Wages in Global Perspective

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Maarten van Klaveren
• Wages matter
• Stagnation in wage development worldwide
• Major trends influencing development of wages
  -- Industrial relations
  -- Globalisation
  -- Development of new technology
  -- Financialization
• Potential consequences of the ‘wage gap’
• Labour market institutions matter
Contents in scheme

- Financialization
- Globalisation
- Technology
- Employer(s) organisations
- Trade union density
- Wages
- Changes in labour supply/demand
- Labour market institutions
- Collective bargaining coverage
1. **Vital source of personal and household income**
   - *Yet, not the only source: informal employment, self-employed*

2. **Central to maximize aggregate demand and maintain economic growth**

3. **Contribute to fairness and human dignity, in particular through minimum wages and workers’ voice: collective bargaining and own choices**
1. Measured by wage (labour income) share
   – Complications in calculating income of informally and self-employed
   – For 133 countries in 2014 median value of wage share 0.53 = 2%points lower than in 1995 (ILO 2016/17)

2. Measured by development of real wages
   – In EU28 over 2010-15 in half of all countries decrease of real wages (own calculations based on OECD/Ameco)

3. Measured by distance between average real wages and labour productivity increases
   – for 36 developed countries if 1999=100, wage index 2015=109 and productivity index 2015=119 (ILO 2016/17)

- UK
- France
- Netherl.
- Germany
- USA
STAGNATION IN WAGES WORLDWIDE: Wage shares Asia / Australia

Wage shares, Asia/Australia, 1970-2015

- Japan
- S-Korea
- China
- Indonesia
- Australia
MAJOR TRENDS INFLUENCING DEVELOPMENT OF WAGES

• **Industrial Relations: weakened position of labour**

• **Globalisation**
  – Speeding up in 1980/90s: entry of China and India to liberalised world markets, ‘doubling of global workforce’
  – Multinationals developing as ‘efficiency seekers’
  – Development of global value chains for retailer brands
  – Growing penetration of foreign direct investment in EU

• **Development of new technology**
  – Closely related to globalisation: advances in transport and IT, fragmenting of production processes
  – Newest waves implemented worldwide (robots in Foxconn factories)

• **Financialization**
  – Empowered shareholders align with excessively paid managers
  – Short-term decision-making, quarterly financial outcomes
  – Serious disconnect between profits and productive investment
WAGE INEQUALITY, 2000-recent

Wage Inequality (D9/D1), 2000-recent, 15 countries

INCREASING | USA | Vietnam | S-Korea | Poland | Czech R | UK | Germany | Netherl. | Denmark | Belgium | DECREASING | Spain | France | Japan | Sweden | Italy

2000 | recent
Correlations:

Wage Inequality – Trade Union Density: 2000 $R=-.565$; recent: $R=-.513$

Wage Inequality - Collective Bargaining Coverage: 2000 $R=-.630$, recent $R=-.687$ (mandatory extension!)

Trade Union Density - Collective Bargaining Coverage: 2000 $R=-0.500$, recent $R=0.583$

Trade Union Density - Collective Bargaining Coverage: development 2000-recent: $R=0.228$
First, two caveats:

- Declining wage share does not always imply large(r) wage inequality: in many developing countries wage compression, notably around MW level
- Also, declining wage share does not always relate to larger income inequality (larger Gini coefficient), research outcomes contradictory

**Economic consequences**

- Put brakes on aggregate domestic demand, hampers growth
- Makes (revival) of export-led strategies based on relatively low wages seductive road for governments and large firms
- Jointly with financialization in non-regulated context: larger debt problems for households and firms, economic instability, ‘waiting for the next crisis’

**Social and political consequences**

- Impedes achievements in health and education, less facilities to maintain / strengthen labour market institutions upright, fight effects of polarization of occupational structures (LM intermediaries, vocational training)
- Hampers position and perspectives of girls and women
- Less social cohesion, excessive inequality is threat to democracy
• **Return to correlation coefficients: labour market institutions do matter**
• **Addition 1**
  – In many developing countries trade unions quite weak (union density < 5%) and oppressed, as are labour market institutions
  – → strong efforts needed to improve their situation: capacity building, pressure on freedom of organisation and CB
• **Addition 2**
  – In EU from 2001-14 the (non)existence of employer organisations from 2001-2014 had stronger influence on collective bargaining coverage (and outcomes) than trade union density and power (own research)
  – → importance of revival of social dialogue at industry, national and European levels, as recently advertised by European Commission
Thank you for your attention!

Own sources:
Maarten van Klaveren, Kea Tijdens and Denis Gregory (2013) Multinational Companies and Domestic Firms in Europe. Basingstoke: Palgrave Macmillan