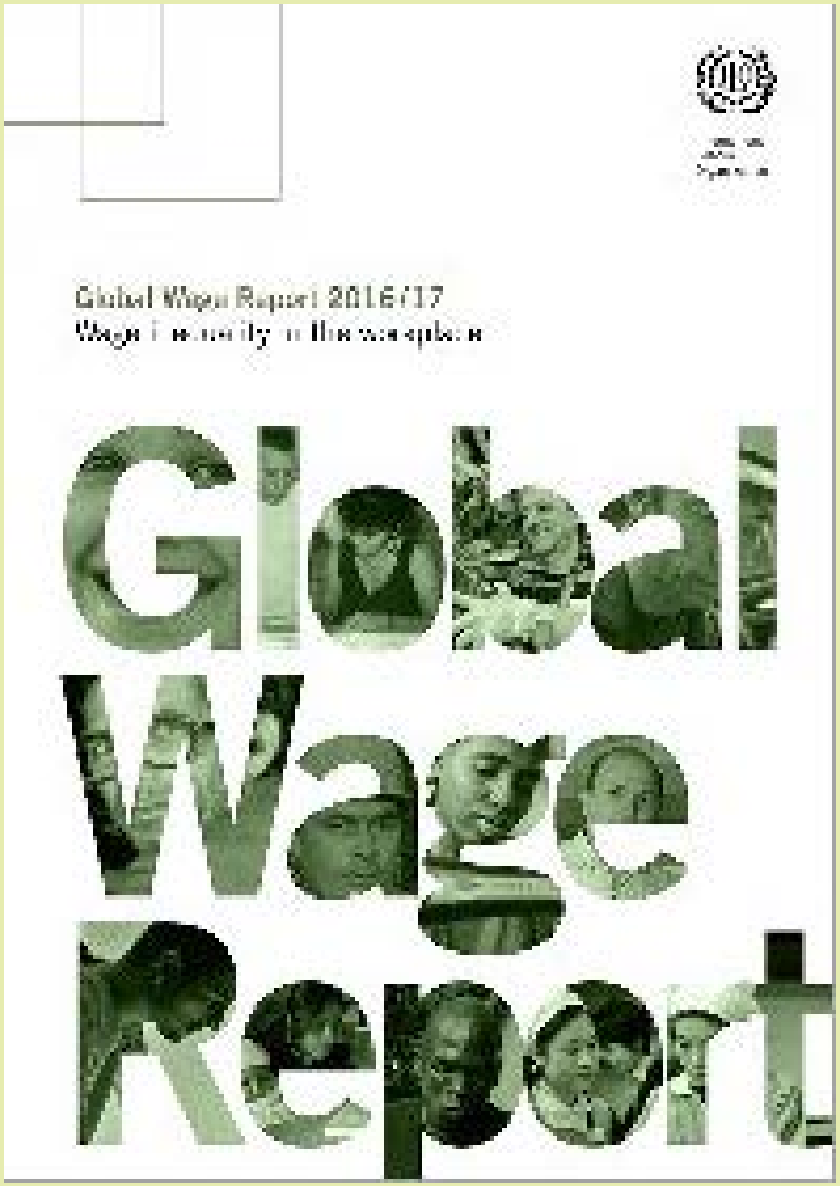


The Global Wage Report 2016/17

Wage inequality in the Workplace

Data available:
www.ilo.org/ILOSTAT/GWR
Figures:
www.ilo.org/gwr-figures

Global Wage Report 2016/2017

Three Parts

Part I

WAGE TRENDS AT THE GLOBAL LEVEL

Part II

WAGE INEQUALITY IN THE WORKPLACE (within and between enterprise wage inequality)

Part III

POLICY IMPLICATIONS

Why do we care about wages?

- The social reason: wages are a key source of household income and decent living standards
- The economic reason: wages are a cost to enterprise but a source of aggregate demand
- The political reason: stagnant wages and growing wage inequality have led to unexpected political developments

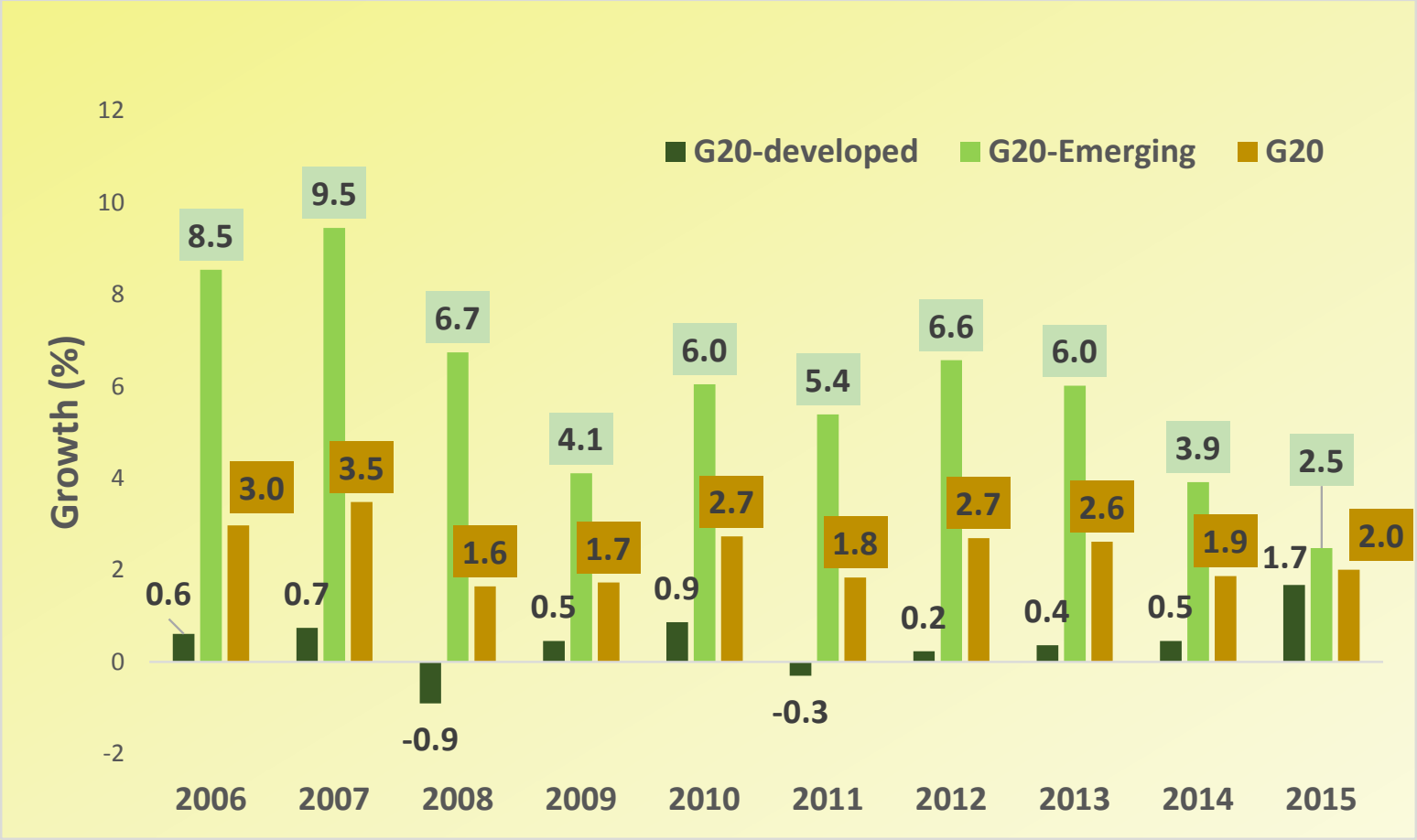
Part I

Wage Trends at the global level

Global wage growth has decelerated since 2012

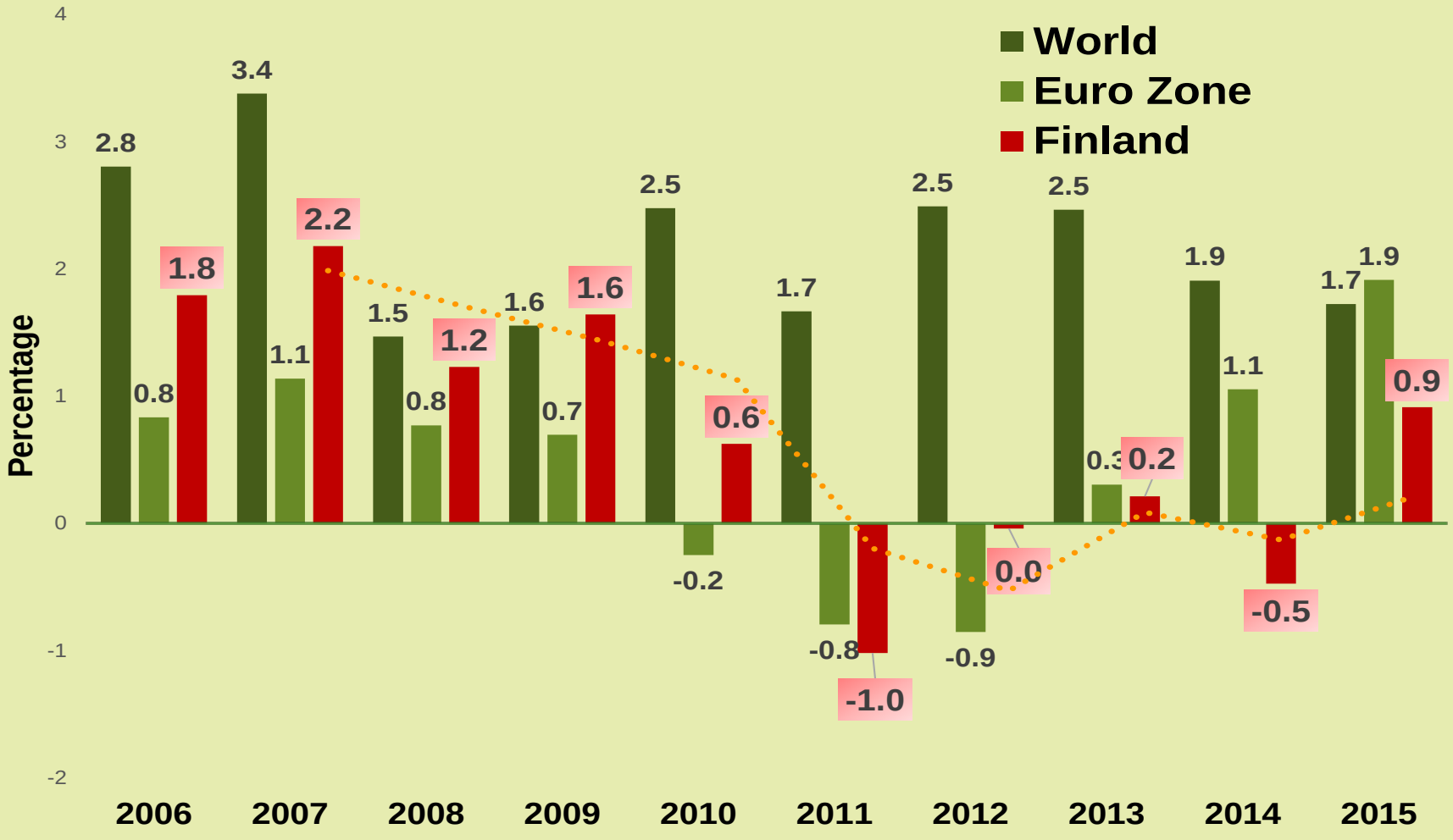
Note: Global wage growth is calculated as a weighted average of year-on-year growth in average monthly real wages from about 140 countries, covering about 96% of all employees in the world (source and method: ILO Global Wage Report 2016/17)

