International Labour Organization

ILO Flagship Report

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# Global Wage Report

## 2020–21

Wages and minimum wages in the time of COVID-19

**Executive summary**

# Part I. Recent trends in wages

**In the four years preceding the COVID-19 pandemic (2016–19), global wage growth fluctuated between 1.6 and 2.2 per cent; when China is excluded from the sample, real wage growth in those four years fluctuated at a lower level, between 0.9 and 1.6 per cent.** In advanced G20 economies, real wage growth fluctuated between 0.4 and 0.9 per cent, while rising more rapidly – between 3.5 and 4.5 per cent annually – in emerging G20 countries. Between 2008 and 2019, real wages more than doubled in China. Among advanced G20 economies, wage growth accelerated the most (by 22 per cent) in the Republic of Korea, followed by Germany (15 per cent). By contrast, real wages declined in Italy, Japan and the United Kingdom.

**In the first half of 2020, as a result of the COVID-19 crisis, a downward pressure on the level or growth rate of average wages was observed in two thirds of the countries for which recent data are available; in other countries average wages increased, largely artificially as a reflection of the substantial job losses among lower-paid workers.** In times of crisis, average wages can be significantly skewed by sharp changes in the composition of employment – what is known as the "composition effect".[1] In Brazil, Canada, France, Italy and the United States, average wages have been rising markedly because of job losses mainly affecting those at the lower end of the wage scale. In contrast, a downward pressure on average wages has been observed in Japan, the Republic of Korea and the United Kingdom. In countries where strong job retention measures have been introduced or extended to preserve employment, surges in unemployment have been moderated, such that the effects of the crisis may have been more apparent through a downward pressure on wages than through massive job losses.

**The impacts of the crisis on total wages have fallen differently on men and women, the latter being disproportionately affected.** Looking at a selection of European countries, the report estimates that without the payment of wage subsidies, workers would have lost 6.5 per cent of their total wage bill between the first and second quarters of 2020. For women, the total wage bill would have declined by 8.1 per cent, compared to a decline of 5.4 per cent for men. Such a discrepancy was mainly caused by reduced working hours, more than by the difference in the number of lay-offs. The wage bill lost as a result of the drop in working hours was 6.9 per cent for women compared to 4.7 per cent for men.

**The crisis disproportionately affected lower-paid workers, thereby increasing wage inequalities.** Studies have shown that in many countries, reductions in hours worked have impacted lower-skilled occupations – in particular those in elementary work – more than higher-paying managerial and professional jobs. For selected European countries, the report estimates that without wage subsidies the lowest-paid 50 per cent of workers would have lost an estimated 17.3 per cent of their wages, which is much more than the estimated 6.5 per cent decline for all workers. Consequently, the share of the total wage bill received by those in the bottom 50 per cent of the wage distribution – a measure of inequality – would have fallen by about 3 percentage points, from 27 to 24 per cent on average of the total wage bill, while the share of the upper half of the distribution would have risen from 73 to 76 per cent.

[1] When most of those who lose their jobs are low-paid workers, this automatically increases the mean wages of remaining employees.

**However, temporary wage subsidies have enabled many countries to compensate part of the wage bill that would have been lost, and to lessen the effect of the crisis on wage inequality.** Many countries across the world have either introduced or expanded existing wage subsidies in order to safeguard jobs during the crisis. In a selection of ten European countries for which data are available, the report estimates that wage subsidies have permitted to compensate 40 per cent of the total wage bill loss, including 51 per cent of the wage bill loss caused by the reduction in working hours. Wage subsidies have also permitted to moderate the effects of the crisis on earnings inequalities because the main beneficiaries were those who have been more severely hit by the crisis, namely workers in lower-paying jobs.

**With a view to supporting low-paid workers, many countries with regular minimum wage adjustments went ahead with planned increases in the first half of 2020.** Analysis reveals that in the 60 countries that adjust minimum wages on a regular basis, all the adjustments scheduled for the first quarter of 2020 took place as expected, whereas 6 out of 9 countries that usually adjust in the second quarter kept to the scheduled adjustment date, in the midst of the crisis. Among the 87 countries that adjust minimum wages irregularly, 12 increased their minimum wages in the first half of 2020 – a lower number than in the previous year. This suggests that the COVID-19 crisis may have induced some governments to postpone potential adjustments this year.

