

**FOR INFORMATION**

SECOND ITEM ON THE AGENDA

Update of the first *Global Wage Report* with a focus on minimum wage policy development**Introduction**

1. In March 2007, the Committee requested the Office to prepare periodic reports on trends in wages and wage setting across the world and their policy implications. In response to this request, in November 2008, the *Global Wage Report 2008/09: Towards policy coherence: Minimum wages and collective bargaining*, was released as the first issue in a new series of reports to be published every two years. The main findings and recommendations of the report were shared with the Committee at the 303rd Session (November 2008) of the Governing Body.¹ The Committee asked the Office to prepare an update on minimum wage developments for discussion at its March 2009 sitting. Because of time constraints, the Committee was unable to discuss the paper in question and requested that a paper be prepared for the current session that would provide such an update, paying special attention to minimum wage policy developments.
2. In June 2009, the International Labour Conference adopted the Global Jobs Pact. Through the Pact, member States agreed to the principle of “enhancing support to vulnerable women and men hit hard by the crisis including youth at risk, low-wage, low-skilled, informal economy and migrant workers” (paragraph 9.2). Also, “in order to avoid deflationary wage spirals”, member States agreed to be guided by the following policy options: “social dialogue, collective bargaining and statutory or negotiated minimum wages” (paragraph 12.3). More specifically, the Pact invites governments to “consider options such as minimum wages that can reduce poverty and inequity, increase demand and contribute to economic stability. The ILO’s Minimum Wage Fixing Convention, 1970 (No. 131), can provide guidance in this respect” (paragraph 23).
3. The purpose of this paper is to report on the main findings of the update of the trends section of the first *Global Wage Report*. While a comprehensive assessment of the impact of the current global economic crisis on wages, including the policy implications, will be furnished in the second *Global Wage Report*, the current update provides some indication of developments for a number of wage indicators during the present crisis. The paper also

¹ GB.303/ESP/1.

reviews some trends concerning minimum wage policy, including advisory services rendered by the Office in response to demands for assistance from ILO constituents. The information contained in this paper is based on the updated ILO's global wage database, which includes 53 countries for which official wage statistics are available consistently up to the end of 2008.²