Wage growth has increased in developed countries, but declined most in emerging economies

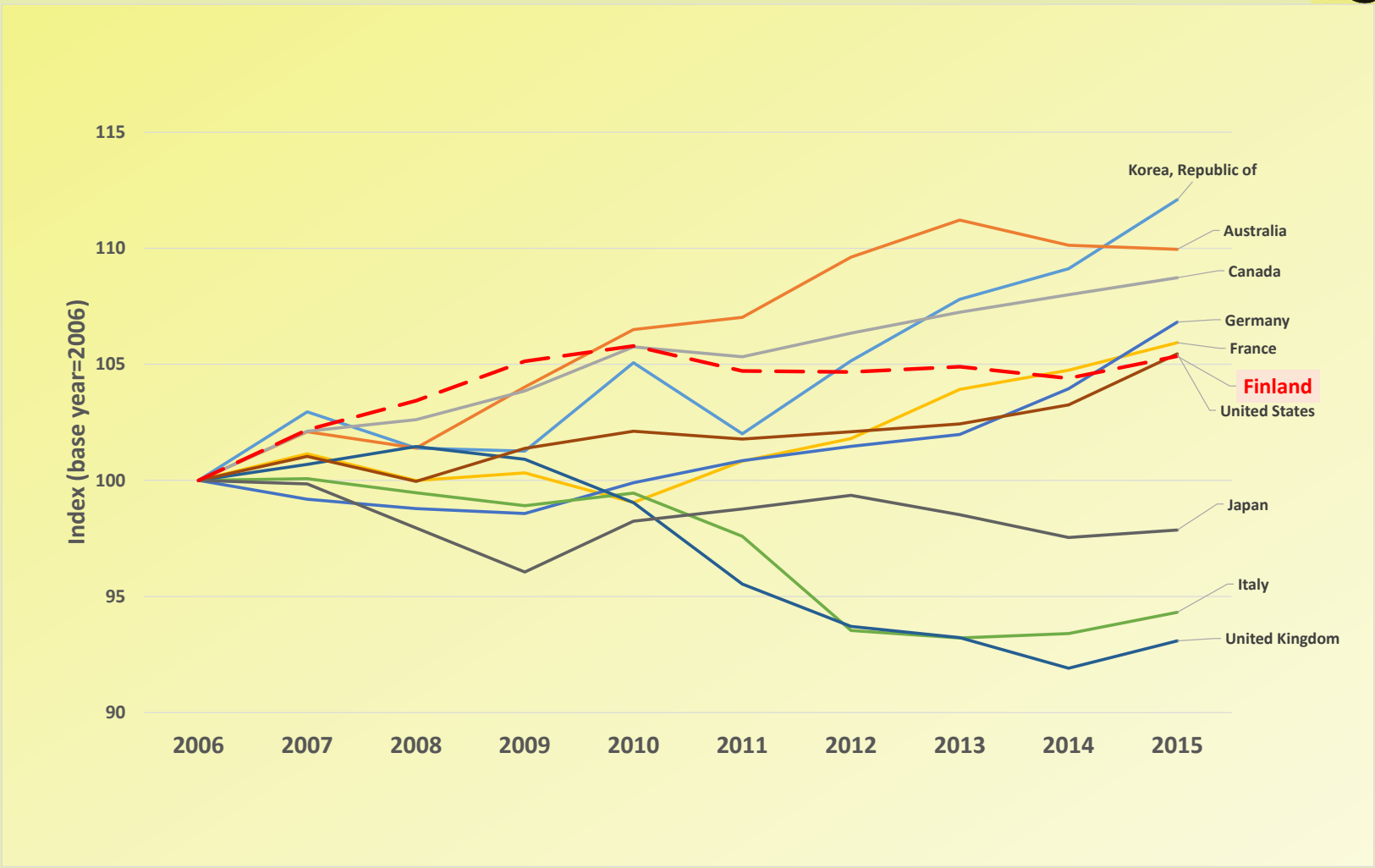


Note: The estimate for the G20 uses the methodology specified in Appendix I, but is restricted to 18 out of 19 countries for which data are available. Source: ILO Global Wage Report 2014/15.

And when comparing Finland to Euro Zone economies, we see a similar recovery pattern, except for 2014

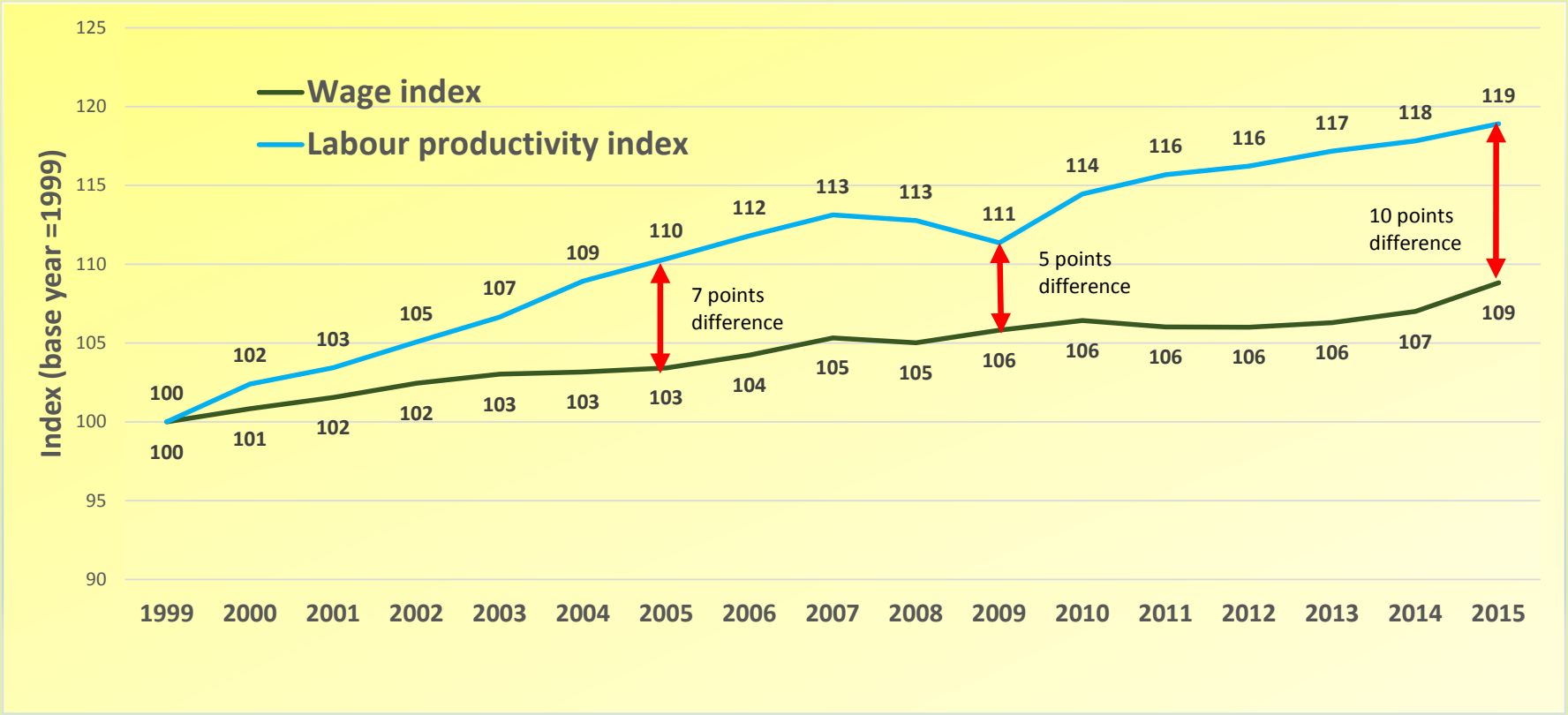


Since 2006, significant gaps have opened up between countries (e.g. Finland, France and Germany versus UK).



