

Wages Dynamics and Economic Development

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This paper examines wage determination across countries using new internationally comparable data for wages of five occupations: office cleaners, drivers, secretaries, and middle and top managers. The dominant explanation for cross-country wage variation is variation in capital-labor ratios and human capital attainment, which drive cross-country variation in both GDP and wages simultaneously. These forces, and others, result in simple associations between wages of specific occupations and GDP per worker that tend to be less than one-for-one, but always strongly positive. The proportional gap between wages of managers and office cleaners, which we call the “skill premium,” tends to decline as GDP per worker rises across countries. The reason is partly that skills become less scarce as GDP rises, but also partly because skilled wages appear to be propped up somewhat in poorer countries by an international market for managerial talent.