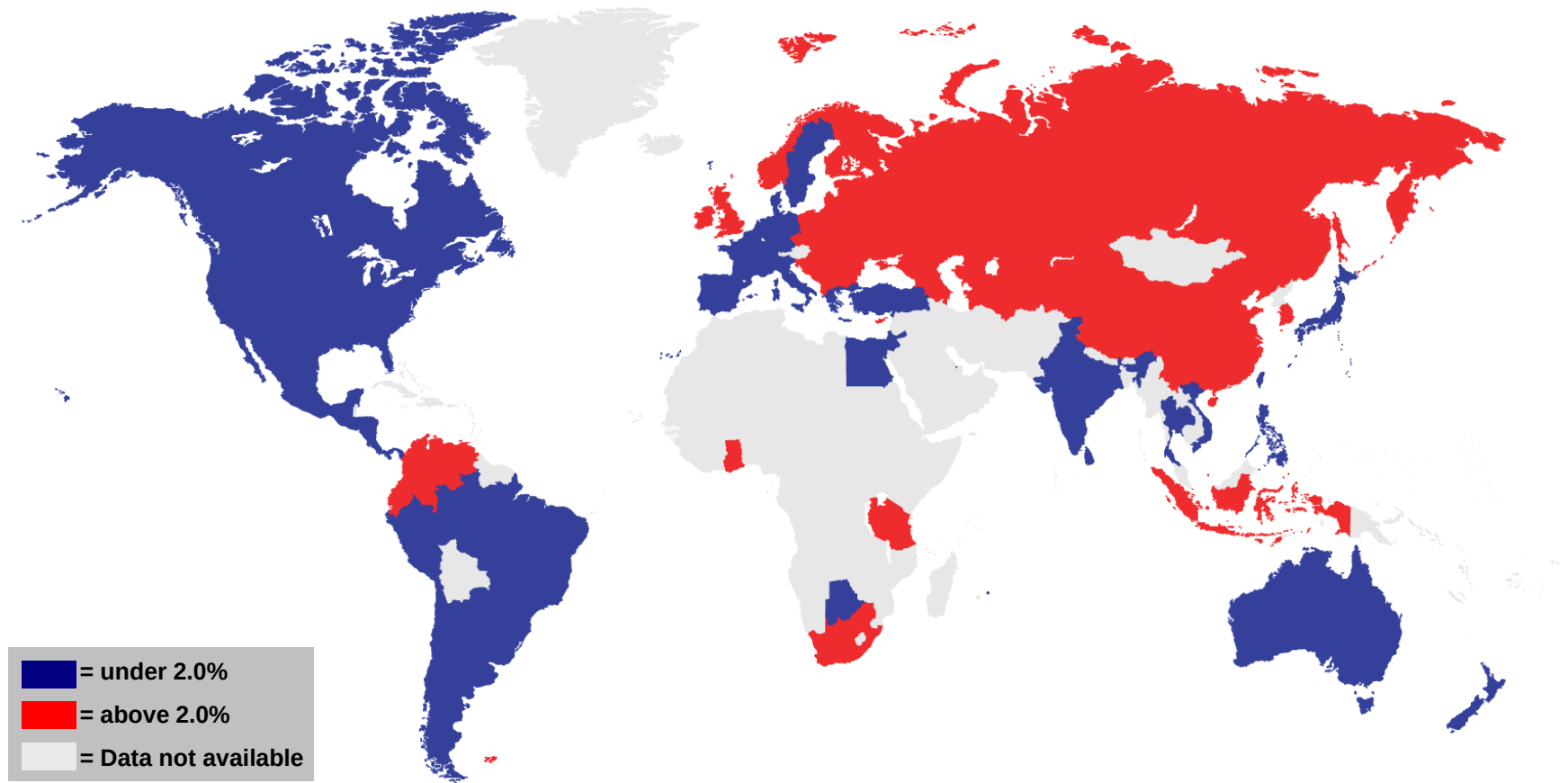
Part I: main findings

Country	GDP/capita PPP (2006)	% of wage-earners in total employment	Source
Botswana	15'073	60.5	LFS 2005/06
Ethiopia	724	7.9	LFS 2005
Kenya	1'574	33.6	Andalon & Pages using LFS 98/99
Liberia	333	15.9	Liberia CWIQ 2007
Malawi	727	12.7	IHS 2004-05
Namibia	4'881	50.5	LFS 2004
Nigeria	1'915	26.0	NBS 2007
South Africa	9'113	73.2	
Tanzania	1'163	10.5	LFS 2006
Zambia	1'241	17.0	LFS 2005/06

