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Global Wage Report 2008/09

Minimum wages and collective bargaining
Towards policy coherence

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Preface

Wage employment and wages are central to the world of work. Approximately half of the global labour force works for a wage. Living standards and the livelihood of wage earners and families depend on the level of wages, when and how they are adjusted and paid. Wages are a major component of overall consumption and a key factor in the economic performance of countries.

The enormous expansion of the labour force participating directly and indirectly in the international exchange of goods and services and the growing interdependence of low-, middle- and high-income countries has squarely placed wages at the centre of the debate on globalization. It is the responsibility of the ILO to make available for public use data on levels and trends in wages around the world. This report illustrates the wide variety in recent wage trends across countries and regions, from very rapid increases in a few countries to very modest growth in many others.

A general trend is that wages have grown at a substantially slower pace than GDP per capita. A majority of countries registered a decline in the share of national income that goes to wages, suggesting a lag between the growth in productivity and the growth in wages. The report also presents evidence to suggest that while wages do not increase as fast as overall economic growth in upswings, they slow more rapidly in downswings. If this pattern were to be followed in the rapidly spreading global downturn that has accelerated in 2008 it would deepen the recession and delay the recovery.

Most countries also display an increase in wage inequality, with top wages tending to increase much faster than those of the large majority of wage earners. Countries with a higher coverage of collective bargaining tend to have a narrower dispersion of wages.

The ILO is actively engaged in the promotion of a fair globalization providing opportunities for all. The ILO Decent Work Agenda offers a practical way forward based on four strategic components of rights at work, employment and enterprise development, social protection, and social dialogue and tripartite consultations. The legitimacy of globalization and of open economies and societies hinges critically on greater fairness in outcomes. Central to this fairness is the ability of working women and men to obtain a fair share of the wealth they create.

The International Labour Conference adopted in June 2008 an ILO Declaration on Social Justice for a Fair Globalization recalling such principles and setting out an approach for countries and employers' and workers' organizations to promote balanced economic and social policies. The Declaration supports "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". In order to translate these principles into effective policies, the ILO provides policy-makers and social partners with information and analysis of recent trends in a large number of countries.

This report collates and elaborates on data made available to the ILO through national statistical offices, Ministries of Labour and other institutions. There is much work ahead in order to improve the scope, regularity and comparability of information and data on levels, trends and distribution of wages. The ILO is ready to assist in this effort together with other national, regional and global institutions. Strengthening the social dimension of globalization also implies investing more resources in collecting and making available data on social outcomes of economic growth.

Reports such as these are one of the best ways in which the ILO can assist its Members in advancing their national decent work goals. They strengthen the ILO's capacity to provide technical assistance to constituents on wage policies and the links between productivity, economic performance, prices and wages.

Juan Somavia
Director-General

Contents

Preface	v
Contents	vii
Acknowledgements	xi
Introduction	xiii
Part I Major trends in wages, 1995–2007	1
<hr/>	
1. The economic context	1
1.1. Strong economic growth, but a gloomy outlook	1
1.2. Continued global economic integration	3
<i>International trade</i>	4
<i>Foreign direct investment</i>	4
<i>Labour migration</i>	5
1.3. Inflation	6
2. Aggregate wages	7
2.1. Definitions and statistics	9
2.2. Average wages	12
<i>Wages and productivity</i>	13
<i>Wage forecasts for 2008 and 2009</i>	16
2.3. Changes in the wage share	19
3. The distribution of wages	23
3.1. Does wage inequality matter?	23
3.2. Trends in wage inequality	23
3.3. Wage inequality and economic development	26
3.4. Wage inequality and gender	29
Part II Minimum wages and collective bargaining	33
<hr/>	
4. Recent trends	34
4.1. The revival of minimum wages	34
4.2. Contrasting developments in collective bargaining coverage	36

5. The effects of institutions on wage outcomes	41
5.1. Collective bargaining, productivity and wages.	41
5.2. Institutions and wage inequality.	43
5.3. Findings from the literature	44
6. Designing coherent wage policies	46
6.1. Using the minimum wage as an effective and decent wage floor.	47
<i>What is a decent wage floor?</i>	47
<i>Uprating minimum wages.</i>	49
<i>Keeping it simple</i>	50
<i>Compliance, coverage and coherence</i>	52
6.2. Promoting collective bargaining alongside minimum wages.	53
<i>Promoting a coordinated approach</i>	53
<i>Examples of measures to activate collective bargaining</i>	54
<i>Monitoring collective bargaining and collecting wage statistics.</i>	57
Part III Summary and conclusions	59
7. Main findings and policy implications	59
8. Emerging issues and the way forward	61
Technical appendix I: The wage share	63
Technical appendix II: Institutions and inequality.	66
References	69
Statistical appendix	75

Tables

1. Share of wage and salaried workers (% of total employment)	10
2. Trends in minimum wages	36
3. Collective bargaining coverage, 2007 or latest year	38
4. National and sectoral minimum wages (% of total countries)	50
5. Minimum wages and domestic workers (selected countries)	53

