



---

The impact of the crisis on wages:

A perspective from the ILO Global Wage Report



---

Patrick Belser  
International Labour Office  
[belser@ilo.org](mailto:belser@ilo.org)

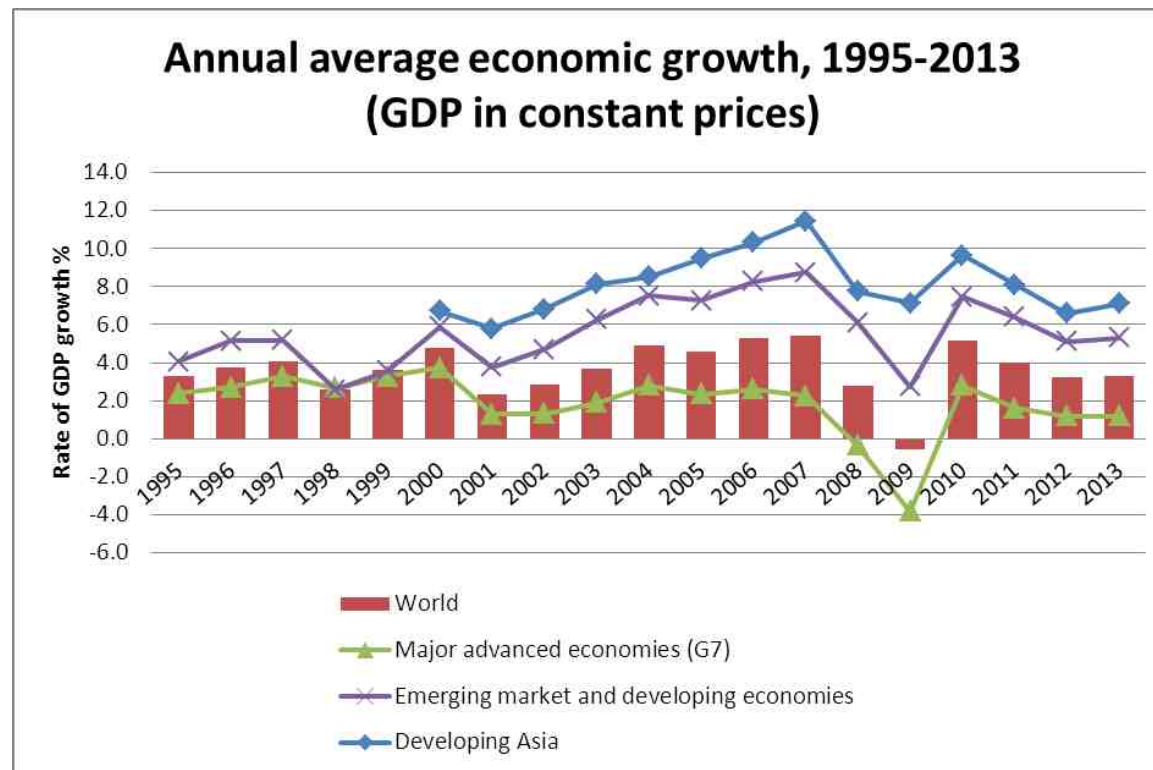
---

# The impact of the crisis on wages

## Part I Major Trends in Wages

# Economic Growth ...

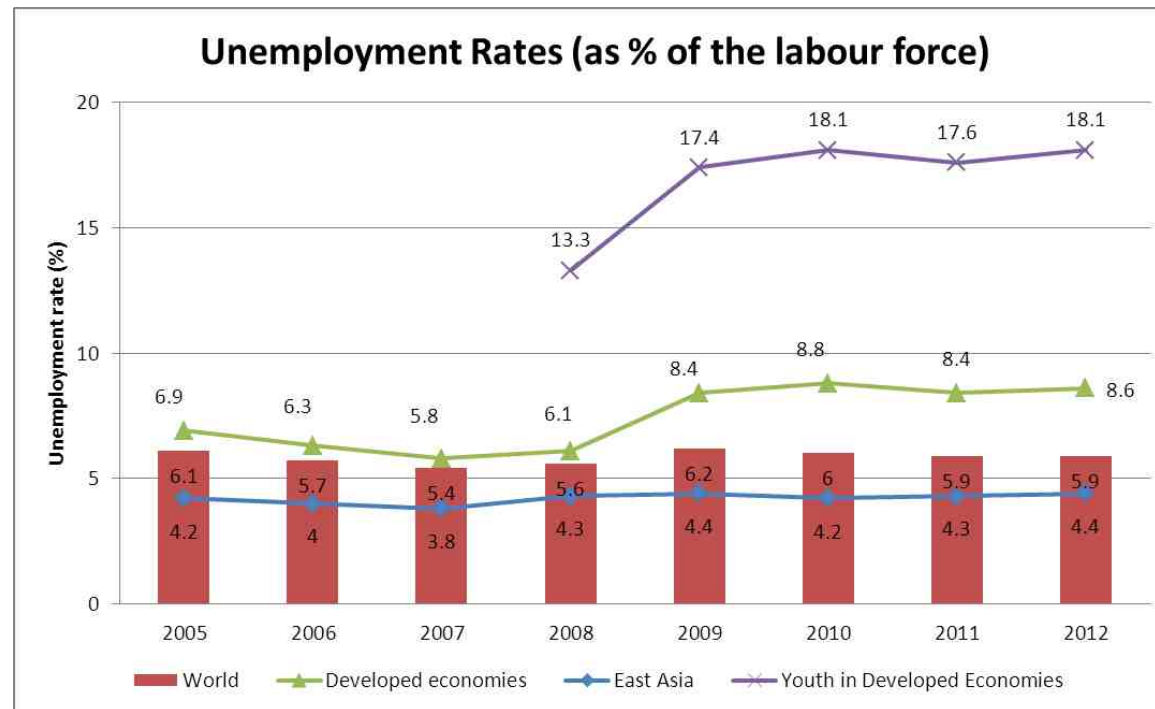
The world economy contracted in 2009, but the impact of the crisis has been felt very diversely across the globe



Source: IMF World Economic Outlook, 2013

## ... Unemployment ...

The global financial crisis has had significant negative repercussions on the rate of unemployment in developed economies, but in developing countries unemployment rates fluctuated much less



Source: ILO Global Employment Trends 2013 and Global Employment Trends for Youth 2013

## ... Wage-employment ...

In developing countries, where few can afford to remain unemployed, the proportion of paid employees may be a better indicator – pointing towards growing demand for paid employment even during the years of the global financial and economic crisis.

