The impact of the crisis on wages:
A perspective from the ILO Global Wage Report

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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
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.

... 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.

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<tr>
<td>World</td>
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<tr>
<td>Developed Economies &amp; European Union</td>
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<td>Central &amp; South-Eastern Europe (non-EU) &amp; CIS</td>
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<td>Sub-Saharan Africa</td>
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<th>All wage and salaried workers in 2011 by sex (%)</th>
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<td>Source: ILO Key Indicators of the Labour Market (KILM)</td>
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Source: ILO Key Indicators of the Labour Market (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.

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
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

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<td>Emerging/developing</td>
<td>6.0%</td>
<td>5.9%</td>
<td>5.6%</td>
<td>5.5%</td>
</tr>
<tr>
<td>World</td>
<td>4.1%</td>
<td>3.9%</td>
<td>3.6%</td>
<td>3.5%</td>
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<tr>
<td>Advanced</td>
<td>2.0%</td>
<td>1.9%</td>
<td>1.5%</td>
<td>1.4%</td>
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Source: IMF

Conditions of Work and Employment (TRAVAIL)
Why have labour shares declined?

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.
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 in often less than full

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

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

Conditions of Work and Employment (TRAVAIL)  Social Protection Sector
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 !