I. Global wage trends

Average wages

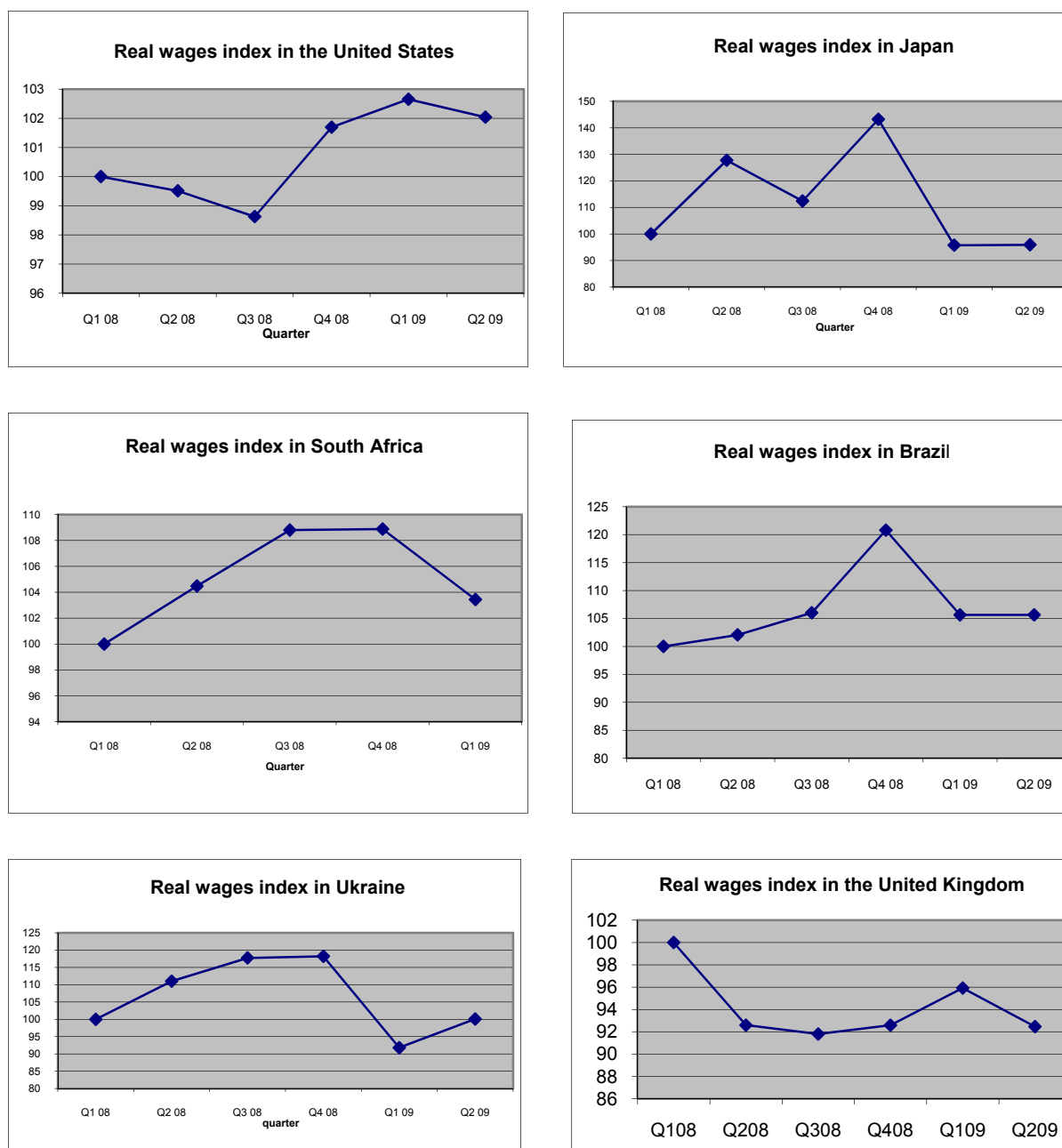
4. Based on the sample of 53 countries, it appears that the global growth in average wages declined from 4.3 per cent in 2007 to 1.4 per cent in 2008.³ Overall, while a majority of countries maintained declining but positive wage growth in 2008, more than a quarter of countries experienced flat or falling wages in real terms. These countries include the United States (0 per cent), Austria (0 per cent), Costa Rica (0 per cent), South Africa (-0.3 per cent), Germany (-0.6 per cent), Israel (-0.9 per cent), Japan (-0.9 per cent), Singapore (-1.0 per cent), Mauritius (-1.0 per cent), Kazakhstan (-1.1 per cent), Mexico (-3.5 per cent), Ecuador (-4.1 per cent), Iceland (-4.8 per cent), and Seychelles (-15.5 per cent). For Taiwan, China, a decline of -3.6 per cent was recorded.
5. The picture is likely to get worse in 2009. 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 are available. Figure 1 illustrates the behaviour of wages in a sample of six countries up to the second quarter of 2009.⁴ While quarter-to-quarter changes may reflect cyclical changes, in three of the six countries wages were lower in early 2009 than in the same quarter in 2008. This 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.

² The database is available at <http://ilo.org/travail>.

³ This figure reflects the growth in average wages in the median country of the sample. The median 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 consumer price index figures published by the International Monetary Fund.

⁴ The scale of the graph differs by country and therefore visual comparison of the magnitude of changes should not be made.

Figure 1. Quarterly real wages index in selected countries
(base year = first quarter of 2008)