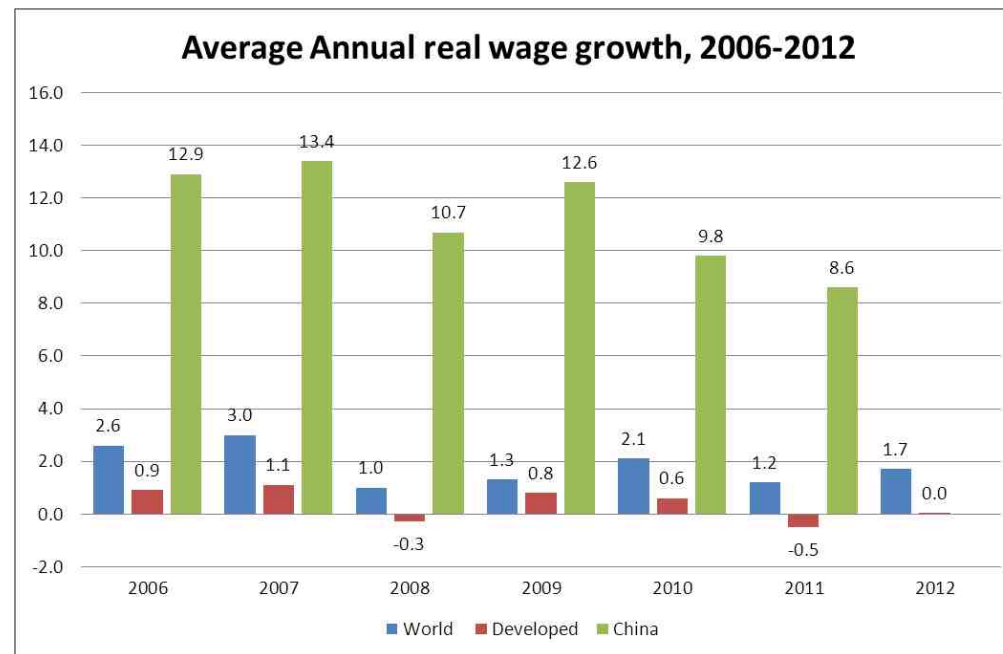
Paid Employees in Total Employment	2000	2007	2011
World	45	46	48
Developed Economies & European Union	85	86	86
Central & South-Eastern Europe (non-EU) & CIS	73	77	77
East Asia	40	43	49
South-East Asia & the Pacific	32	35	36
South Asia	18	19	21
Latin America & the Caribbean	60	63	64
Middle East	61	64	66
North Africa	48	51	52
Sub-Saharan Africa	18	21	22

Source: ILO Key Indicators of the Labour Market (KILM)

All wage and salaried workers in 2011 by sex (%)		
	Male	Female
World	48	48
Developed	84	90
Eastern Europe and CIS	77	79
East Asia	51	45
Southern Asia & Pacific	39	34
South Asia	23	17
Latin America & Caribbean	63	65
Middle East	70	61
North Africa	53	37
Sub-Saharan Africa	27	14
Source: ILO, KILM		

## ... and Average Wages

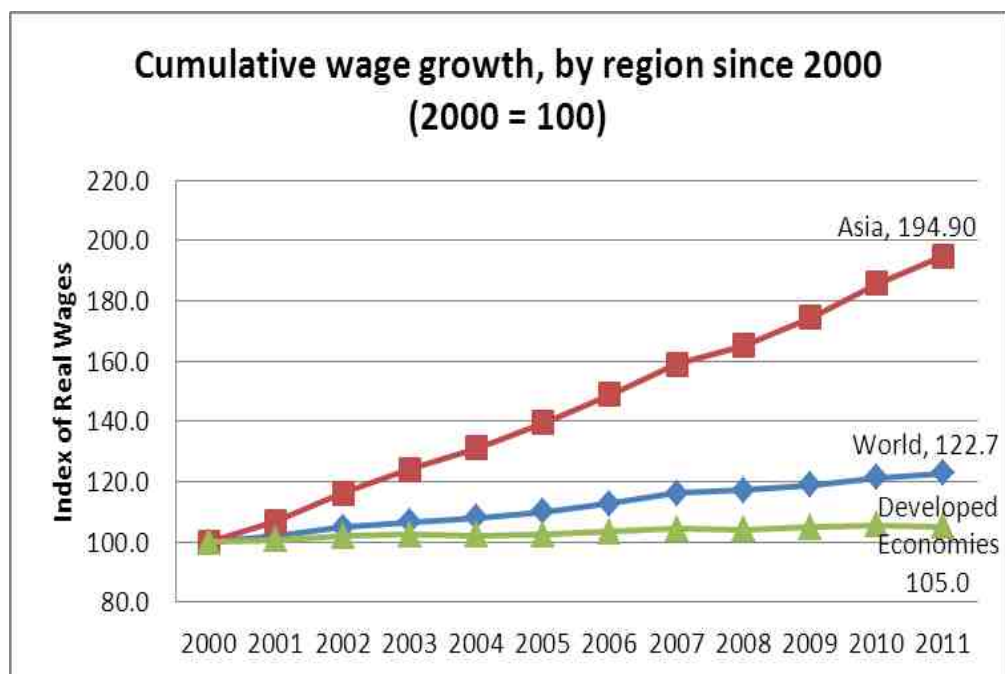
The growth of real average wages in developed economies have tended to fluctuate within a narrow range of about -0.5% and 1.1% in all years since 2006, but wage growth has generally been more rapid and resilient in emerging and developing nations



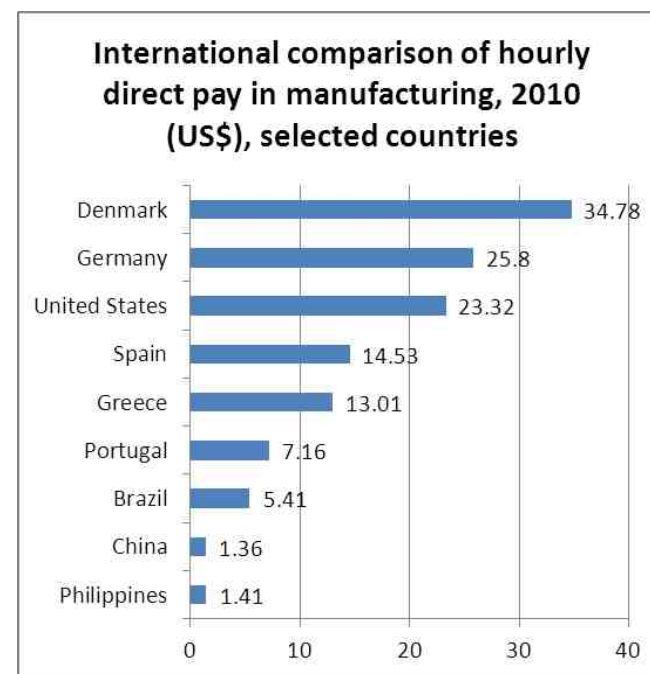
Source: ILO Global Wage Report, 2012/13; Estimates for 2012 are preliminary

# The convergence question

Over the last decade real wages have grown 5% in developed economies, about 23% worldwide, and almost doubled in Asia - but from a much lower base. In absolute terms, differences in wage levels remain large.



