

Executive summary

Major trends in wages

The crisis continues to dampen wages

Real average wage growth has remained far below pre-crisis levels globally, going into the red in developed economies, although it has remained significant in emerging economies. Monthly average wages adjusted for inflation – known as real average wages – grew globally by 1.2 per cent in 2011, down from 2.1 per cent in 2010 and 3 per cent in 2007. Because of its size and strong economic performance, China weighs heavily in this global calculation. Omitting China, global real average wages grew at only 0.2 per cent in 2011, down from 1.3 per cent in 2010 and 2.3 per cent in 2007 (see figure 3).

Regional differences in wage growth

There are major geographic variations in the trends in real average wage growth (see figure 7). Wages suffered a double dip in developed economies but remained positive throughout the crisis in Latin America and the Caribbean, and even more so in Asia. Fluctuations were widest in Eastern Europe and Central Asia, partly as a result of the strong post-transition recovery in wages before the global economic crisis, and the severe contraction in real wages in 2009. In the Middle East, real average wages appear to have declined since 2008, but some of the estimates still remain tentative, as they are for Africa.

Cumulative wage growth by region

Differences between the regions are particularly stark if we look at the cumulative wage growth from 2000 to 2011. Globally, real monthly average wages grew by just under a quarter, in Asia they almost doubled, while in the developed world they increased by about 5 per cent. In Eastern Europe and Central Asia real wages nearly tripled, but this was mostly as part of the recovery from the transition to market economies. In Russia, for example, the real value of wages collapsed to less than 40 per cent of their value in the 1990s and it took another decade before wages recovered to their initial level.

Regional differences in wage levels

While wages grew significantly in emerging economies, differences in wage levels remain considerable. In the Philippines, a worker in the manufacturing sector took home around US\$1.40 for each hour worked. In Brazil, the hourly direct pay in the

sector was US\$5.40, in Greece it was US\$13.00, in the United States US\$23.30 and in Denmark US\$34.80 (2010 exchange rates, rounded).

Falling labour shares and equitable growth

A smaller piece of the pie for workers across the world

Between 1999 and 2011 average labour productivity in developed economies increased more than twice as much as average wages (see figure 11). In the United States, real hourly labour productivity in the non-farm business sector increased by about 85 per cent since 1980, while real hourly compensation increased by only around 35 per cent. In Germany, labour productivity surged by almost a quarter over the past two decades while real monthly wages remained flat.

The global trend has resulted in a change in the distribution of national income, with the workers' share decreasing while capital income shares increase in a majority of countries. Even in China, a country where wages roughly tripled over the last decade, GDP increased at a faster rate than the total wage bill – and hence the labour share went down.

The drop in the labour share is due to technological progress, trade globalization, the expansion of financial markets, and decreasing union density, which have eroded the bargaining power of labour. Financial globalization, in particular, may have played a bigger role than previously thought.

The effects of a declining labour share

A decrease in the labour share not only affects perceptions of what is fair – particularly given the growing concerns about excessive pay among CEOs and in the financial sector – it also hurts household consumption and can thus create shortfalls in the aggregate demand. These shortfalls in some countries have been compensated by increasing their net exports, but not all countries can run a current account surplus at the same time. Hence, a strategy of cutting unit labour costs, a frequent policy recommendation for crisis countries with current account deficits, may run the risk of depressing domestic consumption more than it increases exports. If competitive wage cuts are pursued simultaneously in a large number of countries, this may lead to a “race to the bottom” in labour shares, shrinking aggregate demand.

Implications for equitable growth

Income distribution and wage levels

The *Global Wage Report* contributes to a wider literature on the changes in the distribution and levels of wages within and across countries, as well as on the economic and social implications of these trends. One of the key findings of this literature is the growing inequality in income, in terms of functional and personal income distribution.

In terms of functional income distribution, which concerns how national income has been distributed between labour and capital, there is a long run trend towards a falling share of wages and a rising share of profits in many countries. The personal distribution of wages has also become more unequal, with a growing gap between the top 10 per cent and the bottom 10 per cent of wage earners. These internal “imbalances” have tended to create or exacerbate external imbalances, even before the Great Recession, with countries trying to compensate the adverse effects of lower wage shares on consumption demands through easy credit or export surpluses.

Better linking productivity and wages

What should be done? Our analysis suggests that policy actions towards “rebalancing” should be taken at both national and global levels. In attempting to redress external imbalances, policy-makers should refrain from a simplistic view that countries can “cut” their way out of the recession. Policy-makers should pursue policies that promote a close connection between the growth of labour productivity and the growth of workers compensation. The existence of large current-account surplus in some countries suggest that there is room to better link productivity increases and wages as a means to stimulate domestic demand. Policy-makers should be careful not to promote a race to the bottom in labour shares in deficit countries or throughout the Eurozone. Austerity measures that are imposed from the outside and bypass social partners harm effective labour relations.

Strengthening institutions

“Internal rebalancing” can begin by strengthening institutions for wage determination. Given the difficulty with organizing workers, particularly in the context of increasing labour market segmentation and rapid technological changes, more supporting and enabling environments need to be created for collective bargaining. Low-paid workers also need stronger protection in wage determination. Minimum wages, if properly designed, have proved an effective policy tool which can provide a decent wage floor and thus secure a minimum living standard for these workers and their families.

Reforms outside the scope of the labour market

It is unrealistic to try to achieve income distribution solely through labour market policies. Redistribution will also require a number of changes that lie outside of the scope of labour markets, including reform and repair of financial markets to restore their role in channelling resources into productive and sustainable investments. There are other critical dimensions of “rebalancing” which deserve a more detailed analysis, including the balance between taxation of capital and labour incomes.

Looking beyond wage earners

In developing economies, employment guarantee schemes that pay minimum wages are ways to create incentives for private firms to comply with the minimum wage. But because in developing and emerging countries only about half of all workers are

wage earners, additional measures are needed to create more wage jobs and to raise the productivity and earnings of those in self-employment.

Raising average labour productivity remains a key challenge which must involve efforts to raise the level of education and the capabilities that are required for productive transformation and economic development. The development of well-designed social protection systems would allow workers and their families to reduce the amounts of precautionary savings, to invest in the education of their children, and to contribute towards stronger domestic consumption demand and raise living standards.