## Part II. Minimum wages and inequality

**Turning its focus to the topic of minimum wages, the report shows that minimum wages, statutory or negotiated, exist in 90 per cent of the 187 ILO Member States.** Minimum wage systems differ widely across countries and range from simple to very complex. Globally, around half of the countries that have a statutory minimum wage have a single national minimum wage rate; the other half have more complex systems with multiple minimum wage rates, determined by sector of activity, occupation, age of employee or geographical region. Different systems are compatible with the Minimum Wage Fixing Convention, 1970 (No. 131), which calls for a broad scope of application, full consultation with the social partners, levels that take into account the needs of workers and their families and economic factors, adjustments from time to time, and measures to ensure effective application.

**Globally, an estimated 327 million wage earners are paid at or below the applicable hourly minimum wage. This figure represents 19 per cent of all wage earners, and includes 152 million women.** Although, in absolute number, more men than women earn minimum wages or less, women are over-represented among this category of workers: while women make up 39 per cent of the world's employees paid above the minimum wage, they represent 47 per cent of the world's sub-minimum and minimum wage earners.

**The extent to which a minimum wage may reduce wage and income inequality depends on at least three key factors: the "effectiveness" of minimum wages, the level at which minimum wages are set, and the characteristics of minimum wage earners.** Although the primary purpose of minimum wages is to protect workers against unduly low pay, minimum wages can also contribute to reducing inequality under certain conditions. The first condition comprises the extent of the *legal coverage* and the *level of compliance* – which, when combined, may be called the "effectiveness" of minimum wages. Second, the *level* at which minimum wages are set plays a crucial role. Finally, the potential of minimum wage systems for reducing inequality depends on the *structure of a country's labour force,* particularly whether workers with low labour incomes are wage workers or self-employed, and the *characteristics of the beneficiaries* of the minimum wage – in particular, whether they live in low-income families.

## The effectiveness of minimum wages

**Out of the estimated 327 million wage earners who are paid at or below the minimum wage, 266 million wage earners around the world earn less than existing hourly minimum wages, either because they are not legally covered or because of non-compliance.** The groups most frequently excluded from legal coverage of minimum wage systems are agricultural workers and domestic workers. The report shows that, as of 2020, an estimated 18 per cent of countries with statutory minimum wages exclude either agricultural workers, domestic workers or both from minimum wage regulations. One of the most significant indicators of non-compliance is a high incidence of informality, which poses a major challenge for the rights of workers generally, including for the enforcement of minimum wages. In countries with high levels of informality, if minimum wages are to be effective, they need to be accompanied by measures to encourage formalization. Other measures include, for example, targeted labour inspections, awareness-raising campaigns, as well as efforts to raise productivity. Indeed, low productivity is one of the drivers of informality and has repercussions for the level of non-compliance with minimum wage legislation.

## The adequacy of minimum wage levels

**As prescribed by the Minimum Wage Fixing Convention, 1970 (No. 131), setting an adequate minimum wage level should involve social dialogue and take into account the needs of workers and their families as well as economic factors.** Results show that minimum wages are set, on average, at around 55 per cent of the median wage in developed countries and at 67 per cent of the median wage in developing and emerging economies. Among developed countries, a large majority of countries have minimum wages set somewhere between 50 per cent and two thirds of the median wage. In developing and emerging economies, minimum-to-median wage ratios range from 16 per cent in Bangladesh to 147 per cent in Honduras. Globally, the median value of gross minimum wages for 2019 is equal to US$486 PPP per month, meaning that half of the countries in the world have minimum wages set lower than this amount and half have minimum wages set higher. Some countries have minimum wages below the poverty line.

**Sufficiently frequent adjustment is crucial to maintain minimum wages at an adequate level, and a very low level often reflects failure to adjust rates regularly over time.** In practice, only 54 per cent of countries with statutory minimum wages adjusted their minimum wages at least every two years during the period 2010–19. At the global level, 114 countries out of the 153 for which data are available (approximately 75 per cent) have seen their minimum wages grow in real terms between 2010 and 2019. Real annual minimum wage growth was, on average, 1.1 per cent in Africa, 1.8 per cent in the Americas, 2.5 per cent in Asia and 3.5 per cent in Europe and Central Asia.

## The characteristics of minimum wage earners

**Globally, the majority of wage earners paid at or below the hourly minimum wage are located in the lower tail of the distribution of household incomes, but the characteristics of minimum wage earners vary by country and by region.** In Europe, for instance, on average, 69 per cent of all sub-minimum and minimum wage earners are in the lower half of the income distribution. In addition, sub-minimum and minimum wage earners located in poorer households are more likely to be older and living as single parents with dependent children than those located in richer households. However, in Africa only 52 per cent of all sub-minimum and minimum wage earners are in the lower half of the income distribution. In developing countries, many workers with low incomes are self-employed rather than wage earners. This points to the fact that wage employment tends to increase average household income, and that in developing countries minimum wages should be accompanied by measures to create wage employment for workers in poor households.