Source: ILO Global Wage Report, 2012/13



Note: For China the data refers to 2008 and is not directly comparable to the other countries

Source: US BLS

---

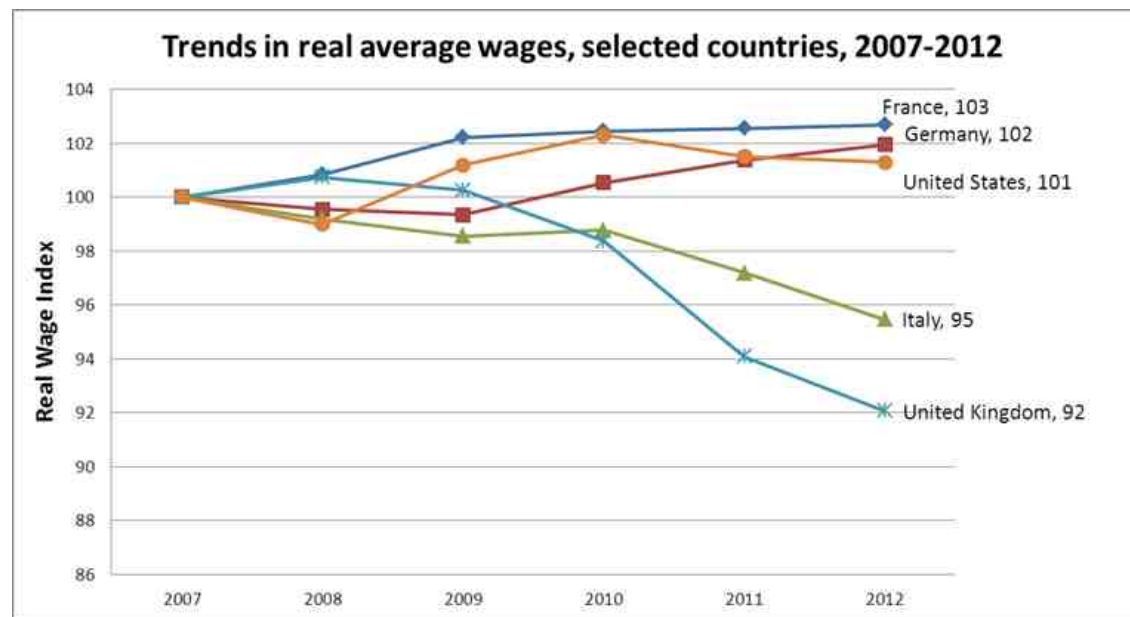
# The impact of the crisis on wages

## Part II

### Falling Labour Shares and Equitable Growth

# Flat wages or declining wages?

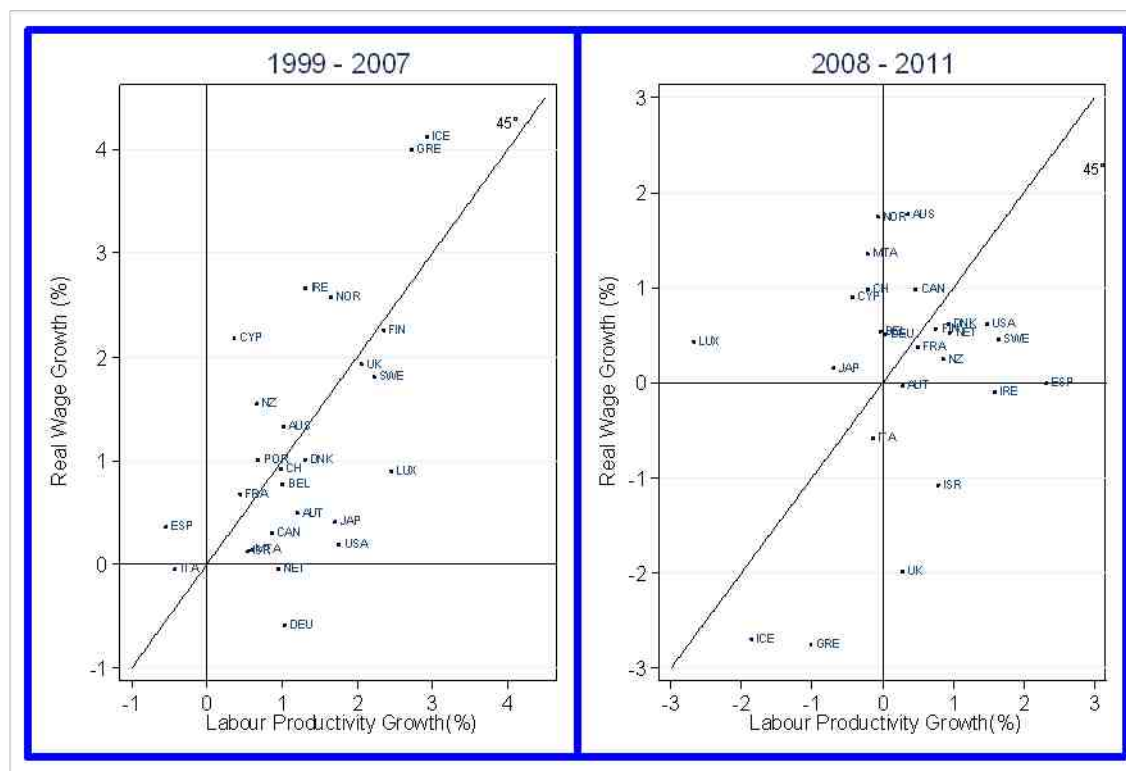
The “flat wages” story in the group of advanced economies hides some sharp country differences, particularly within the euro zone.