Part I: main findings

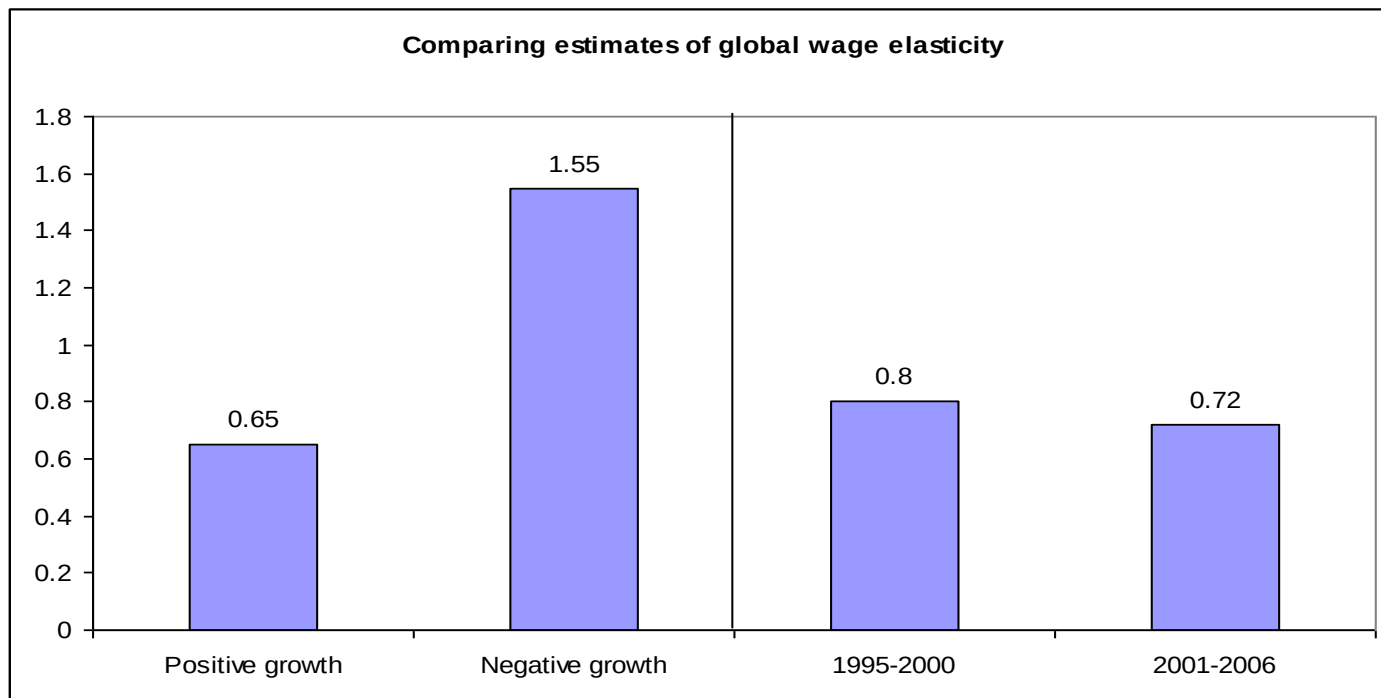


Finding 2. In 50% of all countries, real wages (net of inflation) have increased at less than 2%/year (2001-07).



When GDP per capita increased by 1.0 percentage point, average wages increased only by 0.75 percentage point