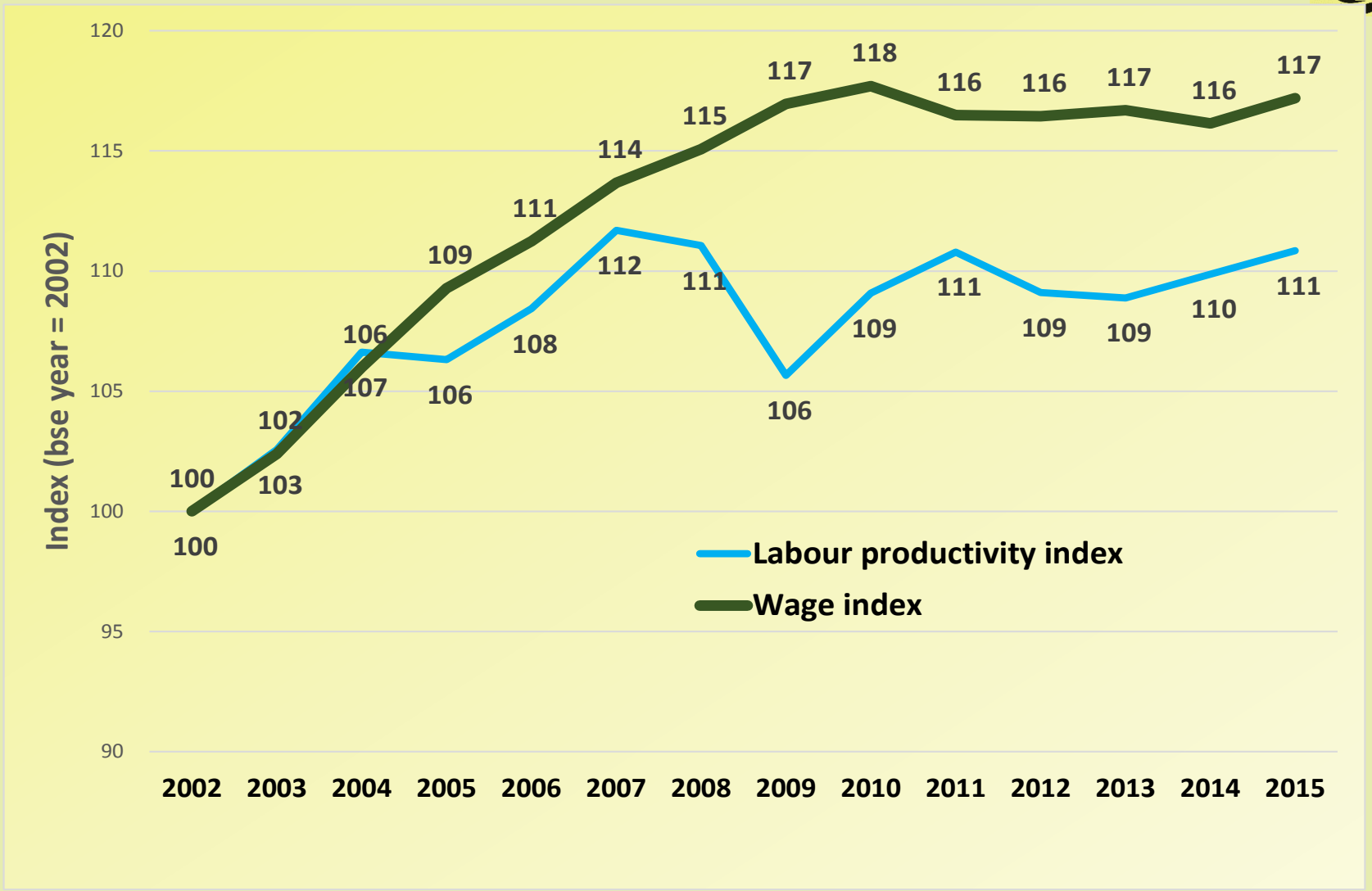
Note: Base year in 2006. Source: ILO Global Wage Report 2014/15

In developed economies, the gap between labour productivity growth and wage growth has widened

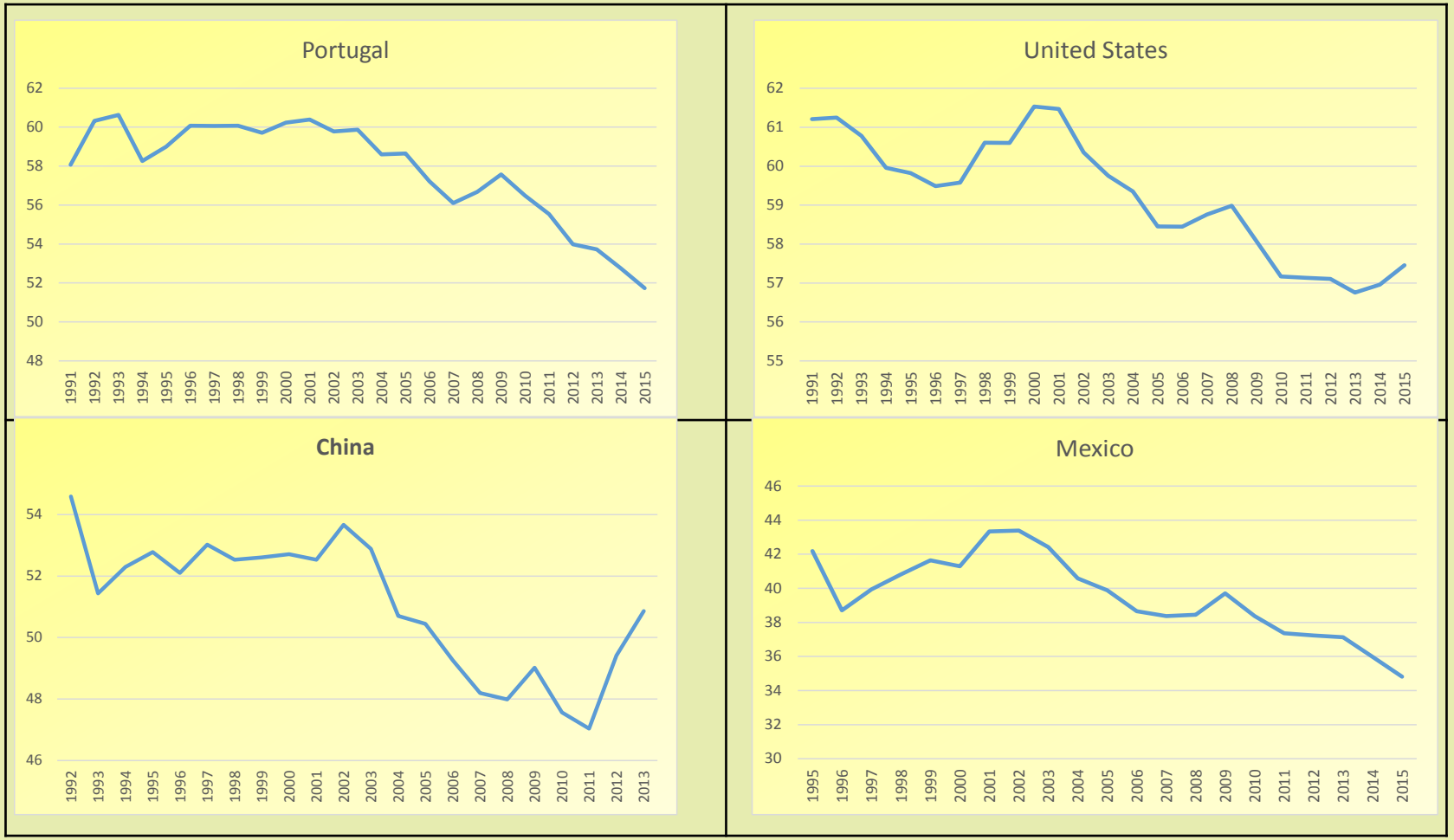


Note: Wage growth is calculated as a weighted average of year-on-year growth in average monthly real wages in 36 economies (for a description of the methodology, see Appendix I). Index is based to 1999 because of data availability. Labour Productivity is deflated using GDP deflator whereas wages are deflated using CPI index. Source: ILO Global Wage Report 2014/15.

… and in the case of Finland, reversing trends starting in 2004



The result of productivity outpacing wages in terms of growth is the declining trend in labour income shares in many countries



Note: Adjusted shares for Mexico, Portugal and United States. Unadjusted shares for China using China National Bureau of Statistics.

Part II

Wage inequality at the workplace: *within* and *between* enterprise wage inequality

Motivation for Part II

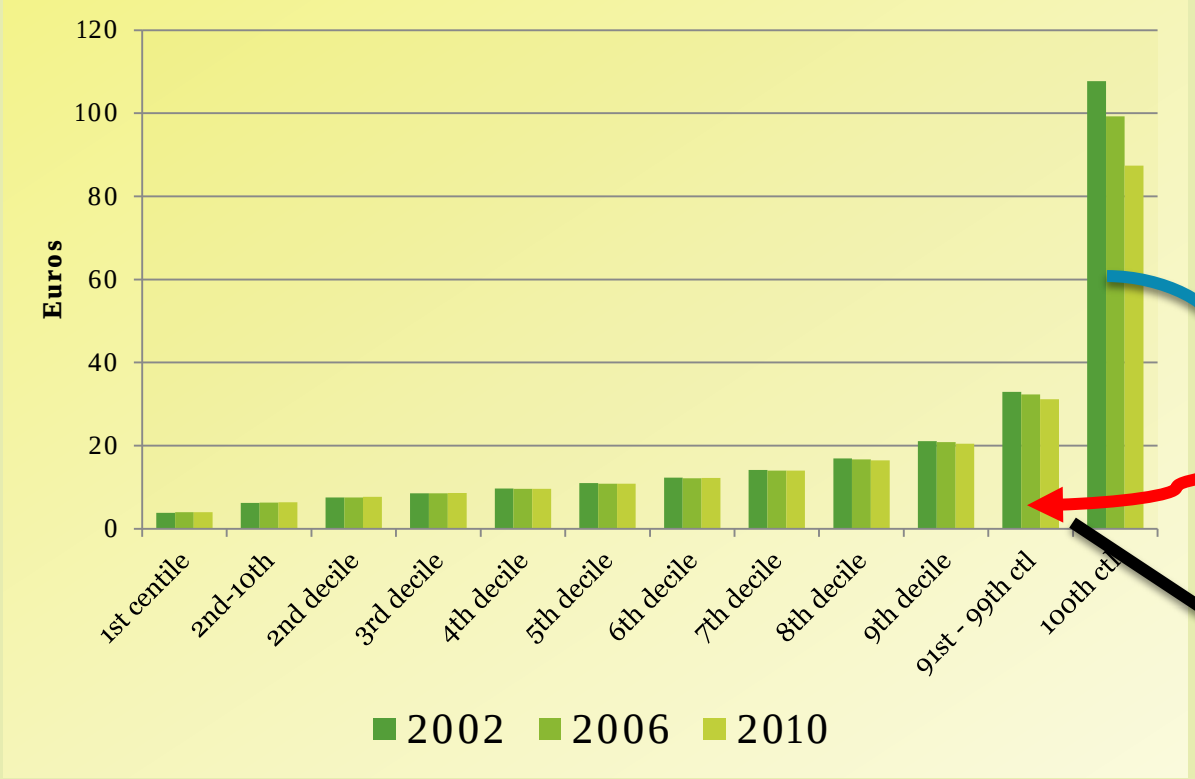
- It is widely accepted that excessive inequality is bad for sustainable economic growth. Action to reduce inequalities requires understanding the causes behind it.