Source: ILO Global Wage Database

# Some wage adjustments are part of the story of “Rebalancing”

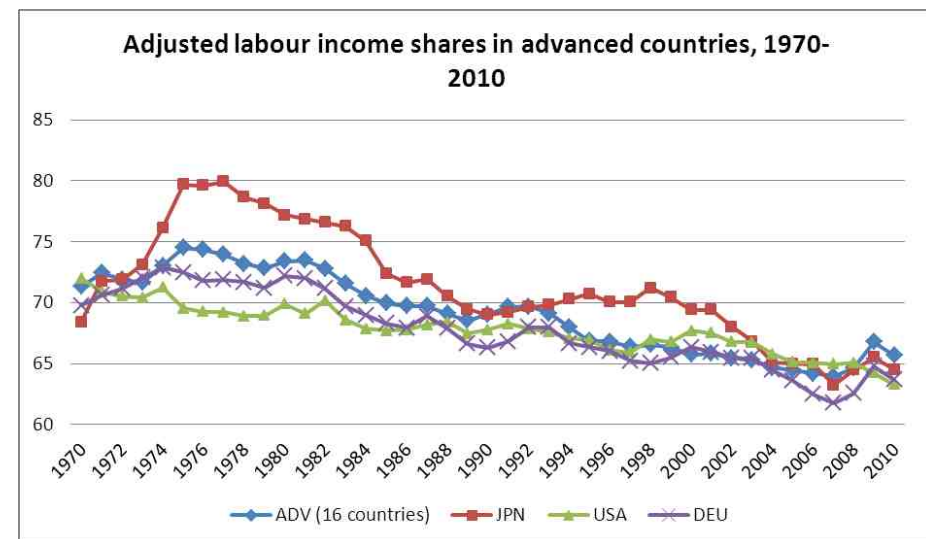
In some countries average wage growth exceeded productivity growth before the crisis, but in many others wages lagged productivity.



Source: ILO Global Wage Database

# But the overall story is of a decline in “labour income shares” ...

Overall, in developed economies, real wages have lagged productivity over the last decade. This has led to a decline in the share of labour compensation in national income (the “labour income share”), indicating that a larger part of national income is going into profits.

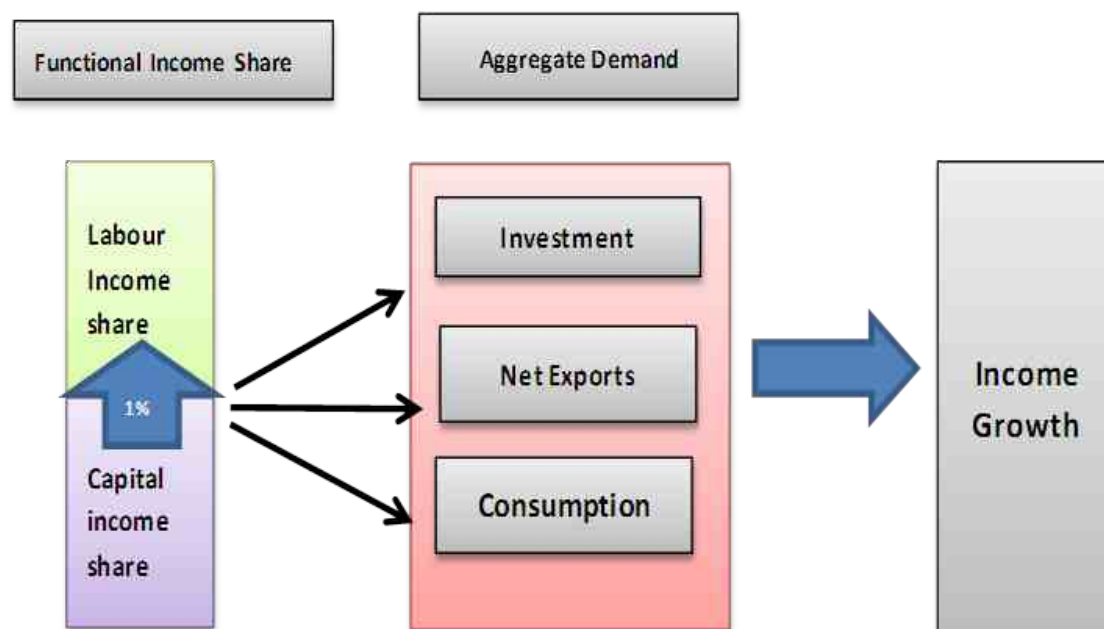


Source: ILO Global wage database; Stockhammer, 2013

Source: ILO Global Wage Report, 2012/13

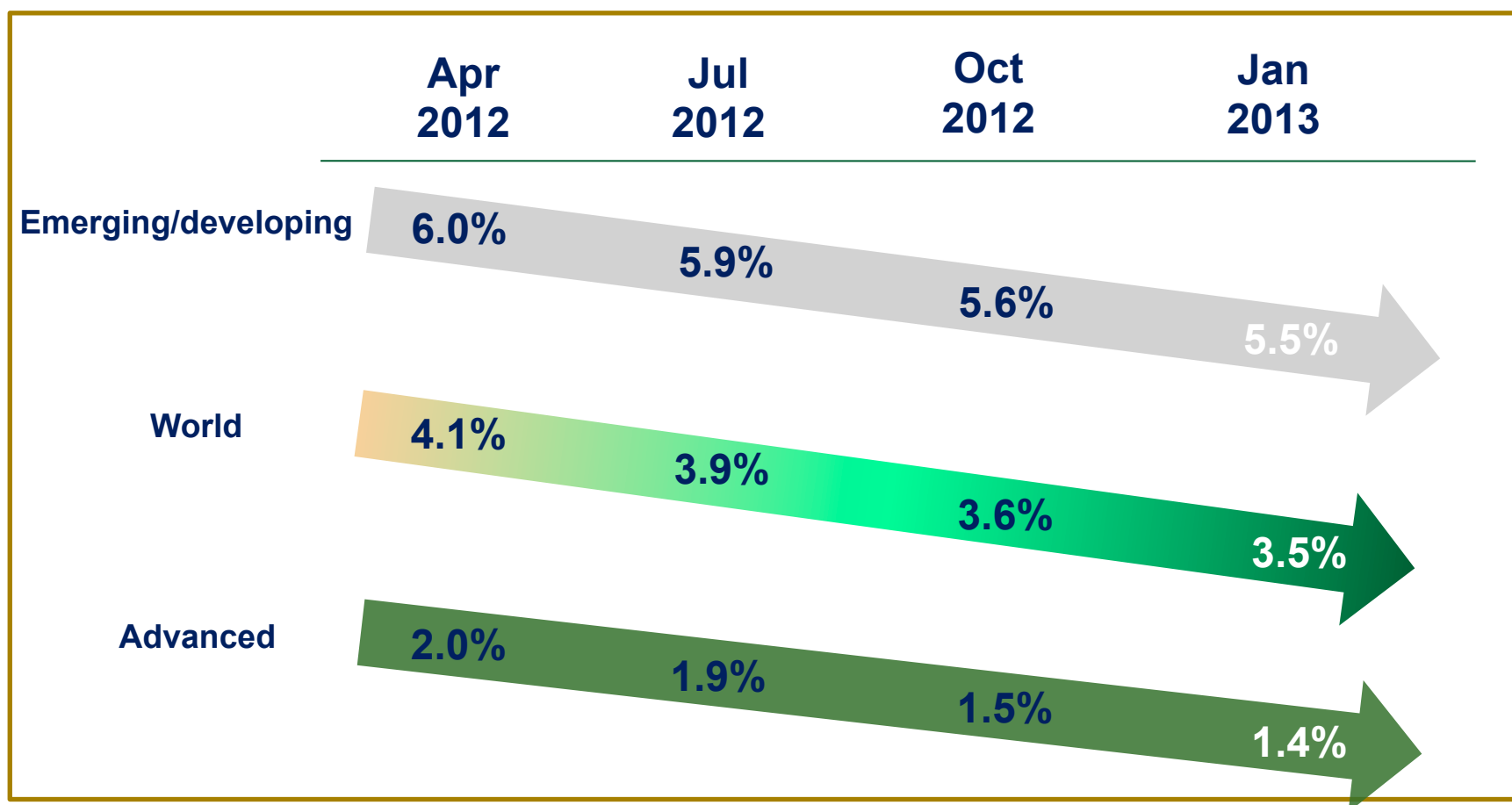
## ... and of shortfall in aggregate demand