Interpretation: Wages have not kept pace with productivity increases

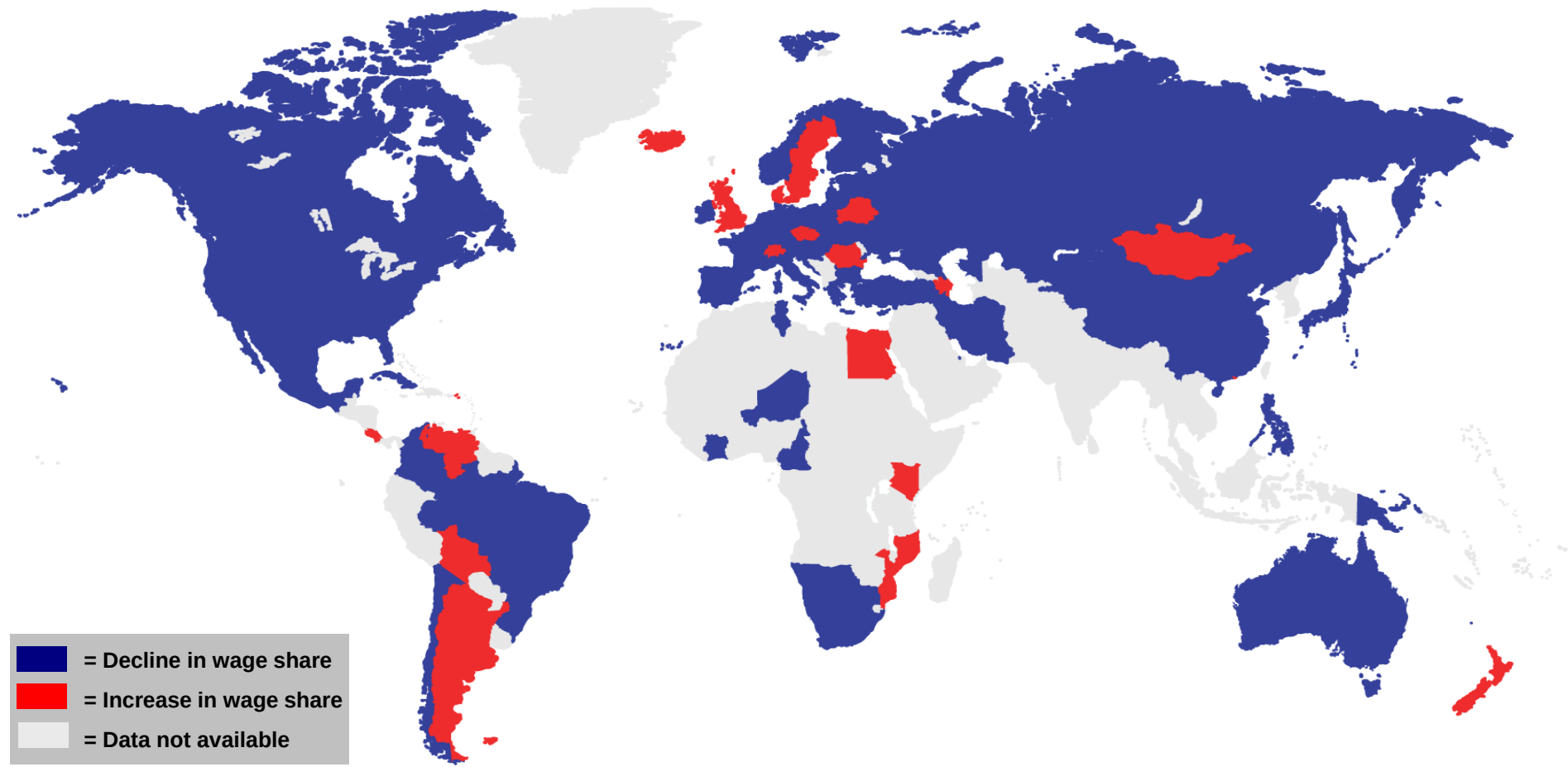


Finding 2. In 50% of all countries, real wages (net of inflation) have increased at less than 2%/year (2001-07).

What about Africa?