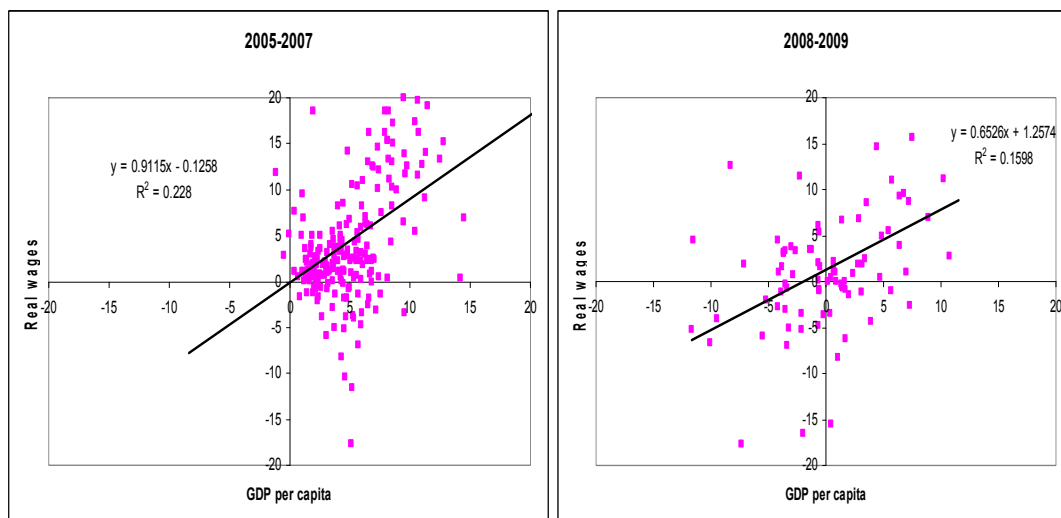


The relationship between variations in GDP per capita rates and wages

6. The *Global Wage Report 2008/09*, while confirming a strong relationship 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 per cent increase in annual GDP per capita was associated with a 0.75 per cent annual increase of wages. As figure 2 shows, the more recent pre-crisis period of 2005–07 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. Figure 2 shows that in 2008 and 2009 there was considerable variation in the behaviour of wages across countries: while some countries managed to

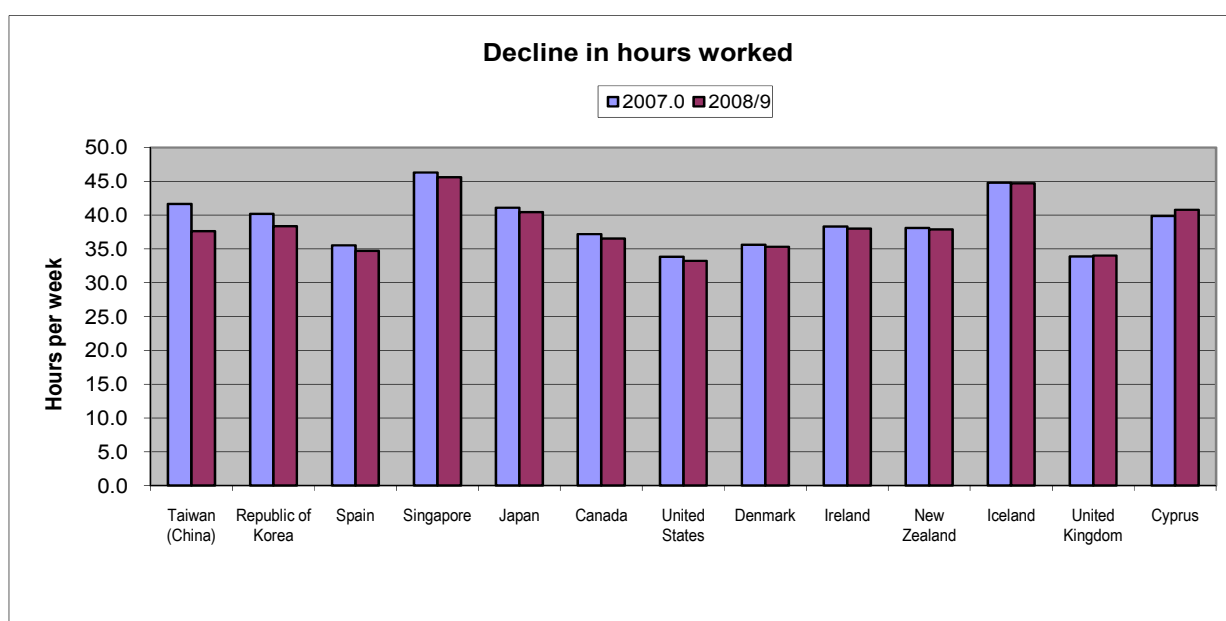
maintain positive wage growth despite the economic recession, others experienced serious wage cuts. This diversity is likely to reflect cross-country differences in the speed of wage adjustments (which typically lag in periods of rapid economic change) as well as variations in countries' economic structure, institutional settings, the coverage of collective bargaining, and the policy responses to the crisis.

Figure 2. Recent trends in GDP per capita and average wages
(real terms, percentage changes)



Hourly and monthly wages

7. The changes in monthly wages are the product of average changes in hourly wages and in the number of hours worked. This highlights 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. For instance, it is possible that a majority of those who lose their jobs are in low-paid occupations and, as a result, 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 enable determination of the direction of this “composition effect”. Secondly, the data suggest that a substantial part of the decline in monthly wage growth can be attributed 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 (see figure 3). Men and women have both been affected.

Figure 3. Decline in hours worked (weekly hours)

Note: Data covers either all employed or just full-time workers.

