

# **Appropriate Wage Policies for a Volatile Economic Environment – *Sharing the Burden of Adjustment***

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**CONFERENCE ON THE ECONOMY 2011**

# Overview

- In times of a *volatile economic environment*, income levels are reduced.
- In the face of declining incomes, **adjustments** are required.
- These adjustments ought not to be borne solely by one sector.
- The burden of this adjustment must be borne in an equitable manner by **all** key players of the economy

# TT Economy – *The Indicators*

- The global volatile economic environment has impacted the local economy.
- Negative impact is evident in the downward trends of certain key economic indicators, in particular, **GDP Growth**


## Real GDP Growth: 2005-2010

Year	2005	2006	2007	2008	2009	2010
% Growth	5.8%	13.4%	4.8%	2.4%	-3.5%	-0.6%

Source: CBTT

# TT Economy – *The Indicators (cont'd)*

- *Key Indicators: Jan-March (Q1) 2011*
  - TT Economy contracted by 1.7%
  - Energy Sector contracted by 2.7%  
(Q4 2010 – contraction of 4.1%)
  - Non-energy Sector contracted by 0.8%

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- As per these indicators, output, and therefore income is trending downward.
  - In the face of falling income, **adjustments** are indisputably required.
  - It is also indisputable that these adjustments must be borne equitable, as far as possible by all sectors
  - Key question:
    - What are the required adjustments?

# Adjustments and the Labour Sector - *Context*

Outlook of Labour Market – Labour Force by Income

Source: CSO

<b>Monthly Income Group</b>	<b>2005 %</b>	<b>2006 %</b>	<b>2007 %</b>
Less Than \$500	2.11	1.43	1.46
\$500 - \$999	3.76	3.43	2.13
\$1,000 - \$1,499	10.49	8.75	5.77
\$1,500 - \$1,999	11.62	9.82	8.40
\$2,000 - \$2,999	20.85	21.34	19.45
\$3,000 - \$3,999	12.60	14.57	16.08
\$4,000 - \$4,999	6.41	7.11	9.49
\$5,000 - \$5,999	4.60	4.76	5.82
\$6,000 - \$6,999	3.10	3.56	3.93
\$7,000 - \$7,999	1.76	1.76	2.59
\$8,000 - \$8,999	1.52	1.62	2.31
\$9,000 - \$10,999	1.48	1.83	2.40
\$11,000 - \$12,999	0.40	0.43	0.46
\$13,000 - \$14,999	0.10	0.17	0.20
\$15,000 and over	0.85	1.09	1.40
Not Stated/Not Applicable	18.34	18.30	18.12 <sup>6</sup>



## ***Observations:***

- Over the three years ('05, '06, '07) the two largest monthly income groups were:  
\$2,000 - \$2,999 and \$3,000 - \$3,999
- Higher concentration in lower end income range

	<u>'05</u>	<u>'06</u>	<u>'07</u>
Less than \$4000 per month	61.43%	59.34%	53.29%

# National Income and Wages & Salaries

*Wages & Salaries (of Direct Government Expenditure) as a % of GDP*

FISCAL YEAR	2005	2006	2007	2008	2009	2010
<b>Wages &amp; Salaries</b>	5,309.2	5,455.6	6,221.3	6,946.9	6,620.3	6,933.6
<b>GDP (Real)</b>	95,057.0	115,925.1	136,925.5	170,937.5	124,115.6	129,753.0
<b>Wages and Salaries as a % of GDP</b>	5.59%	4.71%	4.54%	4.06%	5.33%	5.34%

*Expressed in Millions of TT\$*

Source: Review of the Economy

## **Conclusion:**

- Wages & Salaries, as a percentage of GDP has been declining.
- Workers have therefore been receiving a declining share of the national pie



# Impact of Inflation on Incomes – A Case Study *UWI Workers*

JOB CLASSIFICATION	<i>Wage</i> <i>[Plus COLA</i> As At 21/12/08]	<i>Wage</i> <i>Dec. '08</i> <i>[Plus COLA</i> <i>Jan '09 - June '11]</i>	% Increase <i>In Wage</i>
Grade 1 01	\$3,991	\$4,116	3.13
Grade 1 11	\$4,961	\$5,086	2.52
Grade 5 01	\$6,035	\$6,160	2.07
Grade 5 11	\$8,445	\$8,570	1.48
Grade 10 01	\$8,965	\$9,090	1.39
Grade 10 11	\$12,115	\$12,240	1.03

# Case Study (cont'd)

## Change in the RPI:

RPI Jan. 2009: 156.2

RPI June 2011: 180.7

Incr. in RPI: 24.5 pts./ 15.69%

<b>JOB CLASSIFICATION</b>	<b>% Increase <i>In Wage</i></b>	<b>% Change In Real Income</b>
Grade 1 01	3.13	-12.55
Grade 1 11	2.52	-13.17
Grade 5 01	2.07	-13.61
Grade 5 11	1.48	-14.20
Grade 10 01	1.39	-14.29
Grade 10 11	1.03	-14.65

Note: Impact of inflation with a 5% increase

# Adjustments and the Labour Sector – *Other Key Issues*

- Times of declining output and income (as illustrated by GDP growth data) – likely to further weaken this sector
- Impact of inflation on incomes – falling *real incomes*

**Conclusion:** Labour sector finds itself in a relatively weak position, with workers being negatively impacted through the redistributive effects of the current volatile economic environment.

# Adjustments and the Business Sector

## ■ *A Snapshot of Profit Levels*

<b>Company</b>	<b>\$'000</b> <b>Profit 2009</b>	<b>\$'000</b> <b>Profit 2010</b>
Unilever	41,484	51,652
Guardian Holdings Ltd.	374,082	437,116
Ansa McAl Ltd.	690,680	749,053

*(Profit after tax)*

# Determining the Appropriate Policies


## *The Local Context*

- In the local economy the labour sector was being called upon to make significant sacrifices – to accept fairly low salary/wage increases which would serve to decrease workers' real income.
- At the same time, the relative impact on prices and profits was significantly less.
- The burden of adjustment therefore, was not equitably borne – an incorrect approach.



## ***An Appropriate Approach***

- The present context being faced by each sector must be examined, so as to determine the extent of adjustment which could be fairly borne.
- This **must** come about through a process of *dialogue* amongst the key actors within the economy: labour, business and government, i.e. a firm tri-partite process
- Determining the adjustments which are required, must **not** be a unilateral or bilateral process.

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- Additionally, when determining the required adjustments, both **quantitative factors** (e.g. GDP growth, balanced budget) and **qualitative factors** (standards of living, sustainable livelihoods) must be considered.

# Conclusions

- Current trends speak to a volatile economic environment.
- Adjustments are therefore required.
- These adjustments must be borne equitably by all economic actors.
- In determining these adjustments,
  1. the current context of the given sector must be considered
  2. dialogue amongst the economic and social partners must be held
  3. both quantitative and qualitative factors must be considered