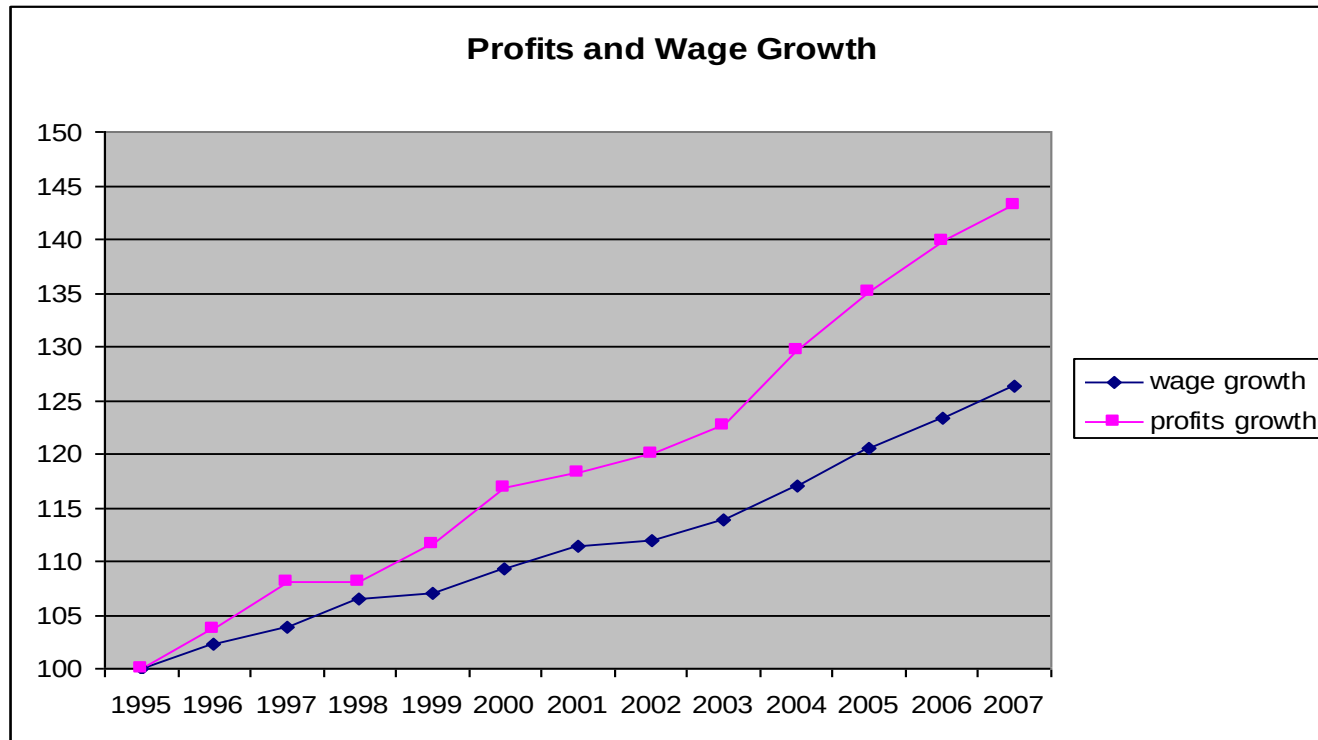
- According to IMF data, annual economic growth was 4.8 per cent during 1995-2007 and 5.8 per cent over the period 2001-2007. Has economic growth also led to higher wages?
- No systematic data. Case studies show that over 2000-07 wages have increased at about the same annual rate as GDP per capita - or even faster – in both Ghana (6%) and Tanzania (5%), while in South Africa, wages (+2%) have slightly lagged GDP per capita growth (3%). In Egypt, data from the Central Bank also suggests that annual wage growth (+1%) has lagged GDP per capita growth (+2%).

Finding 3: The share of wages in GDP has declined in 70% of all the countries (1995-2007)



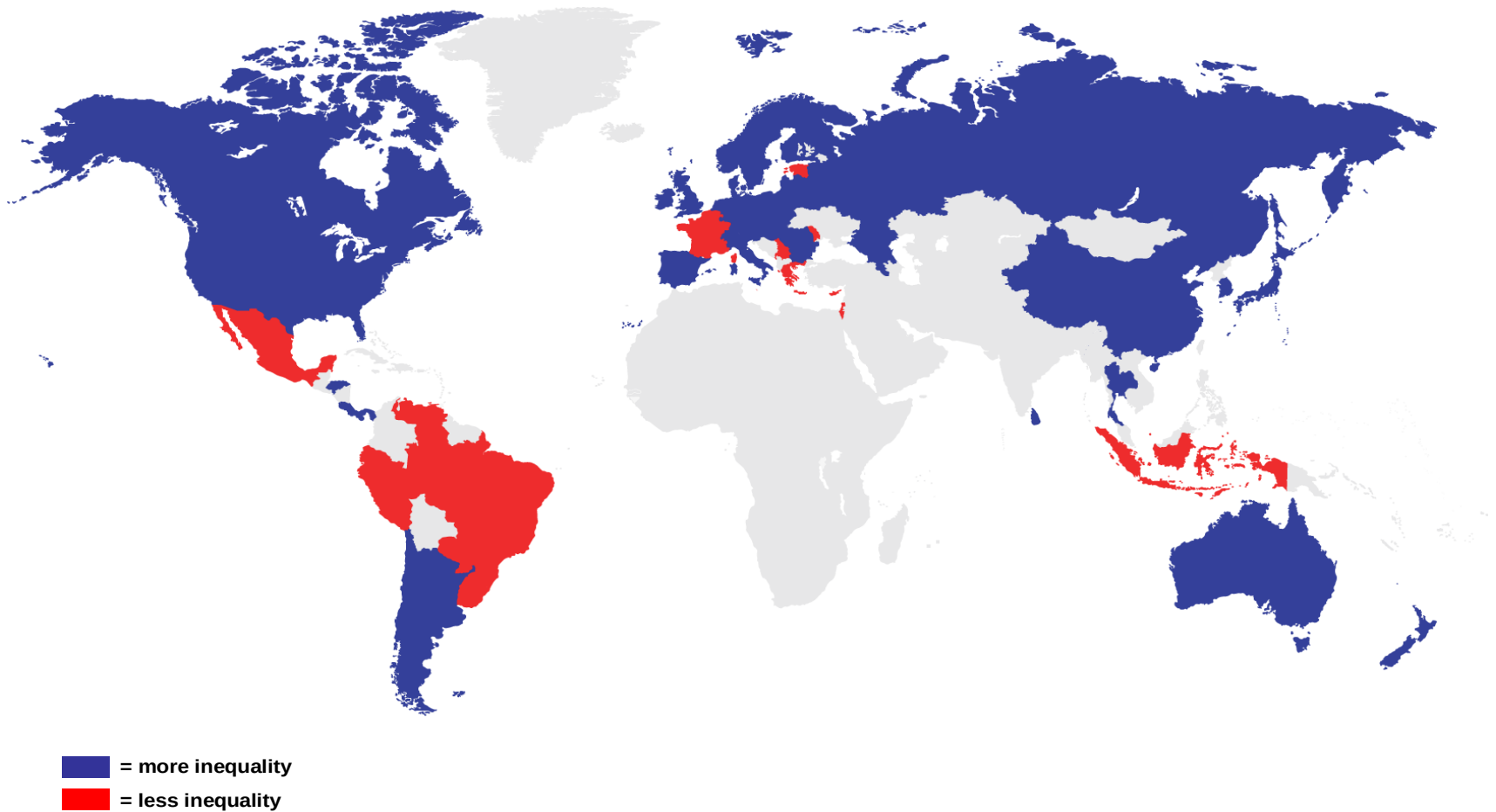
GDP growth has been distributed to profits more than to wages