- Much of the debate around wage inequality had focused on the characteristics of workers, technology, globalization or the relative demand for skilled and unskilled workers. These factors are important, but cannot explain the full story

- A new literature is emerging which tends to attribute wage inequality largely to differences *between* enterprises, and not so much *within* individual in enterprises (or in the population)

- Part II aims at filling some of the knowledge gap with new empirical evidence to better understand the within-between debate

We start with the wage distribution of individuals in Europe (gross hourly wages, 2010)

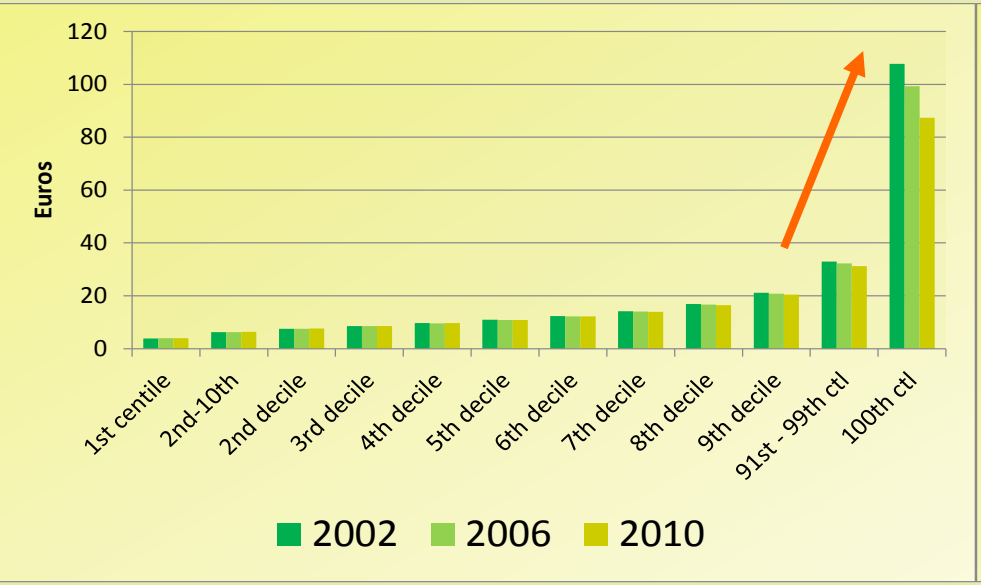


How different are the top **1%** and the **91th-99th** ?

What Inequality increases sharply at the 99th centile of the wage distribution: D9/D1 partly misses the point

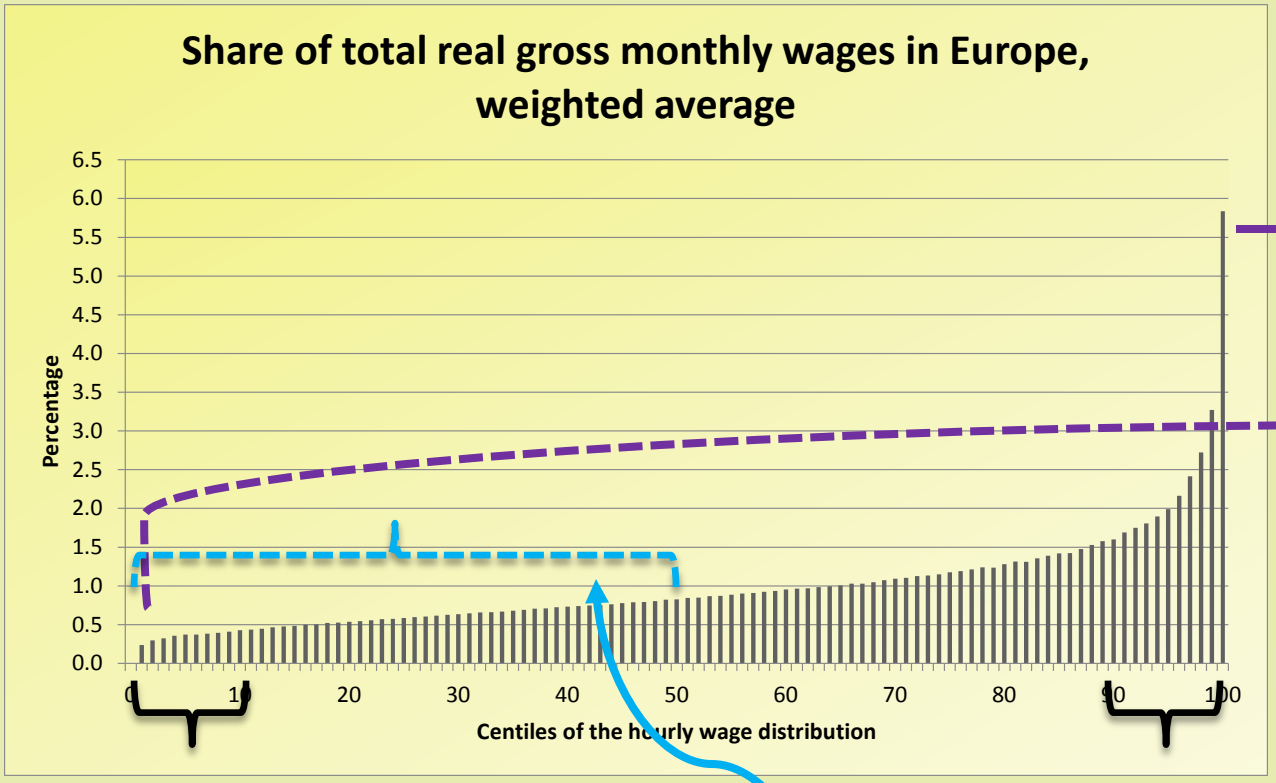
… and how about Finland?

Europe



Finland

… and how does it translate as share of monthly wages? The case of Europe (22 economies)



The top 1% takes 6% of all gross earnings generated in one month

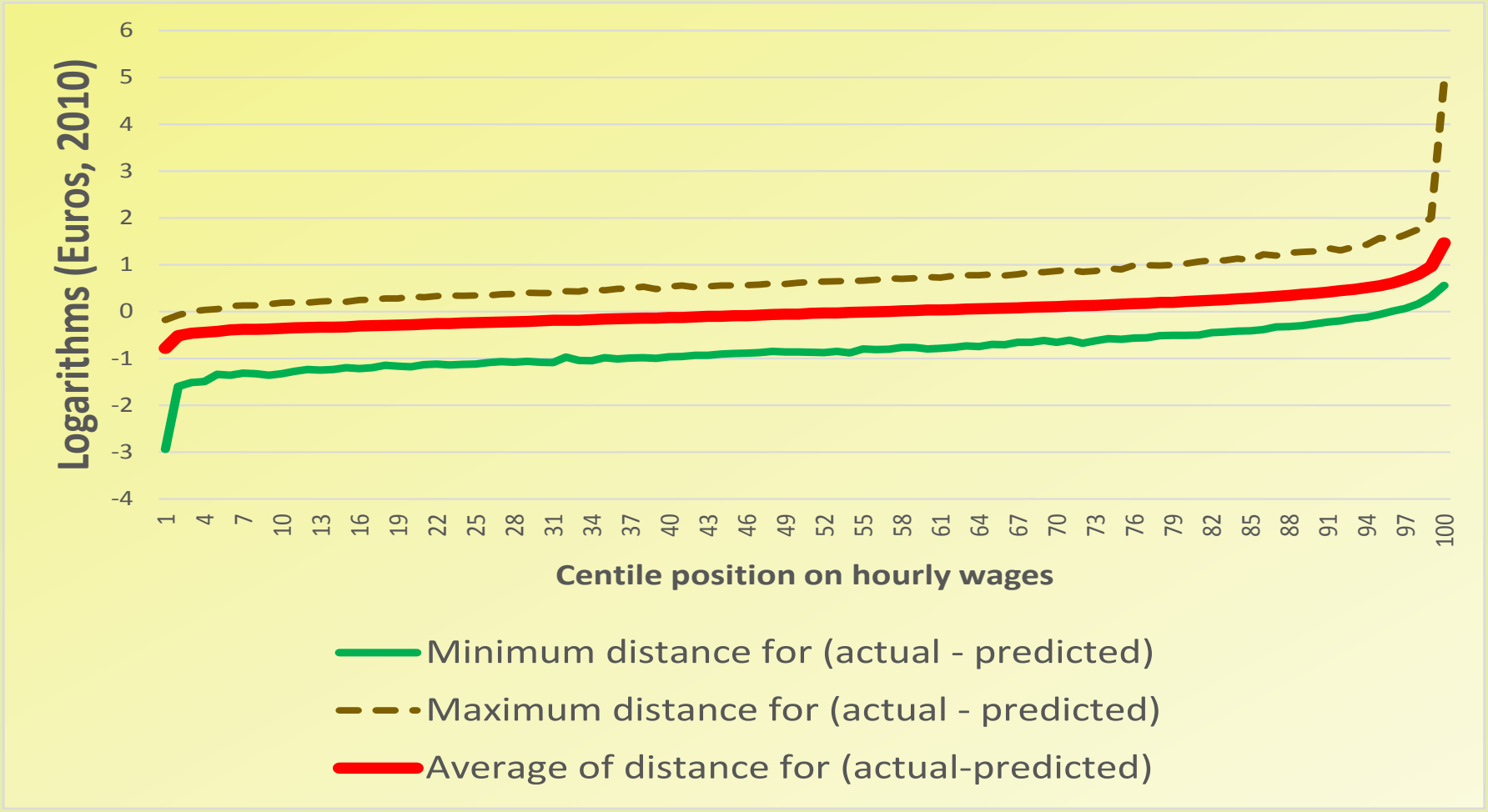
…and the bottom 1% takes 0.2% …. 30 times less than the top 1%