Wage arrears

8. 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 1,189 million Ukrainian hryvnia at the beginning of 2009. Wage arrears not only affected bankrupted or inactive enterprises, but also economically active enterprises, which represented 64 per cent of total wage arrears in 2009, compared to 36 per cent the previous year. Similarly, in the Russian Federation, official statistics show that temporary wage arrears have increased substantially since December 2008 with a peak in May 2009.⁵

The wage share

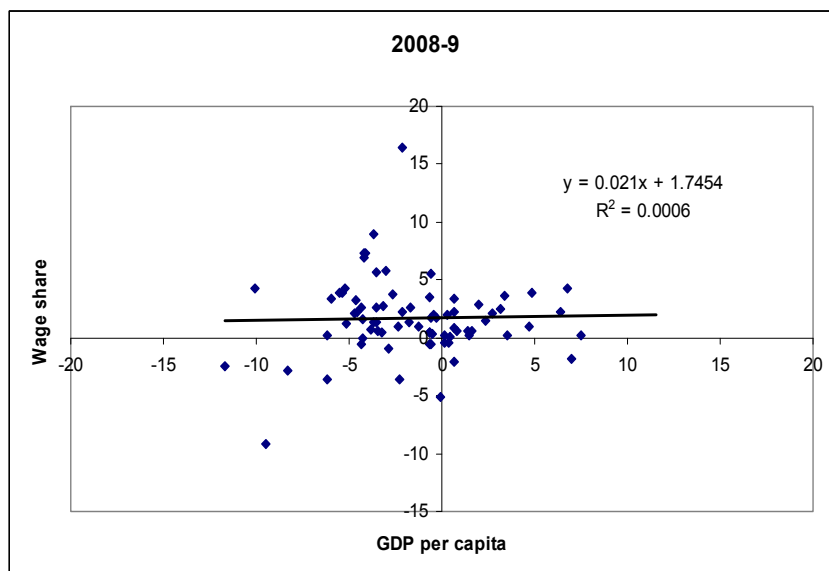
9. Despite their relatively weak performance, in most countries wages have so far better resisted to the crisis than profits. This has resulted in a rise in the share of wages in GDP among most of the 38 countries included in our sample. As shown in figure 4 (which displays changes in GDP per capita 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 2008–09, irrespective of the size of GDP growth or decline. However, this recent trend needs to be interpreted with great caution. It may imply that, at least in the short-term, both workers and employers have strong reasons to avoid downward hourly wage adjustments, mostly to prevent adverse effects on workers' morale.⁶ It is also plausible that the decades of wage moderation before the crisis may have left little room for a large-scale wage reduction. At the same time, the relative increase in wage share may simply be a temporary

⁵ http://gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d03/152.htm.

⁶ See for example Bewley, Truman: *Why wages don't fall during a recession*, Harvard University Press, 1999.

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. It should also be noted that the direction and size of change in the wage share depends very much on country-level characteristics and institutions, as well as the policy responses to the crisis.

Figure 4. Recent trends in the “wage share”