Wages and Profits in 33 Developed countries

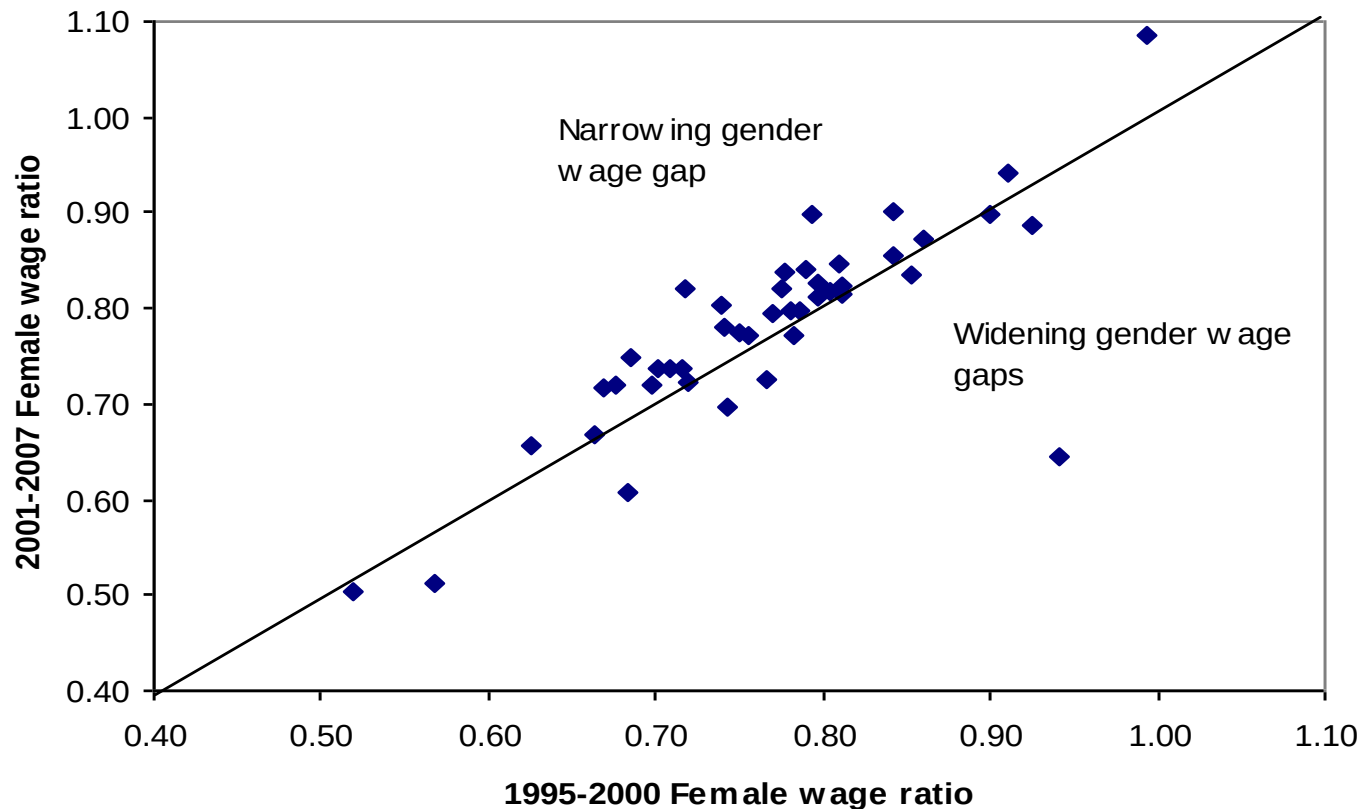


Finding 4: In 70% of countries, inequality between top and bottom wage earners has increased since 1995

Wage inequalities



Finding 4a: In 80% of the countries, the wage gap between women and men has declined, but only slowly.



The Global Wage Report: Part II

- Makes the case of sound labour market institutions: wage policies and collective bargaining
- It provides some good practices on how to design minimum wages and make sure they do not crowd out collective bargaining

Part II: The case for labour market institutions

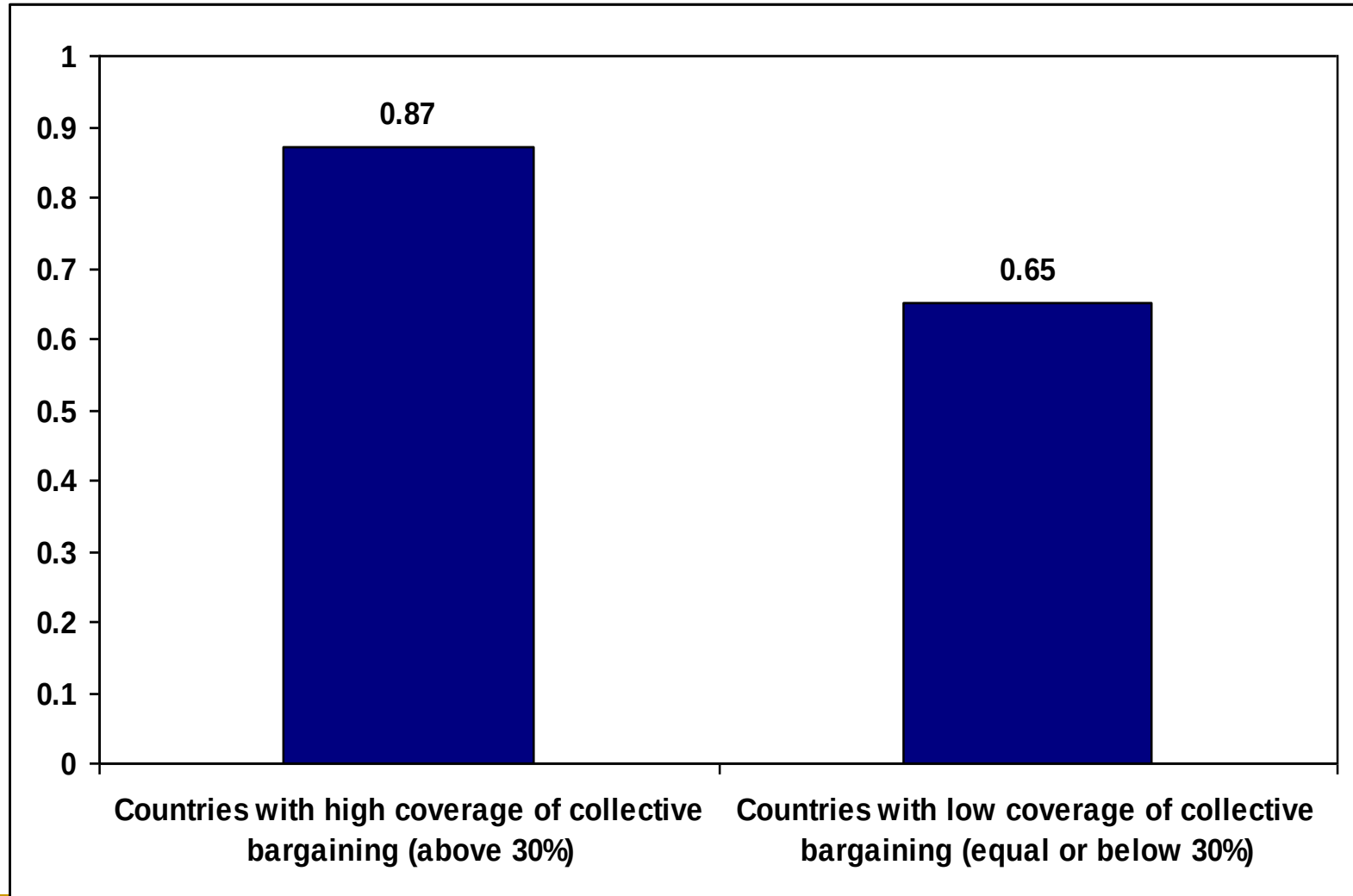
- **Equity-based argument:** the free market often fails to produce outcomes that are socially desirable, morally acceptable or in line with local perceptions of social justice. Hence, regulations are needed to ensure social protection and social justice.