The bottom 10% takes 3.6% of all gross earnings per month

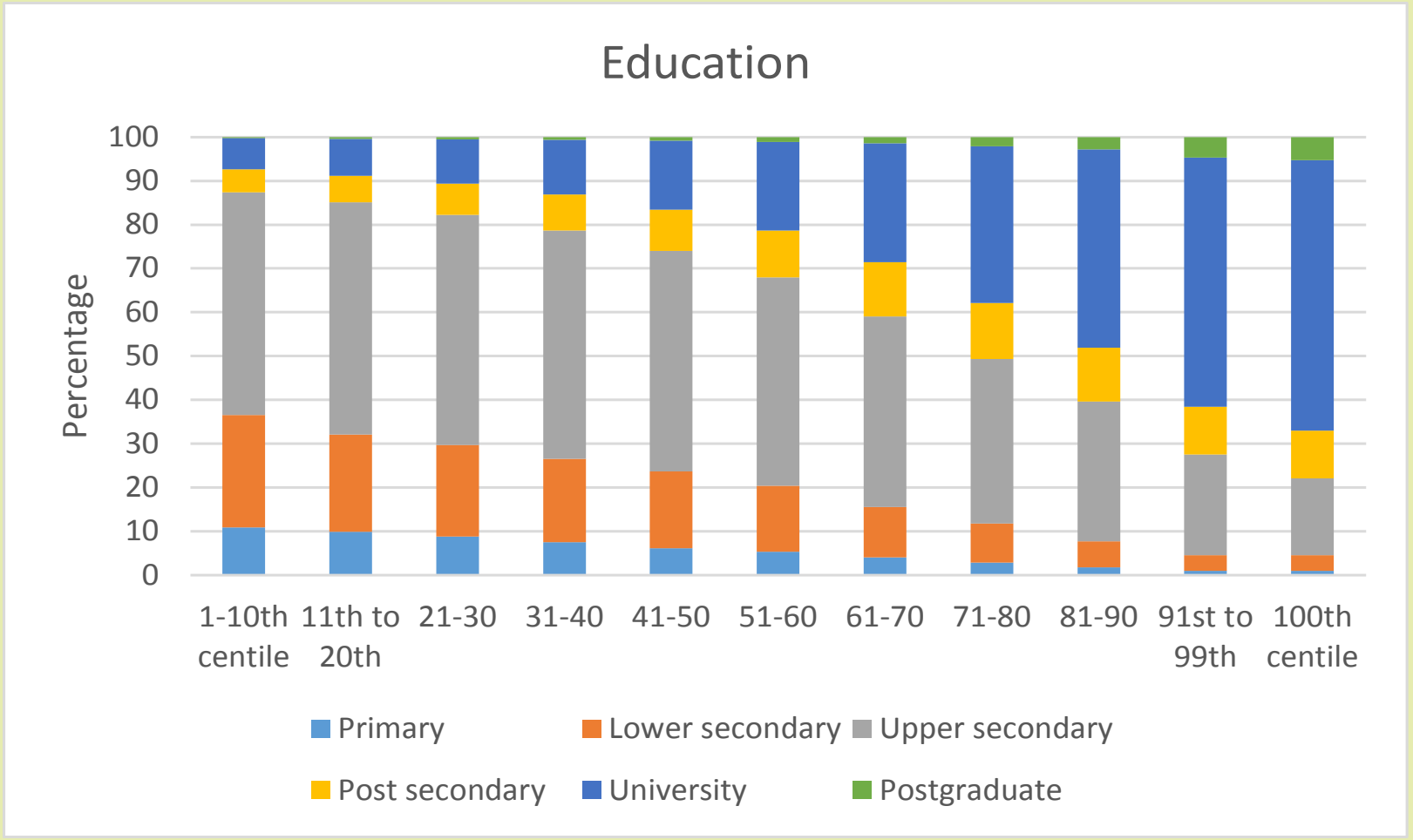
… and the top 10% takes 25.5%, which is almost as much as the bottom 50% (29.1%)

Can such wage distributions be explained by differences in workers characteristics?

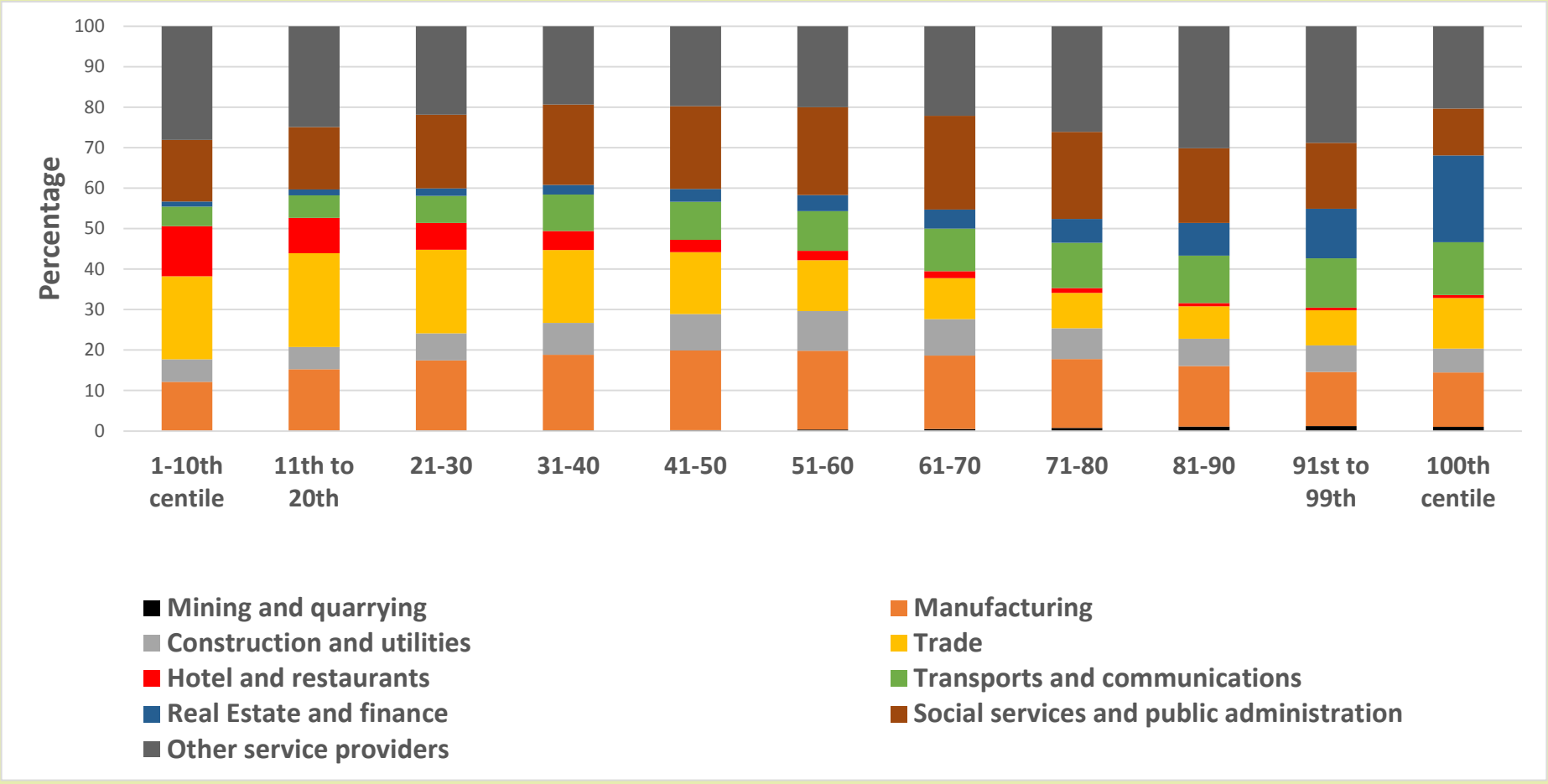
Predicted and actual wages (logs) using a classic human capital model (age, education, tenure) for EUROPE, 2010



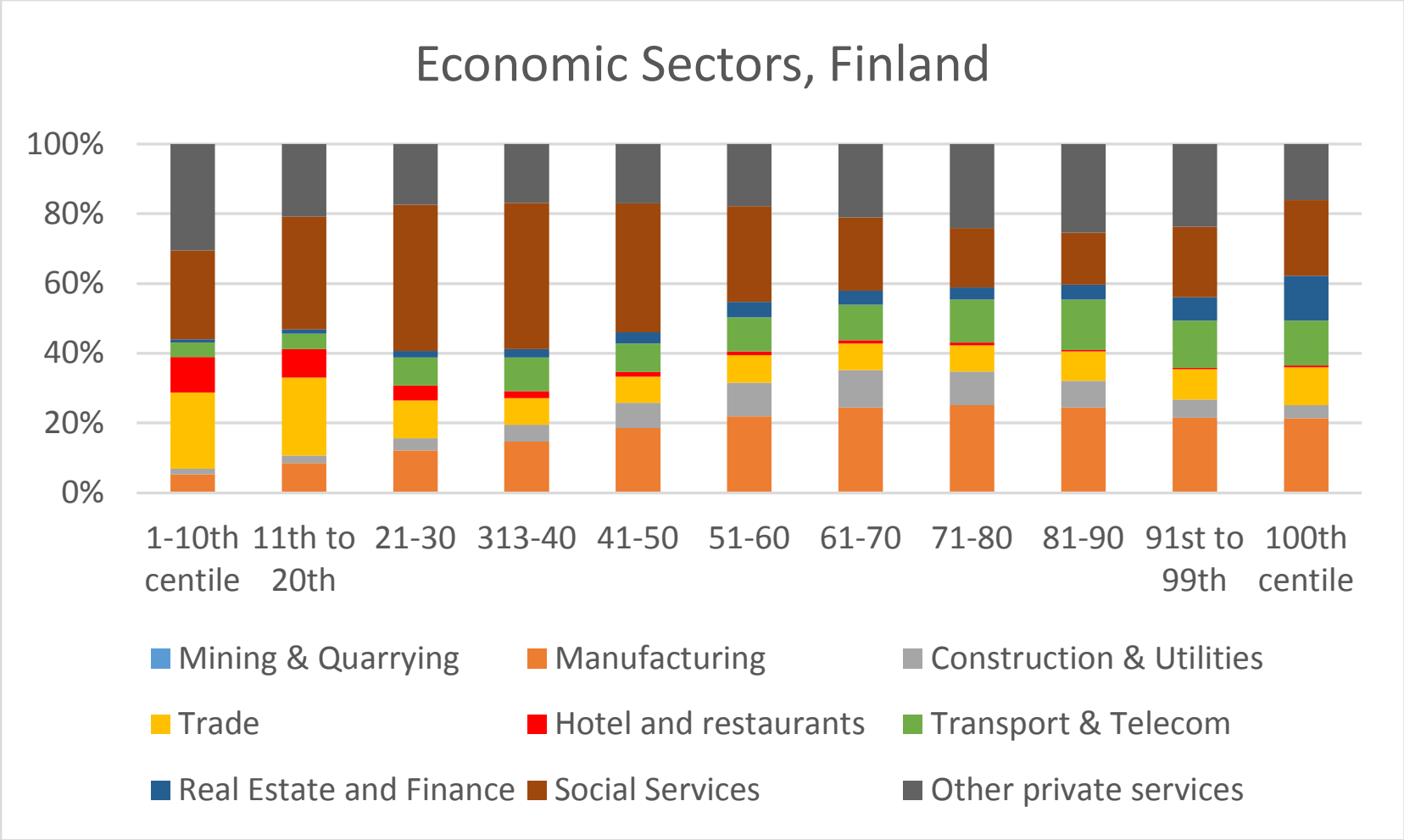
Descriptive statistics show that education matters (Europe)



