

ILO report reveals deepening cuts in real wages

Nick Beams

6 December 2022

A report issued by the International Labour Organisation has blown apart the claims by capitalist governments and central bankers around the world that interest rate hikes, now threatening to drive significant areas of the world economy into recession, are necessary to “fight inflation” by suppressing wage demands.

The ILO’s Global Wage Report for 2022-23, issued at the end of last month, revealed that real wages are already being cut by ever-increasing amounts as prices rise at the fastest rate in four decades.

But in the face of all the evidence, the guardians of international capital continue to promote the Big Lie that workers’ demands are responsible for the inflationary spiral and must therefore be suppressed.

The central bankers’ class war is being led by Federal Reserve chairman Jerome Powell. Last week in a major speech at the Brookings Institution he declared that “wage increases are probably going to be a very important part of the [inflation] story going forward.”

There was an imbalance between supply and demand in the labour market, he insisted, making it clear that even limited rises in nominal wages – well below the inflation rate – were in excess of those deemed by the Fed to be consistent with its supposed target of 2 percent inflation.

The ILO report said available evidence for this year showed that rising inflation “is causing real wage growth to dip into negative figures in many countries, reducing the purchasing power of the middle class and hitting low-income groups particularly hard.”

The cost-of-living crisis came on top of the COVID-19 crisis, which in many countries had its greatest impact on low-income groups, as it pointed to the political dangers for the ruling classes.

“In the absence of adequate policy responses,” it said,

“the near future could see a sharp erosion of the real income of workers and their families and an increase in inequality, threatening the economic recovery and possibly fuelling further social unrest.”

According to the report, global data for the first half of this year revealed “a striking fall in real monthly wages” which fell by 0.9 percent, the first negative figures since the first edition of the wages report in 2008.

The decline was much larger in the economies of the G20, comprising 60 percent of the world’s wage workers, where the fall is estimated to be 2.2 percent for the first six months of this year.

The biggest fall was in North America, the US and Canada. Real wage growth was zero in 2021 and then dropped to minus 3.2 percent in the first six months of this year. In the European Union, where wage subsidies were in operation in 2020 and 2021 because of the pandemic, real wages rose slightly, but were minus 2.4 percent in the first half of this year, wiping out all the previous limited gains.

The report also pointed to the effects of the COVID-19 pandemic which are not captured in the data on average wages.

Analysis revealed how “the combination of job losses, shorter hours worked and adjustments in hourly wages during the crisis resulted in an accumulation of lost earnings for wage employees and their families in many countries.”

Compiling data from 28 countries, representing different regions and incomes groups, it found that the total wage bill decreased by between 1 and 26 percent in 2020 with an average decline of 6.2 percent, equivalent to the loss of three weeks’ wages for each average employee.

In 21 of those countries for which data was available

for 2020 and 2021, the decrease in total wages was equivalent to the loss of four weeks of wages per employee in 2020 and two weeks in 2021, a cumulative loss of six weeks' wages over two years.

The standard doctrine of capitalist economics is that real wages can only increase when there is an increase in productivity. That is, the working class and capital can “share” the increase in economic output.

This fiction is exposed in the ILO data. They make clear that the economic and financial system is an institutionalised mechanism for siphoning all additional wealth into the coffers of the corporations and the financial oligarchy.

According to the report, in 52 high-income countries real wage growth has been lower than productivity growth since 2000 and the erosion of real wages in the first half of this year combined with positive productivity growth has widened the gap.

“In fact, in 2022 the gap between productivity growth and wage growth reached its widest point since the start of the twenty-first century with productivity growth 12.6 percent above wage growth,” it said.

As *Financial Times* columnist Rana Foroohar noted in a comment on the report: “People are working harder and better. But they simply aren’t seeing as much monetary benefit from their efforts as they would have in the past.”

The supposed “justification” advanced by Powell and other central bankers for the interest rate hikes, even at the risk of recession, is that these measures are necessary to prevent a wage-price spiral from setting in which would be an even worse outcome.

But according to the ILO report, “empirical evidence” shows that nominal wages are not catching up with inflation and “the gap between wage growth and productivity growth is continuing to widen, with labour productivity increasing and wages falling in real terms.”

“Hence,” it continued, “there would appear to be scope in many countries for increasing wages without generating a wage-price spiral.”

In other words, the data suggest “sweet reason” should prevail, and the capitalist economy should be somehow made to function to at least meet some of the needs of the producers of all wealth, the working class.

This is akin to the claims that nuclear war – an ever-present danger arising from the US-NATO war against

Russia in the Ukraine – will not take place because the consequences would be too horrific, and the ruling classes would therefore pull back.

Such arguments ignore the fact that geopolitics is not driven by rationality but the strivings of the imperialist powers for global domination.

Likewise, in the sphere of the economy, the appeal to reason ignores the fact that the capitalist economy does not function in the interests of the population but by the never-ending drive for profit.

Over the past three decades, and the past 15 years in particular, the central banks have pumped trillions of dollars into the financial system to try to prevent its collapse beginning in the global financial crisis of 2008 and the accelerated after the crisis at start of 2020 as the pandemic struck.

This has created a mountain of fictitious capital comprising debt and vastly inflated stock and asset values. This fictitious capital does not embody real wealth as such but is a claim on the wealth extracted from the working class in the process of production.

Now the chickens have come to roost in the form of spiralling inflation – the result of the refusal to eliminate COVID, the endless supply of cheap money and the war against Russia in Ukraine – and the ruling classes are seeking to resolve the crisis they have created by making the working class pay for it.

It was certainly not the intention of the ILO – they hold out the prospect of some kind of limited reform and more “reasonable” measures – but its report, based on “empirical evidence,” underscores the need for the working class to advance its own independent program to resolve the deepening crisis of the profit system through the struggle for an international socialist program.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact