

7. Main findings and policy implications

Altogether this report has presented a rather disappointing picture for wage earners, despite an apparently favourable economic context. Over the period 2001–07, inflation was low and the global economy grew at 4.0 per cent per year in real terms. The growth in wages, however, lagged behind overall economic performance. According to our estimates, real wages only grew by an estimated 1.9 per cent during 2001–07, notwithstanding the impressive recovery in some current and former transitions countries. For the countries included in our sample, we found that over the period 1995–2007, each additional 1 per cent in the annual growth of GDP per capita only led, on average, to a 0.75 per cent increase in the annual growth of wages. There are some preliminary indications that this wage elasticity (the responsiveness of wage increases to changes in GDP growth) has further weakened in recent years. These trends occurred in a context of growing economic integration, characterized by the increasing international movement of people, goods, services and capital.

The slow growth in wages was accompanied by a decline in the share of GDP distributed to wages compared with profits. We estimate that every additional 1 per cent of annual growth of GDP has been associated on average with a 0.05 per cent decrease in the wage share. We also found that the wage share has declined faster in countries with a higher openness to international trade, possibly because openness places a lid on wage demands based on a fear of losing jobs to imports. Inequality among workers has also increased. Overall, more than two-thirds of the countries included in our sample experienced increases in wage inequality. This was both because top wages took off in some countries and because bottom wages fell relative to median wages in many other countries. The wage gap between women and men is also still high and is closing only very slowly. This is disappointing in the light of women's recent educational achievements and the progressive closing of the gender gap in work experience.

The economic context is now much less favourable and the outlook for 2009 is not so bright. The world economy has now seen a period of higher inflation, mainly due to the rise in energy and food prices, and an overall economic slowdown. The IMF has also revised its global growth forecast down to 3.9 per cent for 2008 and to 3.0 per cent for 2009. These forecasts suggest it is likely there will likely be a prolonged period of slow economic growth. Looking towards the future, prospects for wage growth are therefore rather uncertain. Overall, we expect that in 2008 the growth in real average wages will not exceed 0.8 per cent in developed countries and 2.0 per cent worldwide.

For the year 2009, we estimate – somewhat more tentatively – real wage growth of 0.1 per cent in developed countries and 1.7 per cent worldwide.

For many workers we expect that difficult times lie ahead. Slow or negative economic growth combined with highly volatile prices will erode the real wages of many workers, particularly the low-wage and poorer households. In many countries, the middle classes are also likely to be affected. As a result, tensions are likely to intensify over wages, and the workplace may become more vulnerable to wage-related disputes. Such problems were already reported in various countries during the summer of 2008, such as in Viet Nam, Bangladesh and many other Asian and African countries. There is also a risk of seeing increases in the number of working poor and a general rise in poverty.

What can be done? In the short term, governments are encouraged to display a strong commitment towards protecting the purchasing power of their populations and hence stimulating internal consumption. This requires a coherent combination of wage policies. First, collective bargaining should be promoted, and social partners should be encouraged to negotiate ways to prevent a further deterioration in the wage share and growth of wage differentials – while taking into account the specific conditions in their sector or enterprise. Second, the levels of minimum wages should be maintained wherever possible to protect the most vulnerable workers. In the current context, it would be neither fair nor economically desirable to make wages the only adjustment variable. If wages bear a disproportionate part of the burden, the result will be a further decline in the share of wages relative to the share of profits in GDP.

This emphasis on minimum wages and wage bargaining should be complemented by public intervention through income support measures. This would benefit poorer households. Furthermore, as highlighted in the report, the majority of wage earners around the world are unorganized or not covered by collective agreements. In addition, the recent macroeconomic developments are likely to make wage bargaining more difficult, as pressures on enterprises are increasing. This means that wage bargaining alone is unlikely to be sufficient in coping with the current macroeconomic pressures.

What about the medium term? Our findings concerning the impact of institutional factors on wages suggest that wage outcomes can be improved by making labour market institutions more effective. Higher coverage of collective bargaining improves the transmission between economic growth and the growth of wages. We have calculated that in countries where collective bargaining covered more than 30 per cent of employees, any additional 1 per cent of economic growth was accompanied by a 0.87 per cent growth in wages, compared with only 0.65 per cent wage growth in countries with lower coverage. Our interpretation is that collective bargaining is helpful in strengthening the link between productivity and wages. In addition, our analysis shows that collective bargaining contributed to lower overall wage inequality. Minimum wages can also be used effectively to reduce wage inequality in the bottom half of the labour market.