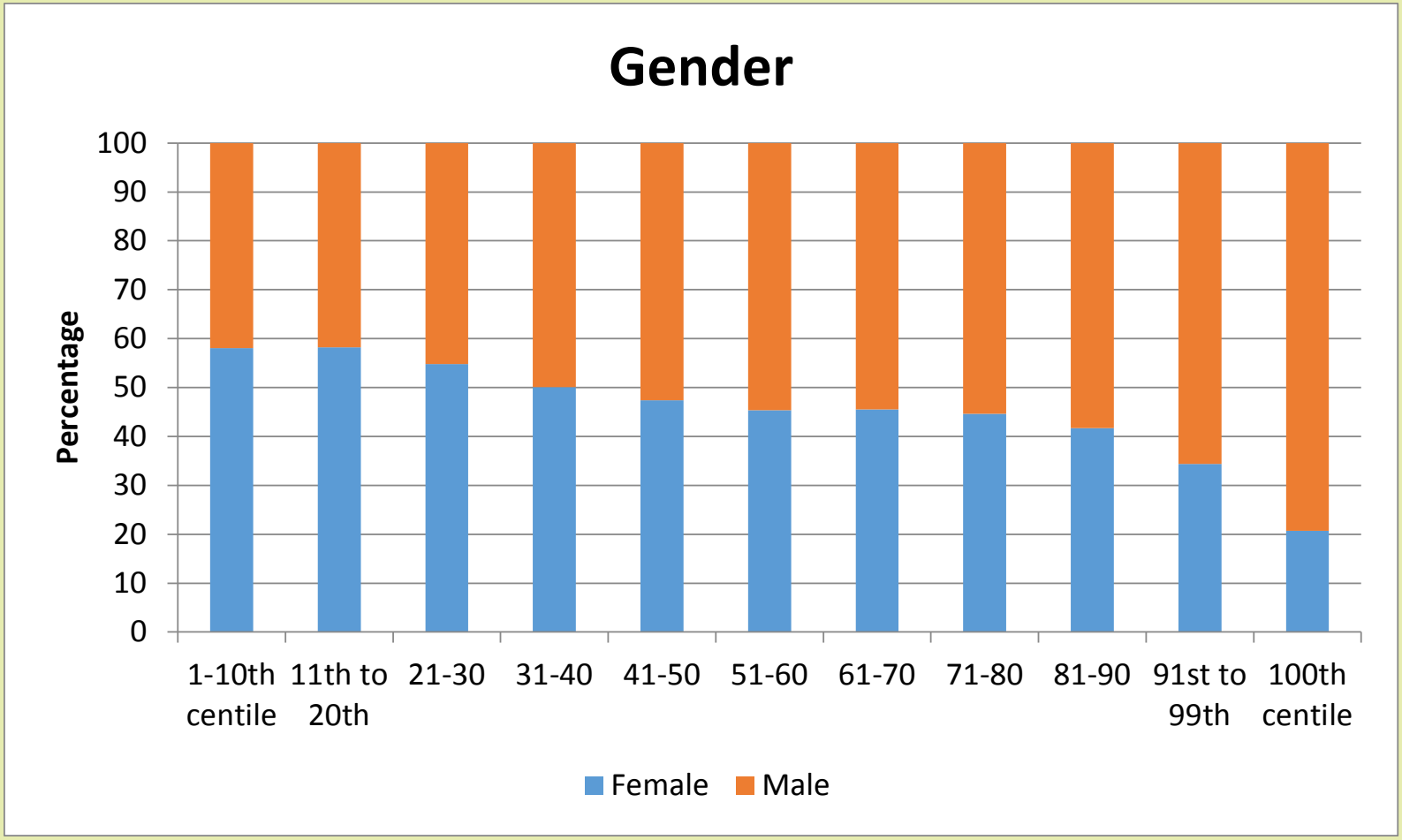
...but other factors, such as Economic Sector, also matter



