DECENT WORK
A better world starts here
ILO NOTES ON THE CRISIS

International Labour Office

WAGES IN CRISIS AND IN RECOVERY

Andrés Marinakis and Mario Velásquez[1]

In spite of the negative effects of the crisis on economic activity and employment in Latin America, mean wages underwent real increases driven by adjustments to the minimum wage, in a context of decreasing inflation. This combination sustained domestic demand without affecting employment. In a context of economic recovery, an active minimum-wage policy will be a complement, sustaining consumption by the lowest-income wage-earners, and contributing to growth stability when future increases are in line with increases in mean productivity.

1. Recent wage evolution

At the end of 2009, the evolution of average real wages in the countries of Latin America had shown real increases, despite a context of weak labour demand, favoured by low and decreasing inflation in respect of 2008.

The most significant real increases in mean remunerations took place in Uruguay (7.7%), doubling the figure for 2008, and in Nicaragua (6.6%), reverting losses of the previous year. Lower increases were observed in Chile (4%) and Brazil (2.7%); while in Colombia, Mexico, and Peru wages maintained their purchasing power. Finally, in the Bolivarian Republic of Venezuela, in the face of relatively high inflation, the purchasing power of wages diminished (Panorama Laboral 2009).

In most cases, minimum wage policy was neutral in early 2009, seeking to maintain the purchasing power of wages. However, the actual evolution of the inflation rate in most countries of the region was decreasing, which resulted in an increase of real minimum wages by 4.8% per annum as of October 2009 in 18 countries of the region, as reported in Panorama Laboral 2009 issued by the ILO.

2. The active minimum-wage policy

Beyond the evolution of real average wages, which are the result of wage determination through the intervention of various players and the evolution of prices, it is interesting to observe the guidelines on wage decisions made by governments during the crisis. Such guidelines could generally be perceived in the determination of minimum wages, given the scant coverage of collective bargaining, an issue where there is little government intervention.

Governments faced a dilemma: of increasing the purchasing power of wages to sustain domestic consumption, or preventing excessive compulsory minimum-wage raises from deteriorating employment or increasing informality. Available evidence suggests that the majority of countries in the region sought to maintain the purchasing power of minimum wages, while a smaller number endeavoured to introduce slight improvements in purchasing power. Accordingly, protection of the purchasing power of minimum wages appears to have been privileged, avoiding added cost pressures on enterprises in order to preserve employment.

1 Andrés Marinakis is Expert in Labour Market Policy and Labour Institutions at the ILO Subregional Office in Santiago; Mario Velásquez is an economist, consultant at the same Office. The opinions expressed are the authors' and do not necessarily represent the views of the ILO.

Examination of adjustments to the minimum wage requires considering inflation in the preceding period in effect, as well as future inflation relevant to the new level. Obviously, this evaluation can only be done in countries where minimum wages are adjusted at regular intervals and where reliable estimates of future inflation are available for social players. Accordingly, in countries where minimum wages are adjusted annually, for example, the inflation accumulated in the 12 previous months will be taken into consideration together with the inflation estimated for the following 12 months, and it will be possible to know whether the adjustments made are to achieve real increases or not.

As shown in Table 1, in Latin America the number of countries where adjustments take place at regular intervals is higher than countries where adjustment intervals are variable; yearly intervals prevail among the former.

Table 1
Latin America: Periodicity of minimum-wage adjustments

Countries with regular periodicity of adjustments	Countries with variable periodicity of adjustments
Bolivia	Argentina
Brasil	El Salvador
Chile	Nicaragua
Costa Rica	Panama
Colombia	Paraguay
Ecuador	Peru
Guatemala	Dominican Republic
Honduras	
Mexico	
Uruguay	
Bolivarian Republic of Venezuela	

Source: Prepared by ILO based on country statistical information

It is only possible to keep the same periodicity of adjustments when inflation indexes in the economy are stable over time. In general, when inflation accelerates, legitimate pressures arise to make intermediate adjustments and reduce the impact on the purchasing power of minimum wages. In this regard, the region has made major progress; according to ECLAC, since the year 2000 the evolution of consumer prices averaged less than 10%, except for 2002, when it was 12.2%.

Table 2 shows the nominal variation of minimum wages in the 11 countries where the periodicity of adjustment is regular. Comparing minimum wage increases with the inflation accumulated in the preceding period of effect, we find that: adjustments made in Bolivia, Colombia, and Ecuador were very similar to past inflation; Brazil made a much higher adjustment; Costa Rica, Chile, and Uruguay also increased the minimum wage slightly above past inflation. The case of Honduras stands out, as the minimum wage doubled in January 2009, well above any reference to the evolution of price indicators. In the Bolivarian Republic of Venezuela the increase was significantly below past inflation; in Guatemala and Mexico adjustments were slightly below past inflation.