These results support the view that there is a need to revitalize labour market institutions.¹⁰⁵ There is a need to reiterate the principle that bargaining and negotiation are the most effective methods of wage determination since they reflect the needs and interests of both workers and employers. There is also a need to revisit minimum wages, considering the contribution they could make in the new global context. There is also an urgent need to strengthen the coherence between wage policies and other social and economic policies, with a view to contributing towards the objective of ensuring decent wages and social justice for workers in both developed and developing countries.

8. Emerging issues and the way forward

While the suggestions put forward in the previous section indicate overall policy directions, more research and analysis are needed to translate them into concrete and innovative policy measures that can be readily considered for policy actions in countries around the world. It must also be emphasized that this report, as the first output of ILO's new initiative to provide global trends in wages, is focused on macro-level developments across countries. Therefore, it does not include detailed analysis of more complex developments within countries; for instance, across different sectors or between different groups of workers. With a view to developing policy interventions with more direct applicability, the following issues (among others) deserve more systematic research work.

Wages developments need to be more closely monitored, and wages statistics and analytical methodology need to be improved. As emphasized throughout the report, the key challenge in this regard is to improve global wages statistics by extending the country coverage and enhancing data quality. This is of great importance for ensuring continued improvement in the global estimates of wage growth and in the analysis of the relationships between wages and relevant macroeconomic variables such as labour productivity. Better statistics are certainly essential for improving our understanding of how wages react to changes in economic growth and labour productivity and for documenting trends in the wage share (the proportion of GDP that goes to compensating employees).

Wage differentials, or inequality, are increasingly important around the globe for numerous reasons. While this report outlines key aspects of recent developments, this issue deserves much more in-depth analysis. For instance, the gender pay gap needs to be more thoroughly investigated, with a special focus on the developing world. The size of and change in the gender pay gap and its underlying factors should be identified and used as a base for policy decisions. It should also be noted that diversification in the workforce and in employment patterns will have implications for wages. These need to be scrutinized, particularly given the growing concern about the risk of discriminatory treatment attached to certain types of workers and employment. For instance, research

¹⁰⁵ On this, see also Berg and Kucera (2008).

on the wage consequences of informality, non-standard work and migration is required for the development of better policy responses.

Of equal importance is the issue of how minimum wage systems can be better designed and managed. There has been an intensification of research aimed at identifying a list of elements that will help ensure the effectiveness and relevance of minimum wages systems, based on the experiences of various countries. However, these elements need to be further elaborated to guide policy decisions on minimum wages. At the same time, more attention needs to be paid to how to reflect price changes when setting the levels of minimum wages to protect low-paid workers while at the same time avoiding the risk of contributing to accelerating inflation. The automatic indexation scheme has been dropped in many countries for precisely this reason.

While the report concentrates on changes in the levels of wages, it is well known that the way in which wages are determined and paid also matters. Different wage-fixing mechanisms can create different incentives (both positive and negative) for workers and can also result in different wage levels. Therefore, the importance of the pay system should not be underestimated. In this regard, performance-related pay and profit-sharing schemes, which relate wages to profits or other measures of enterprise performance and which have attracted much attention in both the industrialized and developing worlds, are worth exploring further. It would be worth studying in more detail how the development of these schemes could help preserve the wage share for workers while also responding to employers' concerns that wages be aligned with productivity levels. Another area that concerns many countries and requires in-depth analysis is how to reform public sector pay, in order to bring pay levels into line with the private sector and to ensure the overall coherence of national wage policies.

Finally, the role of collective bargaining in wage determination deserves further research work. This is due, in particular, to the ongoing discussions about changes in union membership and the collective bargaining structure in industrialized countries and the important initiative to promote collective bargaining in transition and developing countries. As discussed in the report, it is very important to understand how to maximize the benefits of the complementary use of minimum wages and collective bargaining. The wage implications of variations in the structure of the bargaining system and its coordination mechanism are also areas for further research work. A particularly important challenge is to investigate ways to extend collective agreements on wages to non-union members, particularly workers in non-standard employment or informal workers.