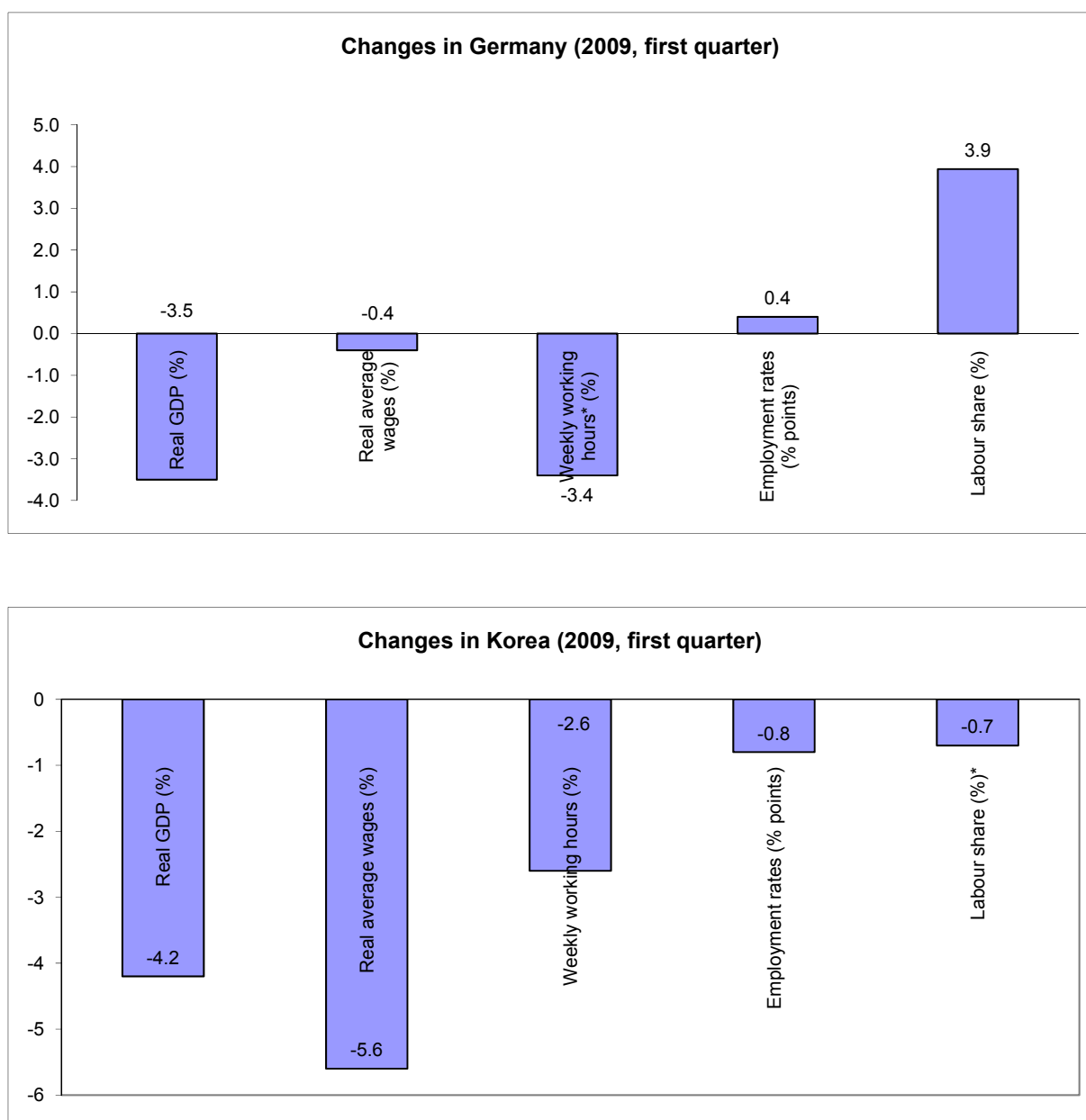


Note: The figures refer to percentage changes in real GDP per capita and wage share.

10. In Germany, for example, the Government has taken vigorous measures to promote work-sharing arrangements in order to avoid lay-offs.⁷ This has led to moderate reductions in monthly wages, alleviated by partial wage compensation. The overall effect of such a policy on the wage share can be appreciated in figure 5. The decline in GDP of 3.5 per cent in the first quarter of 2009, combined with the important reduction in working hours (-3.4 per cent), translated into a slight decline in real monthly wages (-0.4 per cent), but employment grew at 0.4 per cent and the share of wages in GDP is expected to increase by 3.9 per cent. By contrast, in the Republic of Korea the contraction in GDP (-4.2 per cent in the first quarter of 2009) had a negative impact on both wages and employment. In the first quarter, wages fell at a rate of 5.6 per cent, mostly as a result of a cut in overtime work and in quarterly collective bonuses, and employment contracted at 0.8 per cent. As a result the share of wages in GDP is also expected to decline in 2009.

⁷ 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.

Figure 5. Different approaches and different outcomes: Economic outputs, wages, working hours, and employment (Germany and Republic of Korea)



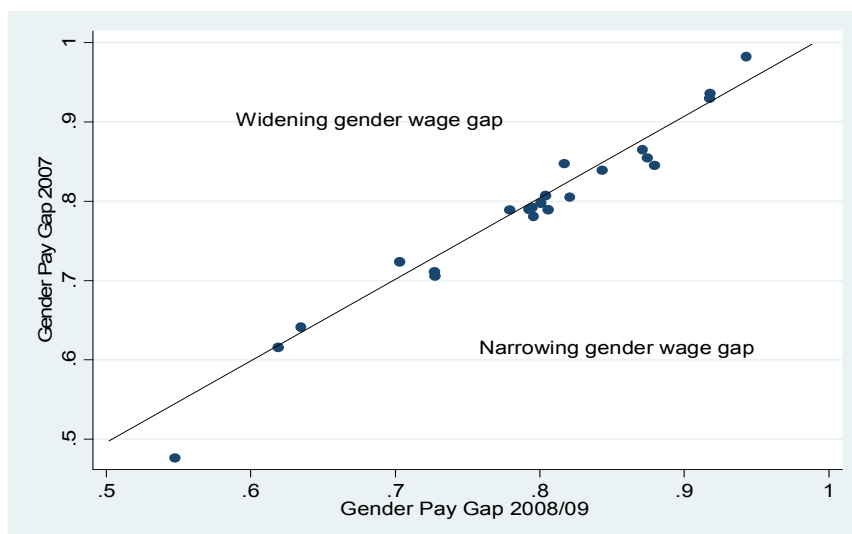
Note: The figures refer to changes compared to the same quarter in 2008. Changes in wage shares are ILO estimates from national sources.