Table 2
Latin America: nominal increase in minimum wages and inflation in countries with regular periodicity, 2009-2009
(In percentage)

Country	Inflation in past period of effect	Minimum wage nominal variation	Inflation 2008	Inflation 2009
Bolivia	11.8	12.0	11.8	0.3
Brasil a/	5.4	12.0	5.9	4.3
Chile b/	1.8	3.2	7.1	-1.4
Costa Rica c/	6.9	9.1	13.9	4.0
Colombia	7.7	7.7	7.7	2.1
Ecuador	8.8	9.0	8.8	4.3
Guatemala	9.4	7.2	9.4	-0.3
Honduras	10.8	100.0	10.8	3.0
Mexico	6.5	4.6	6.5	1.5
Uruguay d/	3.6	7.0	9.2	5.9
Bolivarian Republic of Venezuela	27.7	10.0	31.9	26.9

Source: Prepared by ILO based on country information; 2008 and 2009 inflation, ECLAC

a/ Reference period March 2008 to February 2009
b/ Reference period July 2008 to July 2009
c/ Reference period July 2008 to July 2009, including two six-monthly adjustments
d/ Reference period July 2008 to January 2009
e/ Reference period May 2008 to May 2009

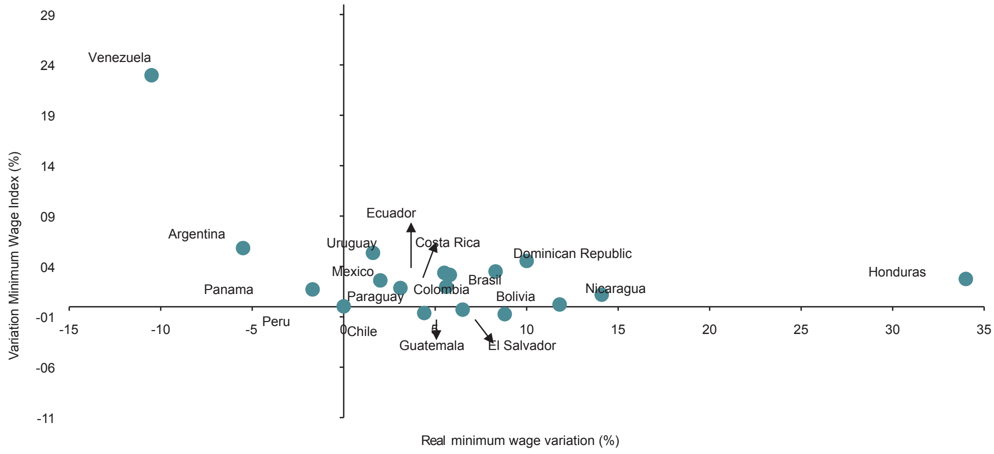
Although the application of new minimum wage levels does not always coincide with calendar years, it is important to point out that in all countries the inflation rate for 2009 was lower compared to 2008. This means that in countries where "neutral" minimum-wage adjustments (equal to past inflation) were made, there will be less erosion of purchasing power in the same period of effect, resulting in a real increase compared with the previous period. The case of the Bolivarian Republic of Venezuela is different; there inflation remained very high and above minimum wage adjustment.

In the countries where revision is variable, minimum-wage adjustments were made in Argentina (22.4% in August 2008 and 3.3% in January 2009), El Salvador (8% in January 2009) and Nicaragua (16% in May 2009). Conversely, until late 2009, Panama and Peru had made no adjustments since December 2007 and January 2008, respectively; Paraguay adjusted the minimum wage by 5% in May 2009, although accumulated inflation was 10%. This time, the pattern of adjustment behaviour, which habitually offset accumulated inflation, was changed.

In the case of these countries, minimum-wage adjustment can only be assessed by comparison with inflation accumulated in the past period, given, as suggested, that the period of effect is not known. From that point of view alone, the adjustments made in Argentina, El Salvador, and Nicaragua were higher than past inflation, and the intention of improving the real level can be inferred. In Panama and Peru, given that the inflation accumulated since the last adjustment was around 8% and 6% respectively, real levels deteriorated. The same thing happened in Paraguay, where only half the accumulated inflation was compensated.

In sum, in terms of fixing minimum wages during the crisis period, as also illustrated in Chart 1, it may be concluded that cautious adjustments predominated vis-à-vis past inflation. However, the general drop of inflation rates in the region compared with 2008 meant that in 2009 minimum wages and wages in general experienced improvements in purchasing power, which contributed to keep up domestic consumption without becoming a threat to employment.

Chart 1
Latin America (18 countries): Inflation and real minimum wages
(Annual variation accumulated at October 2009)



Source: ILO, Panorama Laboral (2009)

3. Wages for economic recovery

Employment policies and social protection policies should be coordinated with wage decisions. In the present crisis, when Latin American countries were basically affected in their export activities, preserving the level of domestic consumption plays a key role and makes it essential to maintain employment and earnings.

Maintaining or raising the lowest compensations on the wage scale has been responsible for offsetting the increasing weakness of aggregate demand in periods of contraction of the economy, as happened in the last two years. However, they must also play a major part to improve the prospects of recovery, protecting the level of consumption of workers with the lowest wages, and preventing the increase of poverty.

Thus, the wage policy implemented through the minimum wage can play an active role in assisting recovery and fostering the balanced rise of mean remunerations in line with increasing productivity. Indeed, establishing an appropriate equilibrium between growing productivity, wages, and employment, will help to reduce volatility and, consequently, lay the grounds for sound and sustainable growth over time.