Global Wage Report 2016/17

**Global wage growth falls to its lowest level in four years**

Wage recovery in some developed economies – including the United States and Germany – was not sufficient to offset the decline in emerging and developing countries.

GENEVA (ILO news) – Wage growth around the world has decelerated since 2012, falling from 2.5 per cent to 1.7 per cent in 2015, its lowest level in four years. If China, where wage growth was faster than elsewhere, is not included, growth in global wages dropped from 1.6 per cent to 0.9 per cent, according to the [ILO’s Global Wage Report 2016-2017](http://www.ilo.org/global/research/global-reports/global-wage-report/2016/lang--en/index.htm).

In much of the period following the 2008-09 financial crisis, wage growth was propelled by relatively strong wage growth in developing countries and regions. More recently, however, this trend has slowed or reversed.

Among emerging and developingG20 countries, real wage growth declined from 6.6 per cent in 2012 to 2.5 per cent in 2015. In contrast, wage growth among developed G20 countries rose from 0.2 per cent in 2012 to 1.7 per cent in 2015, the highest rate of the last 10 years. In 2015, wages grew to 2.2 per cent in the US, 1.5 per cent in Northern, Southern and Western Europe, and 1.9 per cent in the countries of the European Union.

**“**Faster wage growth in the US and Germany explain an important part of these trends. It is as yet unclear whether such an encouraging development will be sustained into the future , as developed countries are faced with growing economic, social and political uncertainty,” said Deborah Greenfield, ILO Deputy Director-General for Policy. “In an economic context in which lower demand leads to lower prices (or deflation), falling wages could be the source of great concern, as it could add further pressure to deflation.”

The report, *Wage Inequality in the Workplace,* notes vast differences between regions among developing economies. For example, in 2015, wage growth remained at a relatively robust 4.0 per cent in Asia and the Pacific, declined to 3.4 per cent in Central and Western Asia, and is tentatively estimated at 2.1 per cent in the Arab States and at 2.0 per cent in Africa. In 2015, real wages fell by 1.3 per cent in Latin America and the Caribbean and by 5.2 per cent in Eastern Europe.

To a large extent, the latter figure reflects the drop in real wages observed in the Russian Federation (-9.5 per cent) and the even steeper decline in Ukraine (-20.2 per cent) in a context of GDP contraction and price inflation rise. Wages fell also, although moderately, in Belarus (-2.3 per cent).

In Central and Western Asia estimates show that after a strong recovery from the crisis in 2010 and 2011, wage growth has since gradually slowed down. In Tajikistan and Azerbaijan for example, it went down from 18.7 and 8.2 per cent respectively in 2012 to 7.7 and 1.0 per cent in 2015. In Kazakhstan, wage growth even turned negative (-2.4 per cent in 2015) whereas it was at 7 per cent in 2012. On the opposite, it remained strong in Armenia (4.3 per cent in 2015 after 5.1 in 2014).

**Wage inequality gets steep at the top**

The report also takes a look at wage distribution within countries. In most countries wages climb gradually across most of the wage distribution and then jump sharply for the top 10 per cent and, even more, for the highest-paid one per cent of employees.

For example, the wages of the top 1 per cent are 63 times higher than the wages of the bottom 1 per cent in the Russian Federation. Wage inequality in this country, though its decline since 2000, is still steeper than in the European countries (where this ratio amounts to 22 times on average). Although it is somewhat similar in China (70 times), the ratio is generally even higher in other emerging economies.

As a result, the top 10 per cent of best paid employees take on average 24.8 per cent of the total wages paid to all employees in the Russian Federation, which is almost as much as what the lowest-paid 50 per cent get (27.6 per cent). While the share of the top 10 per cent is similar in Europe (25.5 per cent on average), it goes even higher in some emerging economies, for example Brazil (35.0 per cent), India (42.7 per cent) and South Africa (49.2 per cent).

Within the overall wage distribution there are pay gaps between different groups of workers. Looking at gender, it is striking that as one moves upwards along the wage deciles, the proportion of women continuously declines. In the Russian Federation, women make up 70 per cent of the lowest-paid deciles of workers, and this share shrinking to about 40 per cent in the upper deciles. Similar pattern can be found in Europe where women make up 60 per cent of the lowest-paid decile of workers, and only 20 per cent of the top 1 per cent of earners.

The report provides preliminary estimates of the resulting gender pay gap (the percentage shortfall in the average hourly wage of women relative to the average wage of men) in a wide variety of countries. While it is around 20 per cent in Armenia, as in Europe, the gender pay gap is higher in the Russian Federation (around 27 per cent) and reach around 40 per cent in Georgia and Azerbaijan (38 and 43 per cent respectively).

#### Role of wage inequalities between and within enterprises

For the first time the report looks at wage distribution within enterprises. It analyses the extent to which overall wage inequality is the result of wage inequalities *between* enterprises and wage inequalities *within* enterprises.

Inequality between enterprises tends to be larger in developing than in developed countries. While in developed countries the average wages of the top 10 per cent of enterprises tend to be two to five times as high as those of the bottom 10 per cent, this ratio goes up to eight in Vietnam and even 12 in South Africa.

“On average, in 22 European countries, inequality within enterprises accounts for 42 per cent of total wage inequality, while the rest is due to inequality between enterprises.” said Rosalia Vazquez-Alvarez, ILO economist and one of the authors of the report.

When comparing the wages of individuals to the average wage of the enterprises in which they work, the report found that in Europe about 80 per cent are paid less than the average of the enterprise in which they work. In the one per cent of enterprises with the highest average wages, the bottom one per cent of workers are paid on average Euro 7.1 per hour while the top one per cent are paid on average Euro 844 per hour.

“The extent of wage inequality within enterprises – and its contribution to total wage inequality – is quite large, which indicates the importance of enterprise-level wage policies in reducing overall inequality,” Greenfield said.

The report highlights policies that can be used and adapted to country circumstances to reduce excessive wage inequality between and within enterprises. Minimum wages and collective bargaining play an important role in this context. Other possible measures include regulation or self-regulation of executive remuneration, promoting productivity among sustainable enterprises and addressing unequal wages between groups of workers, including women and men.