At the moment, higher profits are not being invested. Economic growth must come from a rebalancing of demand in surplus countries, away from exports and towards more domestic consumption. This requires “coordination” rather than a “race to the bottom” in wage costs.



# A reality check for optimists !

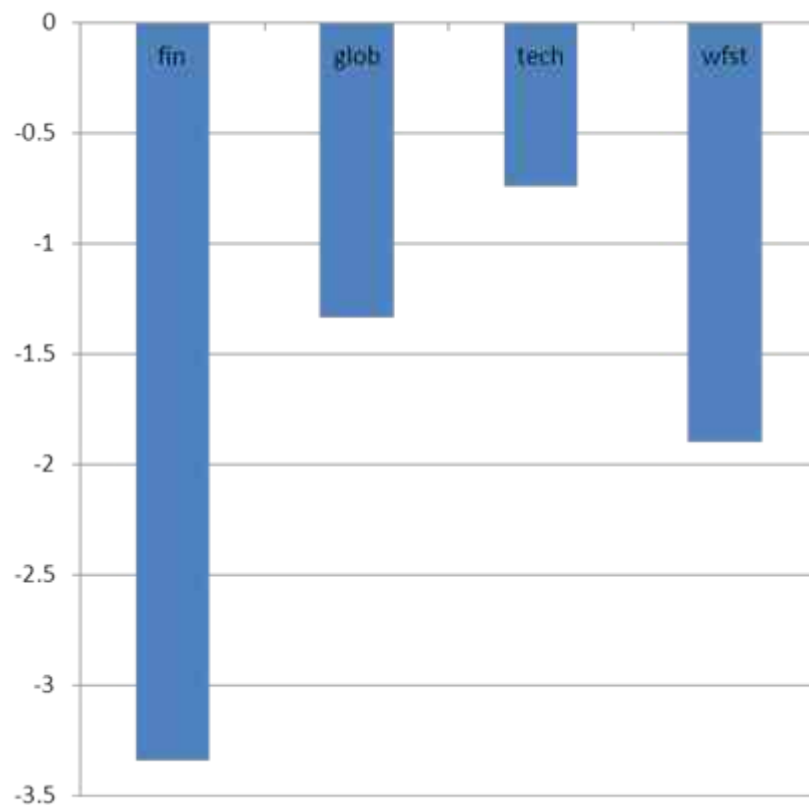
Forecast GDP growth for 2013 has continued to deteriorate over the last 12 months



Source: IMF

# Why have labour shares declined?

## Advanced economies (1990/4-2000/4)



Factors and their role in the fall of labour shares:

- Financialization (46%)
- Lower unionisation and smaller governments (25%)
- Globalization (19%)
- Technology (10%)

=> The general decline in bargaining power of labour

Source: Global wage Report; Stockhammer, 2013

# A compounding problem: Inequality

“When a situation arises where a large proportion of people feel left behind, with little prospect of catching up, the risk of social and political tensions increases” (ILO Global Wage Report 2010/11)

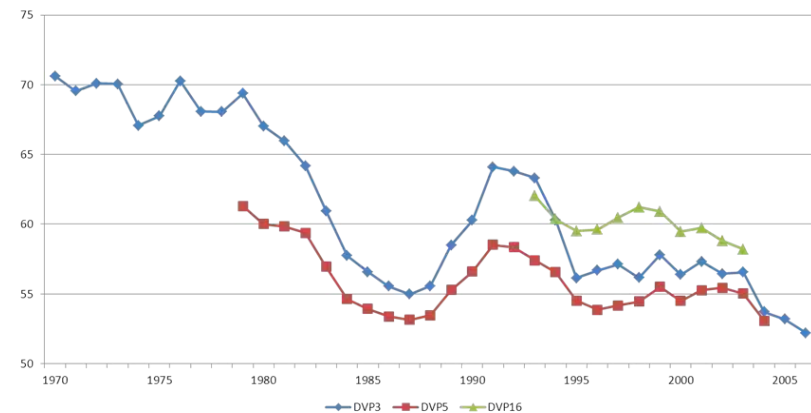


# Unbalanced growth is also a concern in emerging economies

When productivity increases faster than wages, this may increase the competitiveness of export sectors and attract foreign investment, but internal consumption may stagnate.