Sources: National statistics (* Destatis estimate).

The distribution of wages

11. Overall, data on average wages by sex have been collected for 22 countries for 2008 and 11 countries for the first quarter of 2009. The data indicate 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 not changed, with women earning about 80 per cent of men's wage, thus interrupting the slow, but consistent, longer term trend towards more gender equity.

Figure 6. The economic crisis and the gender pay gap



12. Although little systematic global data is available on how the crisis has changed the distribution of wages, the crisis seems to have increased wage disparities, measured as the distance that separates the 10 per cent of highest paid workers and the 10 per cent of lowest paid workers in the United States and the United Kingdom, two advanced economies that have been at the centre of the global economic turmoil. One possible explanation for the increase in inequality in these two countries is related to changes in industry-level average wages: comparing 2009 with 2008, the US industries which experienced falling nominal wages over the last 12 months tend to be low-paying relative to those industries with growing wages.

II. Minimum wages: Trends and policy lessons

Trends

13. 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”.⁸ Minimum wages are a nearly universal policy instrument implemented by most countries in all regions, other than the Middle East.
14. During the pre-crisis period 2001–07, there were clear indications, compared to earlier periods, of a more vigorous use of minimum wage policies in both developed and developing countries. More than 70 per cent of the countries included in the ILO’s minimum wage database, which covers more than 100 countries,⁹ had increased minimum

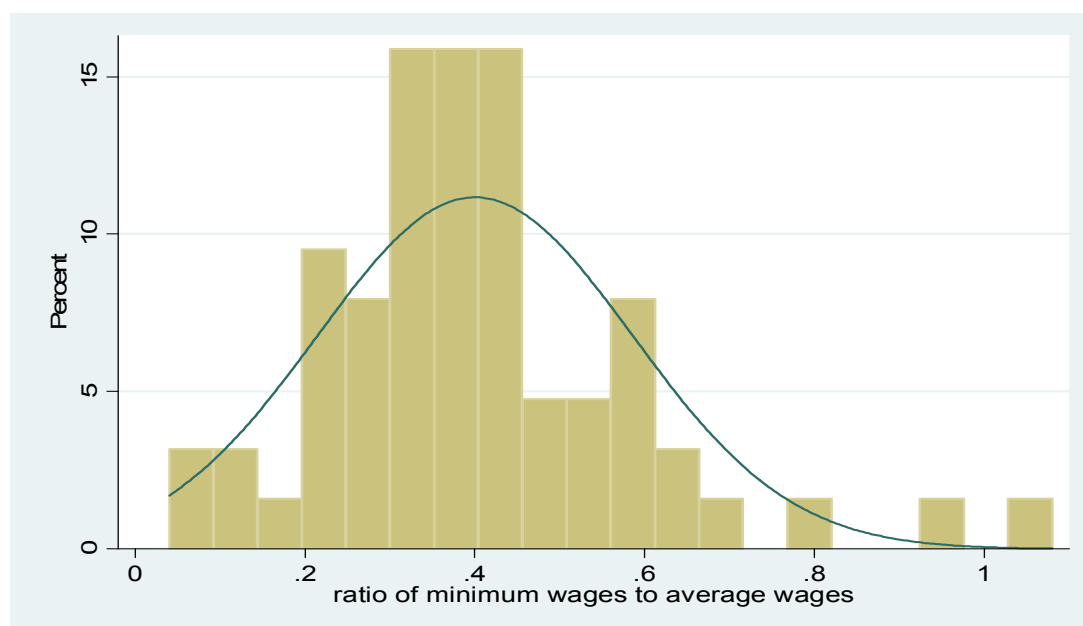
⁸ ILO: *Minimum wages: Wage-fixing machinery, application and supervision*, Report III (Part 4B) (General Survey), International Labour Conference, 79th Session, Geneva, 1992.