**Women are generally over-represented among low paid workers and the literature shows that, in many cases, minimum wages can narrow pay gaps between men and women.** In all regions, the proportion of women among those earning the minimum wage or less is larger than their share among those earning more than the minimum wage. Similarly, young workers (aged under 25), workers with lower education levels and rural workers are all over-represented, indicating that minimum wages can also reduce pay gaps between these and other groups. Regarding labour characteristics, the report shows that sub-minimum and minimum wage earners are more likely to have temporary contracts and part-time jobs than those paid at higher levels; they also, on average, work more hours.

## Results from a simulation exercise

**Using micro data for a set of 41 countries covering Africa, Asia, Europe and Latin America, and for which wage and income information were available, simulations suggest that, whatever the measure of inequality used, in practically all the countries studied, improving the legal coverage and the compliance with the minimum wage and raising the level, for example, up to two thirds of the median have the potential to reduce income inequality.** Looking at the Palma ratio (the income share of the top 10 per cent divided by the income share of the bottom 40 per cent), when both full compliance and an increased level are assumed, inequality declines by between 3 and 10 per cent in a majority of countries. However, in low- and middle-income countries, where informal work is prominent, if full compliance with the minimum wage does not extend to wage employees in informal jobs, the potential reduction of inequality becomes much lower.

**While in some countries minimum wage systems may already be achieving most of their inequality-reducing potential, in others there is room for improvement.** For instance, in some countries, such as Ecuador and Hungary, the potential for reducing income inequalities through an increase in compliance is relatively high. In another set of countries including Estonia, Uruguay and Viet Nam, there is a high potential for reducing income inequalities through an increase in the minimum wage level, taking into account the needs of workers and their families as well as the economic factors. Whether by increasing effectiveness through measures aimed at strengthening enforcement, formalizing jobs or broadening legal coverage, or by setting adequate levels through a balanced and evidence-based approach, policy measures can go a long way towards ensuring that minimum wage systems achieve their full potential.

# Part III. Wage policies for a human-centred recovery

**Adequate and balanced wage policies, arrived at through strong and inclusive social dialogue, are needed to mitigate the impact of the crisis and support economic recovery.** In the near future, the economic and employment consequences of the COVID-19 crisis are likely to exert massive downward pressure on workers' wages. In this context, adequately balanced wage adjustments, taking into account relevant social and economic factors, will be required to safeguard jobs and ensure the sustainability of enterprises, while at the same time protecting the incomes of workers and their families, sustaining demand and avoiding deflationary situations. Adjustments to minimum wages should be carefully balanced and calibrated. While adjusting rates to compensate for price inflation may be essential for ensuring that low-paid workers and their families are able to maintain their living standards, in the particular circumstances of some countries it may be difficult or risky to implement larger increases. Collective bargaining that takes into account the particular circumstances of specific enterprises or sectors is best placed to strike the right balance, and to re-evaluate the adequacy of wages in some mostly female-dominated low-paid sectors which have proved to be essential and of high social value during the current crisis. Wage subsidies, which have played a large role in mitigating the impact of the crisis by protecting enterprises and workers, may need to be prolonged in the second wave of lockdowns, taking into account cost implications.

**In planning for a new and better "normal" after the crisis, adequate minimum wages – statutory or negotiated – could help to ensure more social justice and less inequality.** The 2019 ILO Centenary Declaration for the Future of Work, which calls for a human-centred approach to the future of work, emphasizes the importance of adequate minimum wages, statutory or negotiated. The empirical analyses presented in Part II of this report show that when minimum wages are set at an adequate level, legally cover those employees most likely to be in low-paid jobs, and are well-enforced, they not only help protect workers against unduly low pay but also contribute to reducing inequality. The details of what constitutes an adequate minimum wage, including an adequate level thereof, should be agreed at national level through evidence-based social dialogue, in line with the Minimum Wage Fixing Convention, 1970 (No. 131). Furthermore, to be most effective, minimum wages must be accompanied by other policy measures that support the formalization of the informal economy, the creation of paid employment and the growth of productivity among sustainable enterprises. Minimum wages are only one in a set of policies – which include social protection and fiscal policies – that can be used to promote economic growth with social justice.

**Advancing social justice, promoting decent work**

The International Labour Organization is the United Nations agency for the world of work. We bring together governments, employers and workers to drive a human-centred approach to the future of work through employment creation, rights at work, social protection and social dialogue.

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