Adjusted labour income shares, 1970-2007

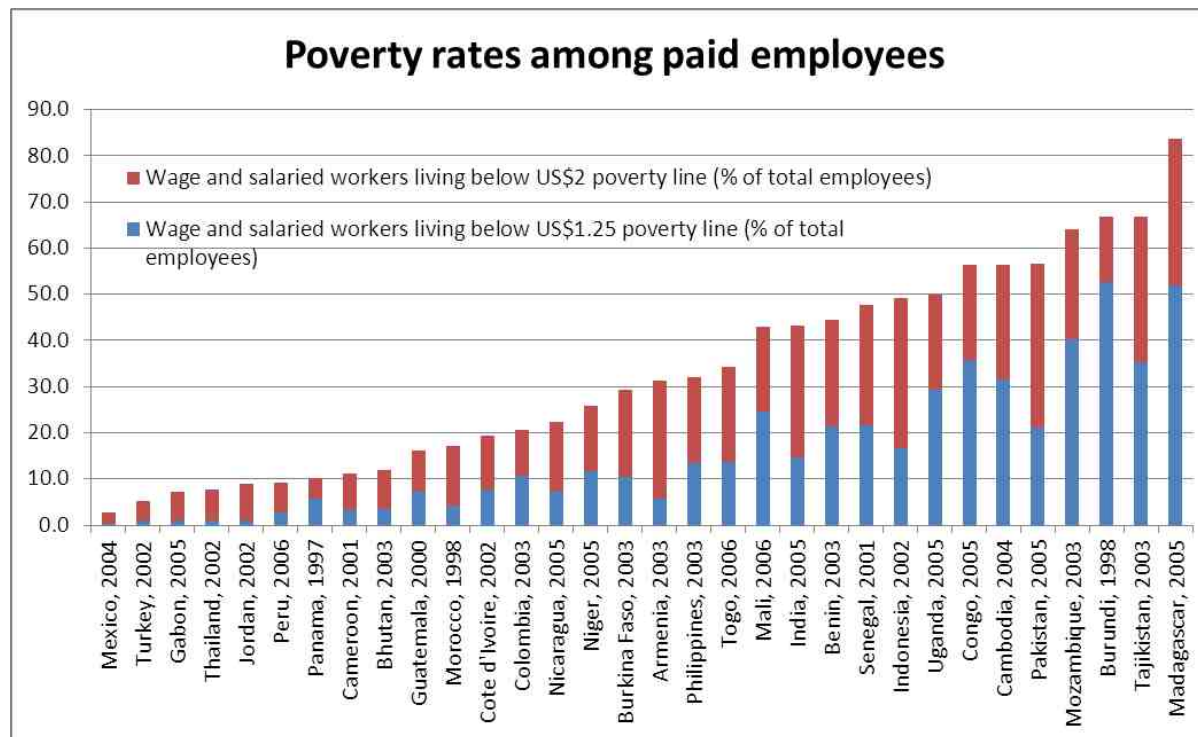


Note: DVP3: unweighted average of Mexico, South Korea, and Turkey; DVP5: unweighted average of China, Kenya, Mexico, South Korea, and Turkey; DVP16: unweighted average of Argentina, Brazil, Chile, China, Costa Rica, Kenya, Mexico, Namibia, Oman, Panama, Peru, Russia, South Africa, South Korea, Thailand, and Turkey.

Sources: ILO wage database and Stockhammer (2012)

# The “working poor”

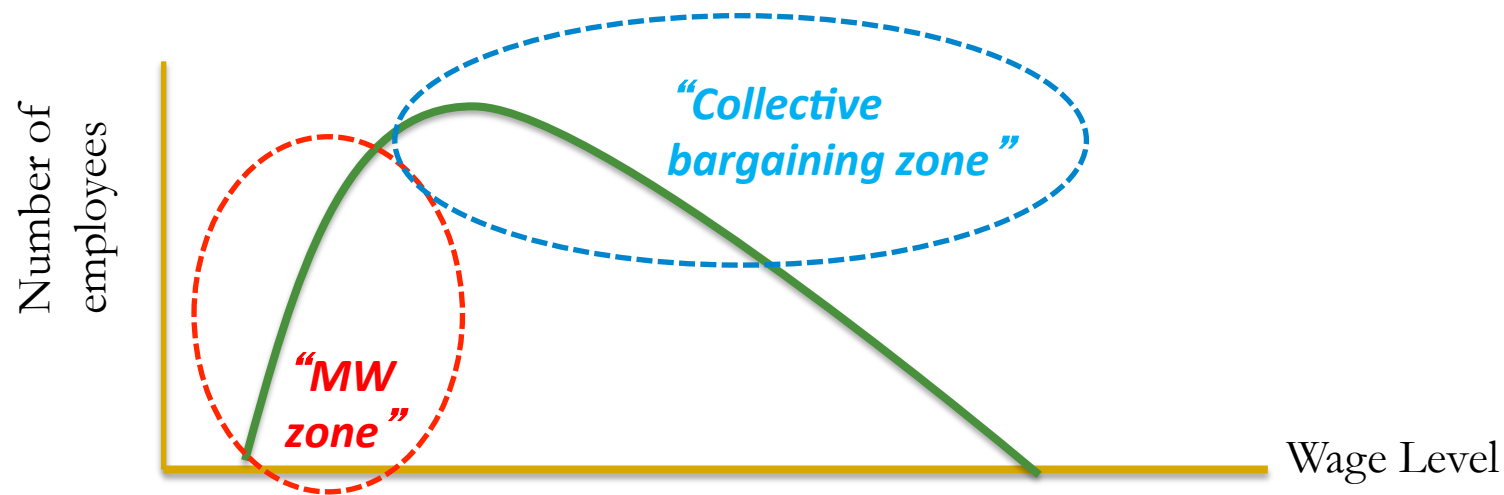
In developing countries, improving labour productivity through education and reducing the number of “working poor” remains a key challenge