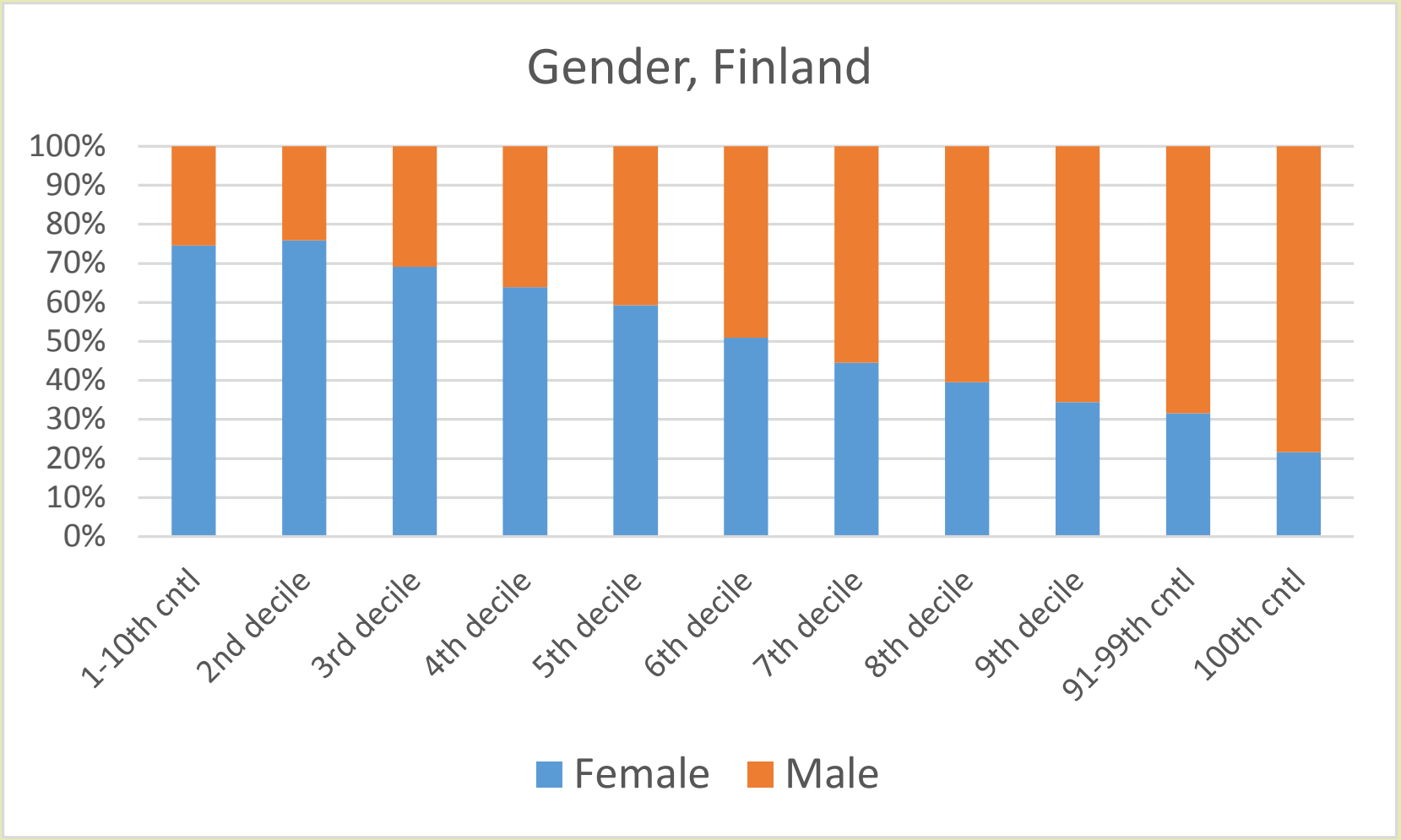
...the case of Finland



… another factor that matters is *gender*



… and in the case of Finland



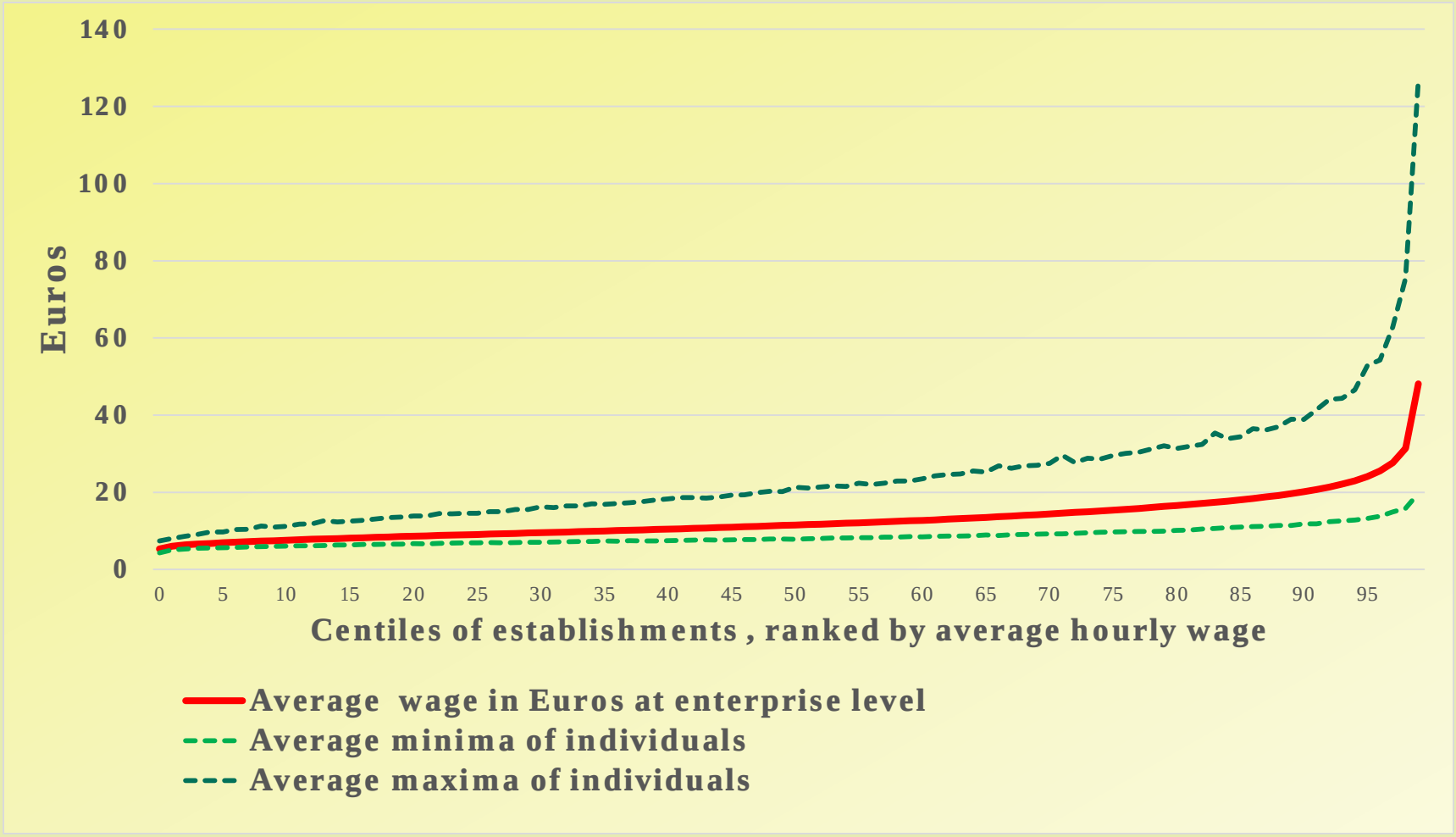
Next we therefore bring enterprises into the analysis

- Differences in average wages *between* enterprises can arise because of productivity differentials between enterprises, workers gravitating to more successful enterprises, or the polarization in the types of skills employed by enterprises

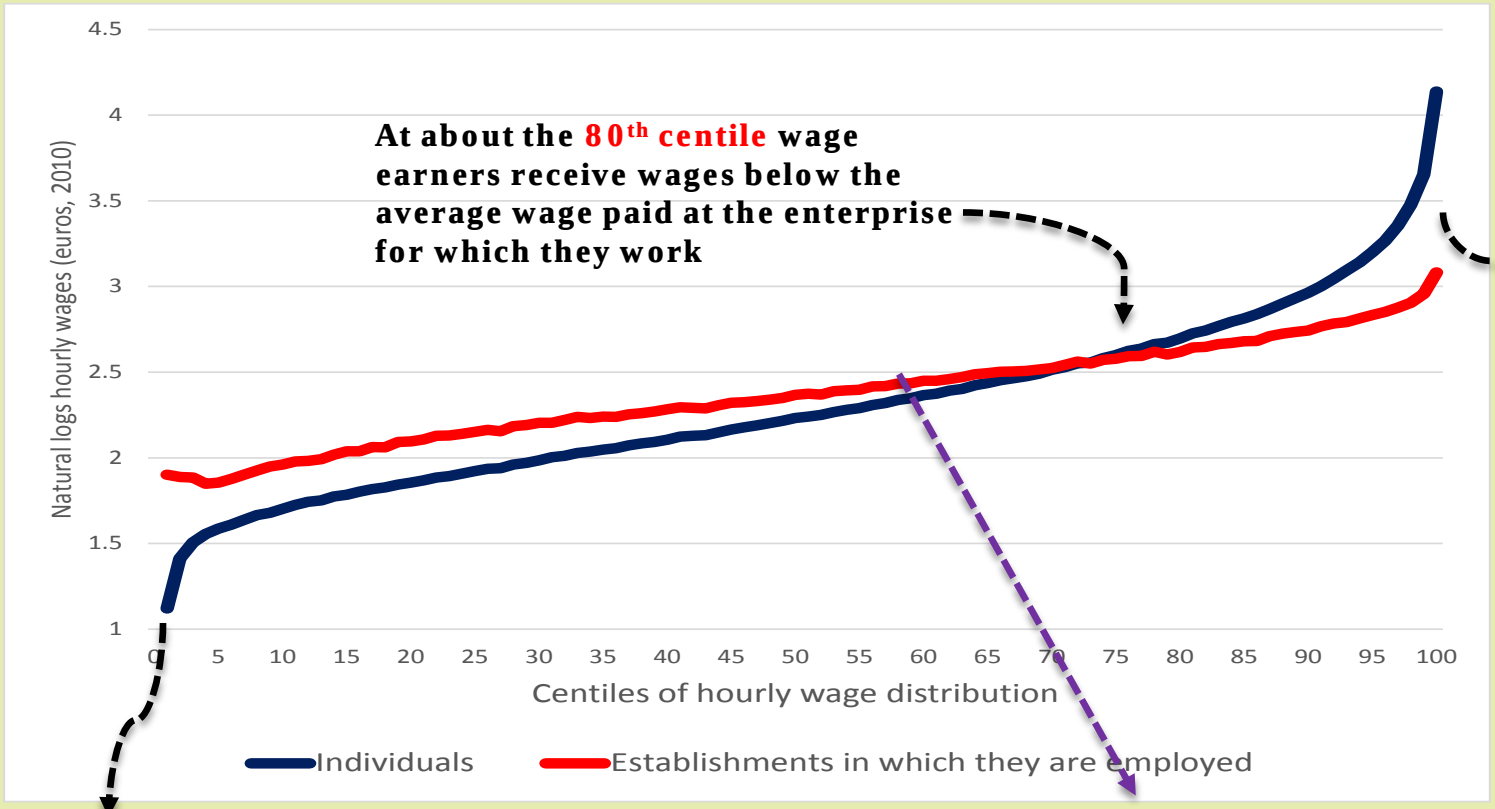
- Wage inequality *within* enterprises are often attributed to the growing wages of CEOs and high-skills professionals, and the simultaneous decline in the wage premium for low-skilled workers in large enterprises

A first indication,

… of the importance of *within* & *between* inequality: Enterprise ranking



A second indication,
wages of individuals and the average wage of the enterprises in which they work



At about the 80th centile wage earners receive wages below the average wage paid at the enterprise for which they work

At the top centile, the average wage earner gets €81.5 and works in an enterprise that pays €30.2 on average

At the bottom centile, the average wage earner gets €3.8 and works in an enterprise that pays €9.5 on average

In fact, the '*steeper*' slope of the individuals shows that there is considerable 'within' enterprise wage inequality that combines with 'between' enterprises wage inequality