- **Efficiency-based arguments:**

Orthodox economic theory: the free market always equalizes supply and demand and hence leads to an efficient allocation of resources. Regulations create distortions and lower efficiency.

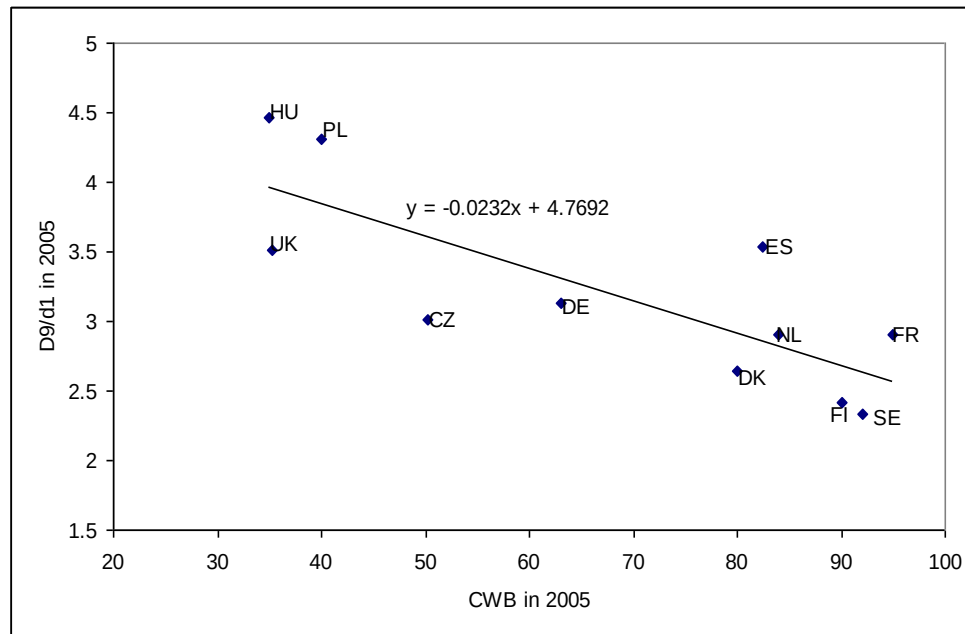
Market failure theory (Stiglitz): The free market is not always efficient because of “market failures” (such as imperfect competition or asymmetric information). Regulations can correct these failures and increase efficiency. For example, without regulation there is a high risk of non-payment of wages or even forced labour, which can be characterized by the use of coercion for the purpose of reducing labour costs.