Source: ILO Global Wage Report, 2012/13; Steven Kapsos, ILO

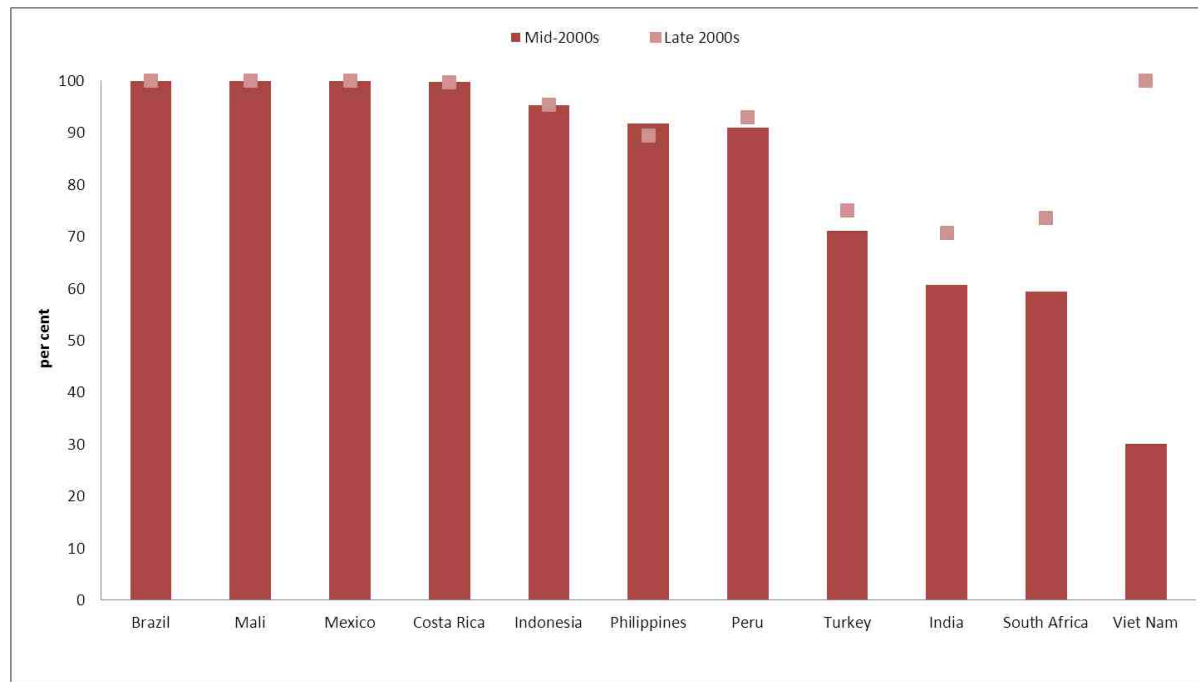
# The challenge of building stronger labour market institutions

In addition to higher productivity, wage growth depends also on labour market institutions such as minimum wages and the existence of collective bargaining



# The legal coverage of minimum wage legislation is often less than full

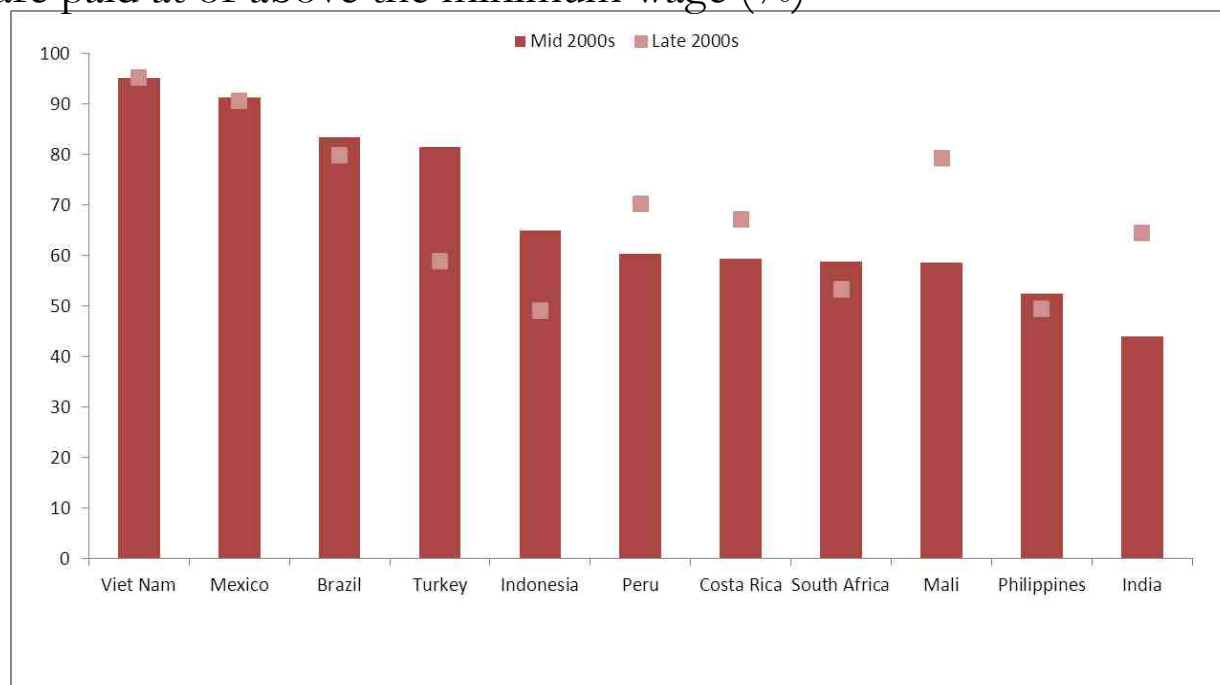
Proportion of paid employees covered by minimum wage laws (%)



Source: Rani, U., Belser, P., Ranjbar, S. (2013) 'Role of minimum wages in rebalancing the economy' in World of work Report 2013 Repairing the economic and social fabric, ILO Geneva

# The rate of compliance with minimum wage legislation is sometimes low

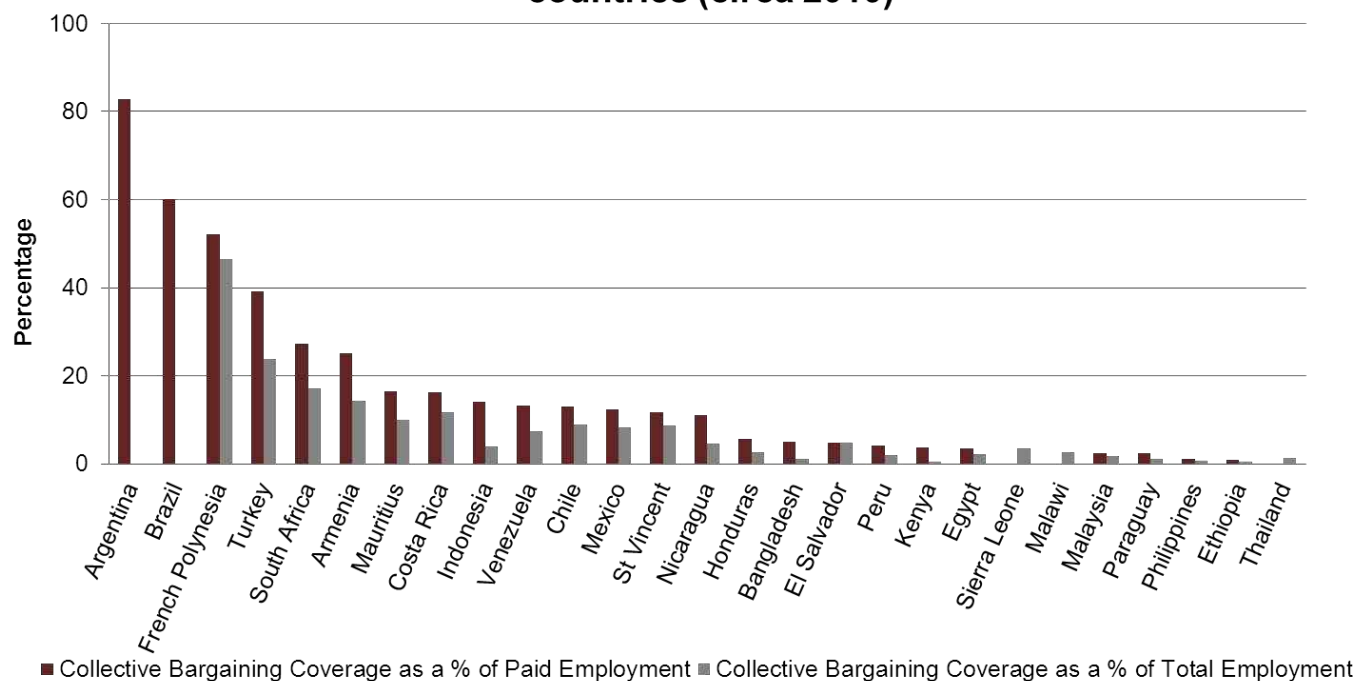
Proportion of paid employees covered by minimum wage laws who are paid at or above the minimum wage (%)