⁹ The database includes statistics on the level of minimum wages in absolute terms as well as relative to both GDP per capita and average wages, whenever available. It also includes information

wage levels. On average, minimum wages increased by 5.7 per cent per year in real terms (i.e. adjusted for inflation). In the average (median) country, the monthly minimum wage expressed in purchasing power parity increased from US\$178 to US\$235. This contrasts with earlier periods when the real value of minimum wages tended to increase much more slowly or even to decline. Another reflection of the renewed importance of minimum wages is the recent increase in the number of member States which have ratified the Minimum Wage Fixing Convention, 1970 (No. 131). Today, a total of 119 member States have ratified either Convention No. 131 or the earlier Minimum Wage-Fixing Machinery Convention, 1928 (No. 26).¹⁰

15. As for the level of minimum wages compared to the general level of wages in the country, the latest available data show that most countries set their minimum wages at around 40 per cent of average wages (see figure 7). This finding is based on a sample of 63 countries, including 25 developed economies, 12 transition countries from Europe and the Commonwealth of Independent States, and 26 developing countries. Interestingly, the level of the minimum wages measured against average wages is not correlated with countries' GDP per capita and, therefore, appears to be the result of policy decisions that do not depend on countries' level of economic development. A number of countries also seem to have minimum wages that are too low or minimum wages at such a high level that they can hardly be enforced.

Figure 7. Ratio of minimum wages to average wages
(2008 or latest data available)



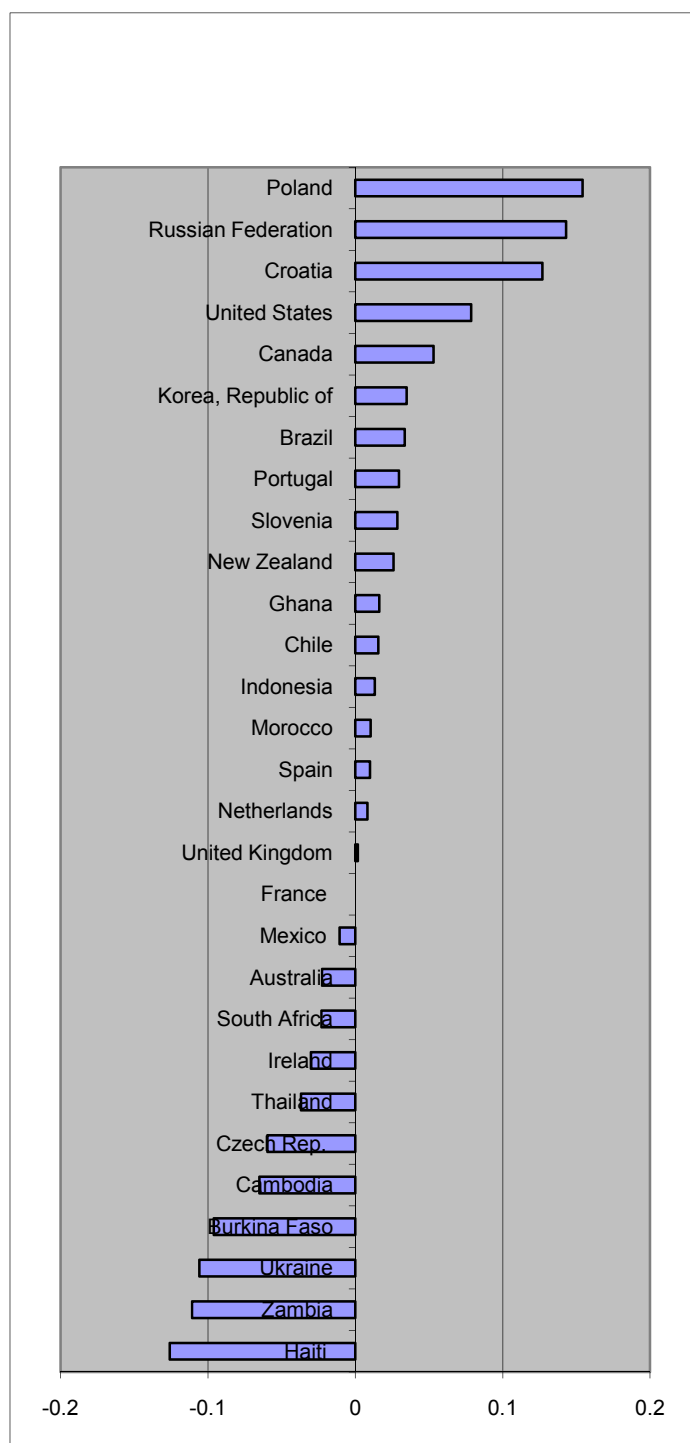
16. While during past downturns concerns about the impact of minimum wages on labour costs and job displacements were more widespread, in the current crisis a number of countries have adjusted minimum wages upwards. Based on a sample of 86 countries, in 2008 half the countries increased their minimum wage in real terms (i.e. by more than

on the institutional aspects of minimum wage systems, including the type and degree of involvement of social partners.