Wage responsiveness of a 1% increase in GDP per capita growth is higher in countries with higher collective bargaining coverage



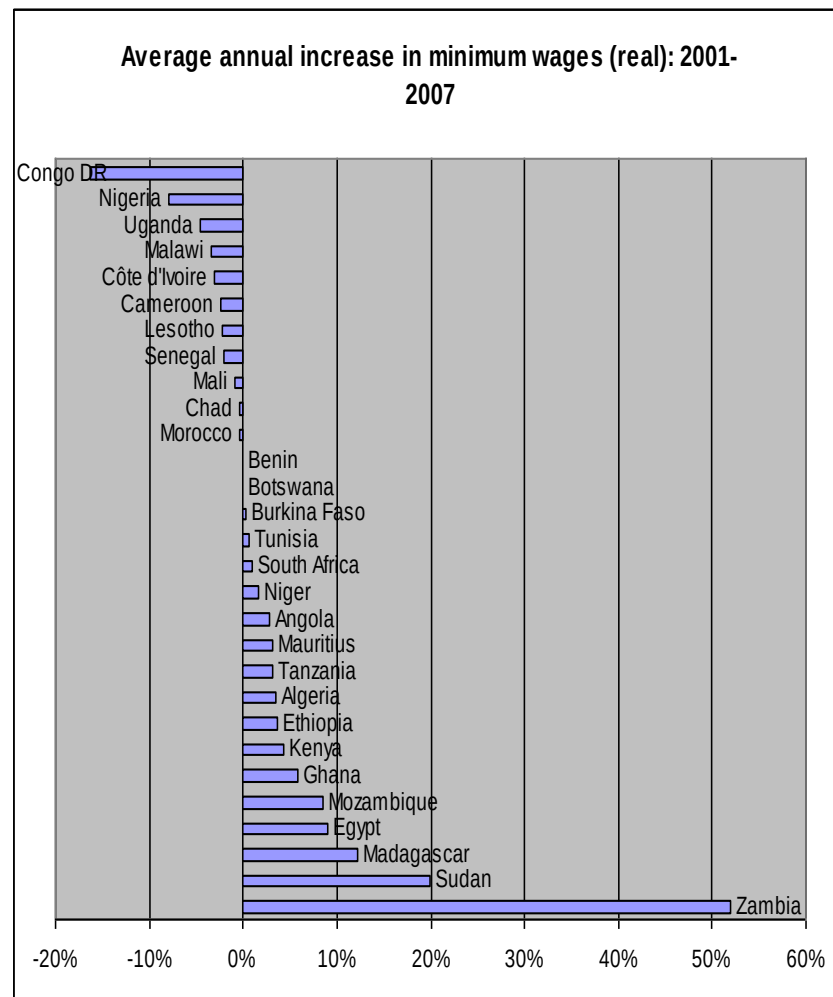
Better collective bargaining can reduce overall wage inequality

**Wage differentials (D9/D1) and collective bargaining rate (2005),
EU countries**



Growth in the real minimum wage

- Globally, over the period 2001-2007, more than **70%** of all the countries included in our sample have increased their minimum wage in real terms. On average, in these countries, the real minimum wage was increased by **5.7%** per year in real terms.
- Real gains for minimum wage earners were substantial in both developed economies (**+3.8%**) and developing countries (**+6.5%**).



Minimum wages :

- Our statistical analysis shows that countries with higher minimum wages (above 40% of average wages) have less inequality in the bottom half of the labour market (D5/D1) but more overall inequality (D9/D1).
- Interpretation of this finding requires further research. Perhaps there is reversed causality: countries with higher inequality use minimum wages more aggressively.
- A review of the literature shows that the minimum wages can reduce inequality in the bottom half of the wage distribution, and by doing so reduce the gender pay gap, with little or no adverse impact on employment.

Policy Issues:

Some challenges:

- Ensure that minimum wages and collective bargaining are complementary, not substitutes.
- How to link wage policies with the broader set of economic and social policies, including in particular income policies or social security

The Future

- What impact of the crisis on wages?
 - ❑ Falling working time = falling monthly wages
 - ❑ Falling real hourly wages?
 - ❑ Emerging low pay crisis?
 - ❑ Further increases in inequality?

- Improve data collection and dissemination for African countries
 - ❑ How to do that?