Figures

1. Economic growth: Annual changes in GDP, 1980–2007	2
2. Economic growth and stability: Comparing the periods of 1980–94 and 1995–2007.	3
3. Trade (imports + exports) as a percentage of GDP, 1980–2006.	4

4. Net inward inflows of FDI as a percentage of GDP, 1980–2006	5
5. Inflation: GDP deflators, 1980–2006 (annual changes, %)	6
6. Food prices: A. Food price index, 2000–08; B. Outlook for cereal prices, 1996–2017	8
7. Real wage growth	12
8. GDP per capita growth and change in real wages	14
9. Level of GDP per capita and level of wages (purchasing power parity, PPP)	15
10. Comparative estimates of global wage elasticity	16
11. Relationship between changes in consumer price index (CPI) and nominal wages, 1995–2007	17
12. Poorest households' expenditure on food (latest years when data were available, percentage of total expenditure)	18
13. Trends in wage share: Differences between the periods 1995–2000 (average) and 2001–07 (average); A. adjusted wage share; B. unadjusted wage share	20
14. Wage inequality, D9/D1 ratio: Differences between the periods 1995–97 and 2004–06	24
15. Growing inequality in different types: An illustration	25
16. Decomposition of wage inequality in selected countries: Changes in D9/D5 and D5/D1 (1995–2000 and 2001–06)	27
17. Wage inequality and economic development, 2006/latest years: A. Gini index (overall wage inequality); B. D9/D1 ratio	28
18. Changes in gender pay gap, 1995–2007	30
19. GDP per capita change and real wage growth in countries with lower coverage of collective bargaining ($\leq 30\%$)	42
20. GDP per capita change and real wage growth in countries with higher coverage of collective bargaining ($>30\%$)	42
21. Wage differentials (D9/D1) and collective bargaining rate (2005), EU countries ..	44
22. Minimum wages relative to average wages	48
23. Nominal minimum wages and inflation in Latin America, 1996–2007	49

Boxes

1. The ILO's October Inquiry	11
2. China: Trends in collective bargaining	40
3. Uruguay: Reactivating collective bargaining and wage policy	55
4. Cambodia: The minimum wage as a foundation for collective bargaining	56

Technical appendix tables

A1. Panel regression results on the change in wage share	64
A2. Wage inequality and institutional factors	67

Statistical appendix tables

A1. Average wages and the “wage share”	77
A2. Minimum wages	85
A3. Inequality	93
A4. Background indicators	99

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Introduction

What have been the major trends in the level and the distribution of wages around the world since 1995? How have economic growth and globalization affected these wage trends? And what have been the roles of minimum wages and collective bargaining? These are some of the main questions addressed in this first ILO *Global Wage Report*.

The report is divided into three parts. Part I provides a summary of the main trends in average wages and in the distribution of wages. We show that over the period 1995–2007 average wages lagged behind the growth in GDP per capita, which we interpret as an indication that increases in productivity have failed to translate fully into higher wages. We also show that the recent period, characterized by growing economic integration, has seen a decline in the share of GDP distributed to wages, disappointingly slow reductions in the wage gap between women and men and an overall increase in inequality among wage earners. Another feature of the report is our estimate for global wages growth for 2008 and our forecast for 2009.

In every future publication in this series, Part II will be devoted to a specific topic deserving particular attention. In this year's report we focus on minimum wages and collective bargaining – the two main labour market institutions affecting wages. We first present some statistics on these institutions, which confirm that there has been a revival of the minimum wage and document changes in the coverage of collective bargaining. Our statistical analysis then shows that wage policies have important positive effects on wages outcomes: while collective bargaining reduces overall wage inequality and ensures a stronger link between economic growth and average wages, minimum wages can reduce inequality in the bottom half of the labour market. One challenge for policy-makers, however, is to develop institutions for collective bargaining and for minimum wages that are complementary rather than contradictory. The report therefore provides some concrete recommendations on how to design minimum wages so that they do not “crowd out” collective bargaining.

Part III of the report presents concrete policy recommendations and identifies key issues for further research. Our policy recommendations have gained particular urgency due to the new context of weaker economic growth in 2008 and 2009. Higher prices, particularly of food, are likely to erode further the real wages of not only low-paid workers but also those of many workers belonging to the middle class. In this context, we recommend that governments implement active wage policies: they should promote bargaining among social partners to ensure that total income is shared equitably between workers and employers, and uprate whenever possible the minimum wages to protect the purchasing power of low-wage workers. We also recommend that these wage policies be part of a more comprehensive response which includes income support measures.

Finally, we are acutely aware that many important issues deserve much more detailed scrutiny or remain unaddressed in this first report on wages. For this reason,

Part III also outlines some possible themes for future issues of the *Global Wage Report*. These include unequal pay for men and women and differences in wages across particular occupations, as well as more detailed understanding of the links between wages and labour productivity. In the future, a major effort will also have to be devoted to improving the new database on wages statistics which has been created for the purpose of this first report. It is hoped that this will be a significant contribution towards an improved understanding of the role of wages in providing access to decent work and social justice.