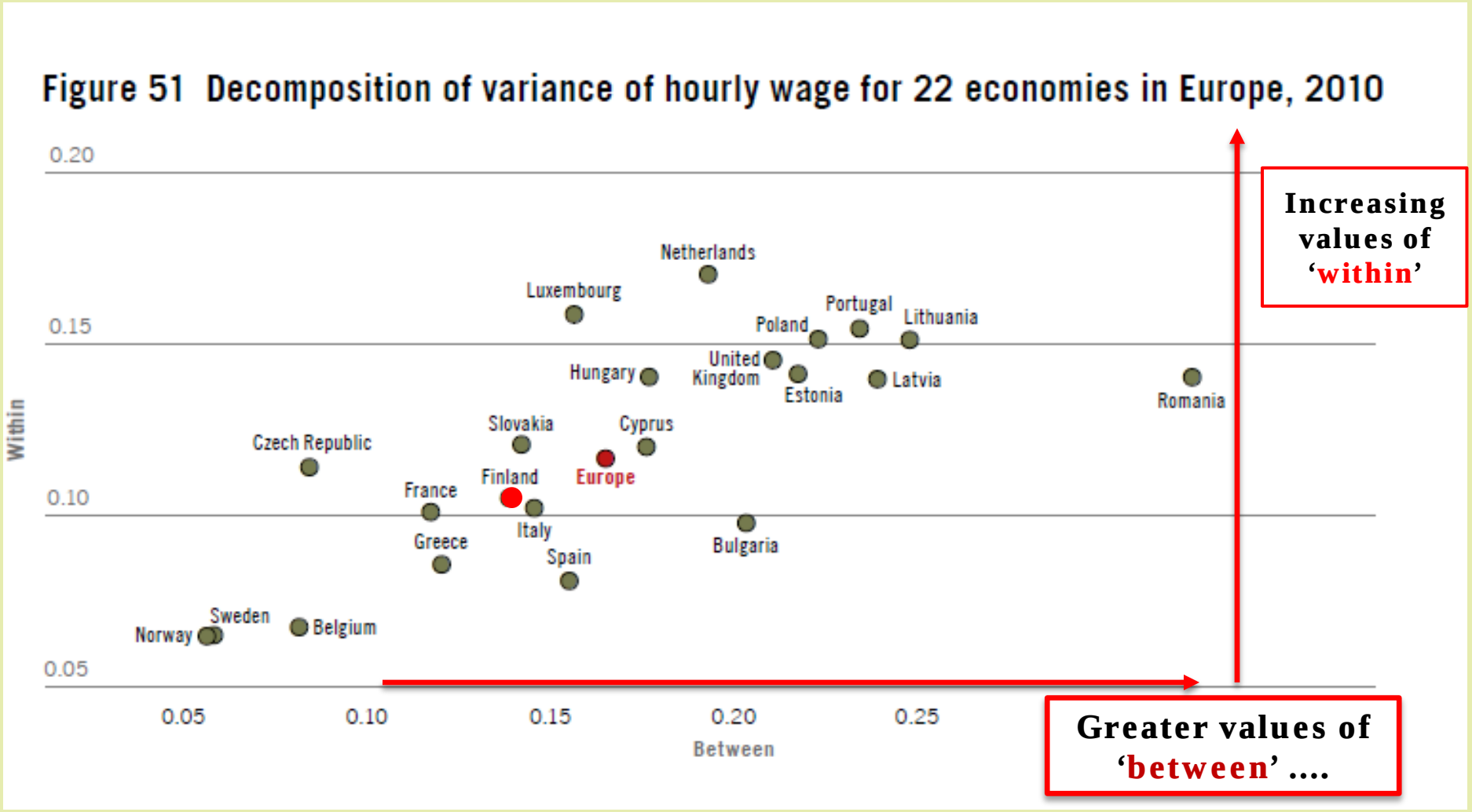
Third,

Decompose *total variance* in wages as the sum of the within and between.

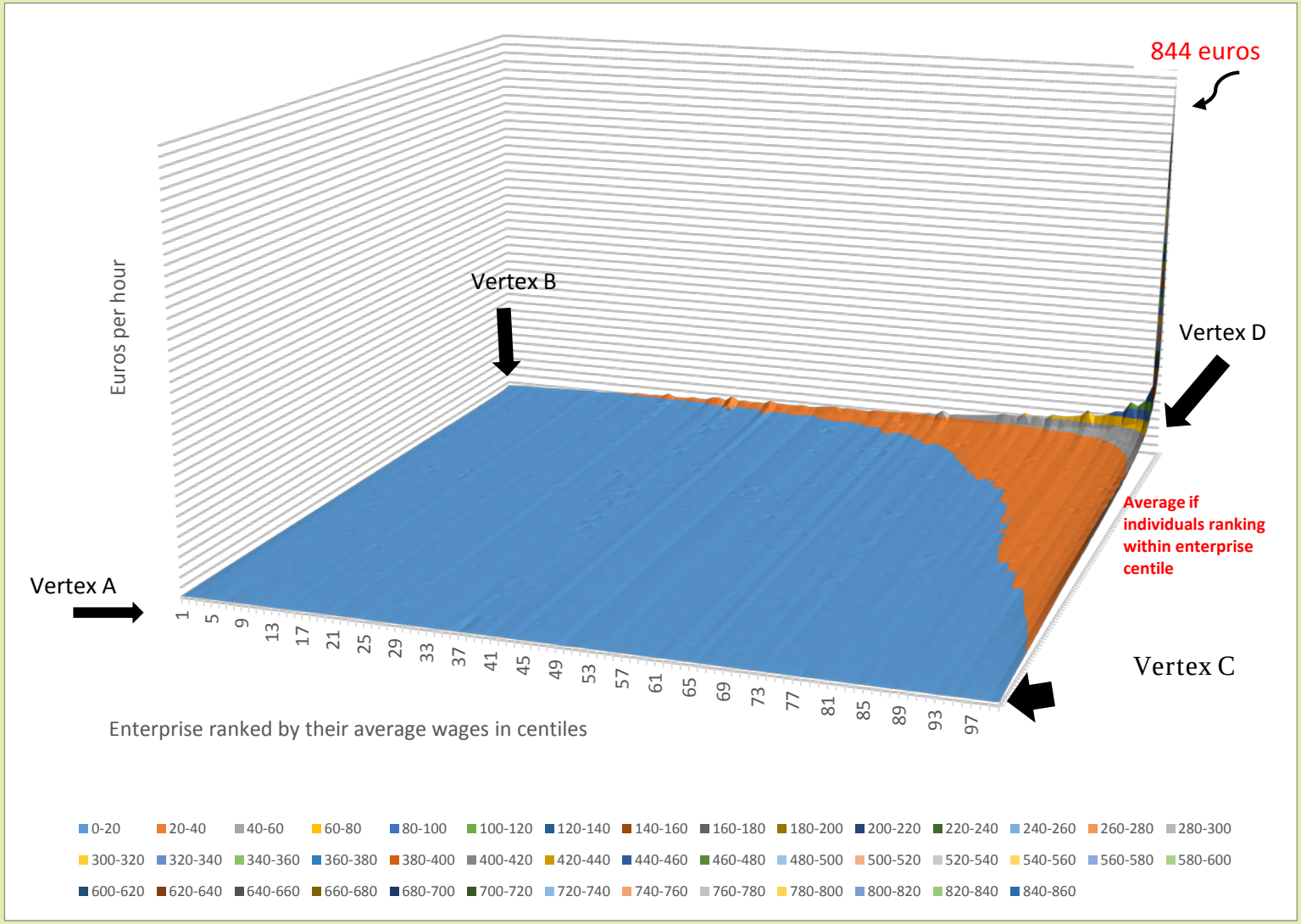
	Total wage variance	Within establishments variance (as % of total)	Between establishments variance (as percentage of total)
2002	€86	41.9%	58.1%
2006	€79	46.4%	53.6%
2010	€65	43.4%	56.6%

In Europe, across time, the 'within' part accounts for about 42% of total wage inequality

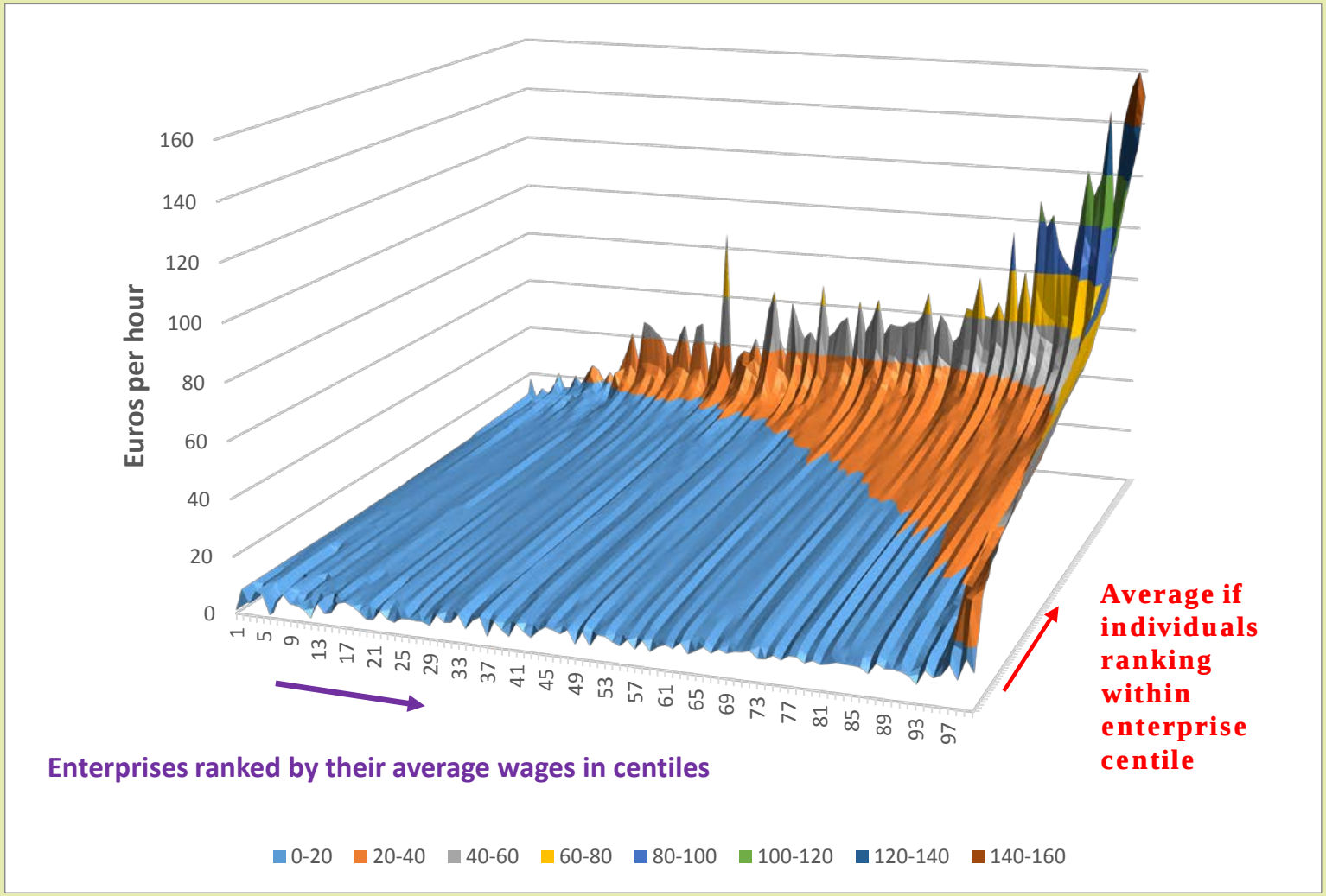
Interestingly, countries with *more between* inequality also have *more within* inequality



Looking at inequality between and within enterprises, we have created a 3D chart of wage inequality in Europe



… and the case of Finland?



Part III

Summary and conclusions

The importance of international coordination

- If too many countries engage in wage moderation to increase their export, there is a risk that global aggregate demand and economic growth will decline.

- Some international coordination is useful in this regard to engage on a road of cooperation rather than trying to undercut each other. This is what the G20 has started doing.

Possible country-specific measures to reduce excessive wage inequality

- Minimum wages and collective bargaining
- Top salaries: regulation of self-regulation?
- Productivity growth for sustainable enterprises
- Gender and other pay gaps

Thank you all for your attention!