¹⁰ Recent ratifications include Albania (2004); Antigua and Barbuda (2002); Armenia (2005); Central African Republic (2006); Republic of Korea (2001); Kyrgyzstan (2007); Republic of Moldova (2000); Montenegro (2006); Serbia (2000); and Ukraine (2006).

inflation figures), while the other half allowed inflation to erode their real value (see a sample of countries in figure 8).

Figure 8. Changes in the real level of minimum wages, 2008



17. In many countries, despite the crisis, minimum wages continue to increase, either through long-term adjustment plans (e.g. Brazil and United Kingdom) or through annual or ad hoc reviews of their domestic economic and labour market situations (e.g. United States, 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. With regard to social protection, the Government raised the income level for eligibility in the Bolsa Familia programme (conditional cash transfers) and put into effect a nominal increase in minimum wages of 12 per cent, a 6 per cent real increase, in February 2009 instead of April 2009 as was originally scheduled.

18. At the same time, a number of countries decided to consider changes to their current minimum wage systems. In Costa Rica, for instance, the National Wage Council, with technical assistance from the ILO, 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, has requested continued ILO support in improving the current minimum-wage system with the aim of protecting non-standard workers. Likewise, the Government of Viet Nam has embarked with ILO 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 of embarking on a coherent national wage policy.

Policy lessons

19. Minimum wage policy decisions have to be based on the careful monitoring of variations in wage earnings and other sources of income of the most vulnerable groups of workers. Such monitoring should provide the basis for decisions about how to maintain their purchasing power, through a combination of minimum wages and other income support policies 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. When the result of a social dialogue process, 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. For the social dialogue process to function it is essential that social partners have equal access to all relevant information and data and have the means and capacity to comprehend fully the implications of the different issues involved, such as setting minimum wages at different levels for low-paid workers, inequality in the lower half of the wage distribution, productivity, inflation, employment and wage bargaining.
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 small and medium-sized enterprises. Well-tailored, awareness-raising campaigns, in cooperation with employers' and workers' organizations, can help address this.

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. 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.¹¹ State procurement policies may also be used to promote adherence to minimum wage laws.

Conclusions

24. While a comprehensive assessment will be furnished in the second edition of the *Global Wage Report* in late 2010, the update of the first *Global Wage Report* provides some indication of the direction of wage trends during the present crisis. Globally, the growth in average monthly wages has fallen sharply in 2008. The outlook for 2009 is likely to worsen. This raises concerns about the implications for the consumption levels of workers and their families, and hence their ability to maintain aggregate demand, once the effects of the fiscal stimulus packages phase out. A substantial part of the decline in the growth of average monthly wages is associated with cuts in the number of hours worked, while hourly wages have not been penalized as much. The update also shows that the crisis has hurt women's wages as much as men's, thus putting a halt to the slow, though consistent, long-term trends towards the narrowing of the gender pay gap.
25. During the pre-crisis 2001–07 period which was characterized by relatively sustained economic growth in most countries, real minimum wages increased significantly in most countries reviewed – often in response to increases in income inequality and in the number of working poor – thus improving the purchasing power of the least-paid workers. In the majority of countries, minimum wages were set at around 40 per cent of average wages.
26. In the current economic situation, minimum wage adjustments may be more difficult to make, as concerns about their impact on labour costs and job displacement may prevail over protecting the purchasing power of the most vulnerable workers. However, evidence shows that, contrary to what happened in previous downturns, a large number of countries have raised their real minimum wages or are considering improving their minimum wage fixing systems. This is a recognition that minimum wages can serve as a social floor for wage adjustments, a tool to fight against wage deflation, while maintaining the consumption capacity of those at the bottom of the wage scale, thus contributing to a quicker economic recovery.

Geneva, 6 October 2009.

Submitted for information.

¹¹ See Murgai, R. and Ravallion, M.: *Is a guaranteed living wage a good anti-poverty policy?*, World Bank Policy Research Working Paper No. 3640.