Source: Rani, U., Belser, P., Ranjbar, S. (2013) 'Role of minimum wages in rebalancing the economy' in World of work Report 2013 Repairing the economic and social fabric, ILO Geneva

# The share of workers whose wages are set through collective bargaining is low in developing countries

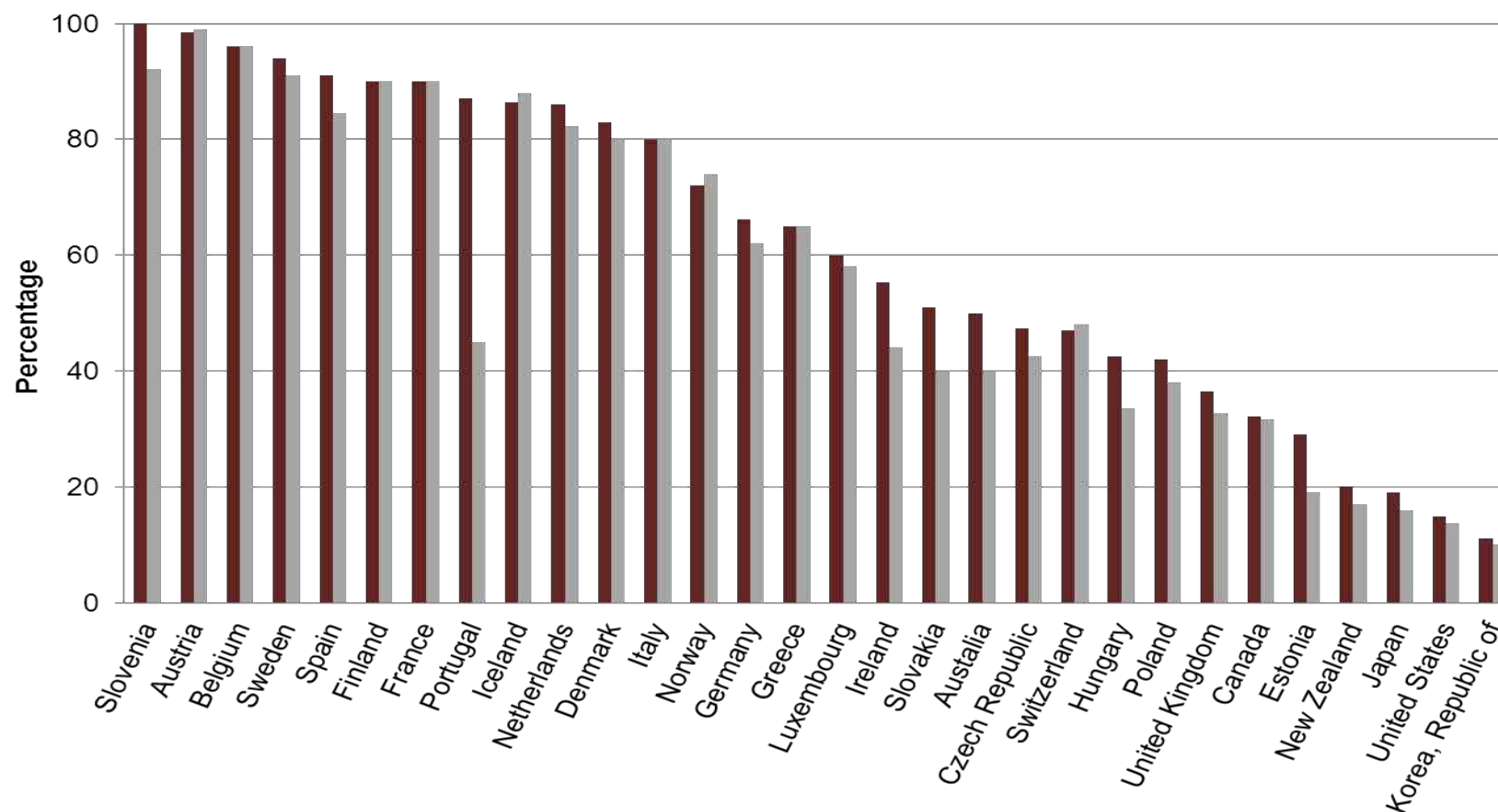
**Figure 6: Collective bargaining coverage in developing countries (circa 2010)**



Source: Hayter and Stoevska, 2011 and Yearbook of Labour Statistics 2011 (provisional)

And is often declining in advanced countries

**Figure 2: Collective bargaining coverage 2000 and 2009**



Source: ICTWSS Database (Version 3.0 – May 2011) ■ CBCR 2000 or closest available ■ CBCR 2009 or latest available

---

# What can be done? A global call for “rebalancing” for equitable and sustainable growth

- **Reconnecting wages and productivity**
  - Coordinated policy actions at multiple levels (including global coordination)
  - Strengthening labour market institutions
- **Beyond labour markets**
  - Financial regulation
  - Taxation and social security
- **For developing countries**
  - Reaching other earners (self-employed and informal)
  - Improving productivity
  - Implementing social security schemes



Thank You !