

Are Collective Bargaining and Low Wage Policies the way forward?

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Our world is still emerging from the deepest economic downturn since the 1930s. The economic and financial crisis that began at the end of 2007 in the USA quickly shook markets across the world. Its ripple effects are still being felt in both developed and developing countries. While developed countries have been faced with an increasing rate of unemployment, in developing countries there has been a general deterioration in the quality of employment and a shift towards more vulnerable forms of work. We are yet to discover the full effect of the crisis on the world of work, and more specifically on the ILO's 'decent work' agenda. *The Global Wage Report 2010/2011* (in *Boll. Adapt*, n. 9/2011) highlights the impact of the crisis on average wages and the responses of wage policies across the globe. This short reflection on the report aims to discuss its findings. Essentially, and what is of interest to labour law and industrial relations, is the conclusion this report comes to. It suggests that collective bargaining and low wage policies can contribute to reducing the number of low-wage earners and address wage imbalances by strengthening aggregate demand in countries that rely excessively on exports or alternatively on household debt to finance consumption.

No one can doubt the impact of the crisis on the global labour market. As already alluded to and what we are yet to fully comprehend is the extent of the impact of falling labour productivity on specific aspects of the labour market and its functioning. From the start, the caveat the report puts forward is that it is still very early to provide a definite picture on the effects of the crisis, and most statistical offices across the world are still processing and analyzing the most recent data. However, the most relevant labour market indicator, the unemployment rate, reflects an increase in the rate of global unemployment from 5.7% of the labour force in 2007 to 6.4% in 2009. In other words, the number of people unemployed increased from 177.8 million in 2007 to 206.7 million in 2009. In addition to this, data from advanced countries show that the crisis has had a significant impact on the level of wages. In this regard the report comments:

«Wage trends during the crisis should be considered against a backdrop of wage moderation and widespread and increasing wage inequality in the years before the crisis» (ILO, *The Global Wage Report 2010/2011: Wage Policies in Times of Crisis*, 2011).

Taking the above statement into consideration, any changes in wage growth can be attributed to a number of crisis related factors such as inflation or unemployment, and thus the wage growth indicators presented by the report should be understood with this in mind. Alongside a slowing down of the labour market, the report's main finding was that growth in average monthly wages across the globe slowed down from about 2.7-2.8% in the two years before the crisis to 1.5% in 2008 and 1.6% in 2009. A closer look at regional statistics revealed that wage growth slowed initially but then remained constant in Asia and Latin America. Other relevant findings are the decline in real wages by -0.5% in 2008 in advanced countries and the proceeding rise of real wages by 0.6% in 2009. In particular in Central and Eastern Europe real wages declined by -0.1% in 2009, and the purchasing power of wages fell by -2.2% in the same year. What remains of significance to these short term impacts on wage growth is that its slowing was smaller than the decline in labour productivity or GDP growth during the years of the crisis examined (2007-2009). Again, the report

presents certain caveats, that these short term results are to be seen in light of the context of long-term decline in the share of wages, in GDP, and a growing disconnection between long-term wage growth and productivity growth and widespread and increasing inequality.

Of great concern is the finding that since 1990 the proportion of people on low pay has substantially increased in more than two thirds of the countries investigated. Low wages not only increase the risk of poverty, but may lead to social tensions. Results indicate that low pay disproportionately affects females and is more likely to affect disadvantaged groups. Because of this, the report suggests that wage and income policies should be developed within a broader regulatory framework whereby various forms of discrimination are tackled through labour law and other relevant regulations and policies.

As the impact of the crisis on wages will probably continue, the argument put forth by the report is that collective bargaining and wage policies can make a positive contribution towards a more sustainable economic and social model. The link between overall wages and productivity growth is impacted by collective bargaining which is therefore seen as playing a pivotal role in the recovery from the crisis. In other words, evidence shows that collective bargaining strengthens the link between wages and productivity as well as reducing inequality. While the report recognizes the challenges of collective bargaining with worldwide low and decreasing trade union membership, they maintain the importance of wage policies that benefit all workers irrespective of wage level, union membership or employment status; in a number of countries this particular ideal will undoubtedly be difficult to reach. Furthermore, the report proposes as a way forward that policies that would augment disposable income for low-income households are to be considered along with the policy measure for collective bargaining. Again, for a number of countries, particularly low income countries, this has proven to be difficult in the past, and will continue to pose as a challenge towards decent work initiatives. However, the report proposes that here, minimum wages can play an important role.

Recently there has been a trend towards revisiting minimum wage policies. Evidence from the report revealed that low aggregate demand and high unemployment in advanced countries often limited the scope for governments and social partners to negotiate higher minimum wages during the crisis. However, the report maintains that minimum wage policies play an important role in reducing discrimination and in reducing the number of people trapped in low-paid jobs thus assisting those workers made vulnerable by the crisis.

Although the propositions the report puts forward are well founded, individual countries will need to assess these in light of their unique industrial relations and labour law frameworks. Only then, can the challenge of low-pay workers be addressed, and poverty reduced.

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