MINIMUM WAGE FIXING

An international review of practices and problems

Gerald Starr

International Labour Office  Geneva
Finding ways to ensure the payment of decent wages has been a fundamental concern of the ILO since its foundation. The original Constitution of the Organisation, established in 1919, listed “the provision of an adequate living wage” among the improvements in conditions of labour urgently required to combat social unrest and promote peace. It specified as an objective for member States “the payment to the employed of a wage adequate to maintain a reasonable standard of life as this is understood in their time and country”. The 1944 Philadelphia Declaration concerning the Aims and Purposes of the International Labour Organisation affirmed that “poverty anywhere constitutes a danger to prosperity everywhere” and advocated world programmes that will achieve “a minimum living wage to all employed and in need of such protection”. More recently the Declaration of Principles and Programme of Action adopted by the 1976 Tripartite World Conference on Employment, Income Distribution and Social Progress and the International Division of Labour included a recommendation that, as part of a basic-needs development strategy, wage policies should “ensure minimum levels of living”.

As one of the measures to be used to this end, the ILO has for many years advocated direct action by means of establishing legally binding lower limits to wages. The Minimum Wage-Fixing Machinery Convention, 1928 (No. 26), requires the creation and maintenance of machinery for fixing minimum wages in manufacturing and commercial trades (and in particular homeworking trades) where no arrangements exist for the effective regulation of wages by collective agreements or otherwise and wages are exceptionally low. This Convention, which had been ratified as of 1 January 1980 by 94 countries, has become one of the most widely accepted instruments of the ILO. In order to encourage the extension of wage protection to rural workers, the International Labour Conference adopted in 1951 the Minimum Wage Fixing Machinery (Agriculture) Convention (No. 99). A further encouragement to the
extension of minimum wage protection was given by the Conference in 1970, when it adopted the Minimum Wage Fixing Convention (No. 131), which requires the establishment of minimum wage systems covering virtually all workers. Extracts from the operative parts of these Conventions and the related Recommendations are reproduced in an appendix to this study.

While the general principle of minimum wage fixing has gradually gained wider and wider acceptance, implementation of this principle has often remained a highly controversial and problematic process. Opinions remain sharply divided on the best approaches to this method of wage regulations and in many instances it is clear that minimum wage systems have not operated as originally intended. The purpose of the present study is to assist those closely associated with either the design or operation of minimum wage systems, particularly in developing countries, by providing a far-ranging international review of minimum wage fixing practices and problems. In addition to describing the basic characteristics of different minimum wage systems, an effort has been made to identify the nature and extent of the difficulties encountered in the operation of these systems and to show how such difficulties have been or might be resolved. Where possible, experience with alternative approaches to minimum wage fixing is evaluated and the implications for policy are described. An attempt has also been made to conceptualise and provide relevant information on the many controversial issues normally arising in the administration of minimum wage programmes, so as to facilitate the formulation of policies that can make an effective contribution to the improvement of standards of living in individual countries. This study has been designed to complement rather than replace an earlier ILO volume: Minimum wage fixing and economic development. Although many of the topics covered are the same, the present publication is distinctive in its practical orientation. Greater attention is paid to the assessment of actual experience in the operation of minimum wage programmes and to illustrating the diversity of national practices and problems; the more general arguments in favour of minimum wage fixing and the economic effects are more briefly covered. There has been little research into minimum wage fixing in developing countries and so the existing literature is meagre. Accordingly, most of the information on which this study is based had to be drawn together from a variety of secondary sources, including the reports of governments to the ILO on the application of ratified Conventions, the work of technical co-operation experts, the documentation prepared for and the discussions at seminars on wage policies organised by the ILO, and special studies undertaken in selected countries. While the available information does not permit a comprehensive international survey of the issue, an attempt has been made to
cover a sufficient number of countries to provide a meaningful picture of
the situation. As the experience of some countries is better documented
than that of others, inevitably the former tend to figure more promi-

nently in this study. Although the main focus is on the problems
confronting developing countries, frequent references are made also to
the experience of a number of industrialised economies, to demonstrate
alternative practices and make known the findings of research. Because
minimum wage fixing is normally conceived of as a problem of regulating
the wages paid by employers in the private sector, the analogous
practices of the socialist countries of Eastern Europe, where virtually all
workers are in the public sector, are not covered.

The term “minimum wages” is used in a variety of ways throughout
the world. In this study it is used to denote legally enforceable lower
limits to wages fixed by a process invoking the authority of the State.
Wage limits that only have the force of a recommendation are not
covered. Also excluded are lower limits to wages fixed in collective
agreements. Even though in some countries these may have the force of
law, they are essentially established through the private agreement of
those directly concerned, or through dispute settlement procedures,
rather than by a statutory process aimed at achieving a more generally
applicable lower limit to wages. For similar reasons the lowest rates fixed
in public service or public sector wage and salary scales are not
considered as “minimum wages”. Generally this study also does not deal
with lower limits to wages made binding by so-called “labour clauses” in
public contracts, or by regulations, decrees or orders extending the
application of the terms of collective agreements throughout an industry.
While such limits technically might be considered as falling within the
definition of minimum wages given above, this form of wage regulation
usually is quite distinctive in both its rationale and application. But
maintaining a distinction between the legal extension of collective
agreements and minimum wage fixing is not always easy. Where the
objectives of the regulations, decrees or orders appear to go well beyond
simply covering a restricted number of unorganised workers in individ-
ual industries, the lower limits to wages thus established, even though
essentially based on the results of negotiations, have been treated as
minimum wages.

The study begins, in Chapter 1, with a historical account of the
development of minimum wage fixing in the various regions of the world
and a description of the extent to which this method of wage regulation is
now used. The following two chapters analyse the role and scope of the
basic forms of minimum wage fixing that have been created and review
available experience on how they have operated. Next there is a
description of different types of minimum wage fixing machinery as well
as of the operational problems that often arise. Chapter 5 is devoted to
the difficulties encountered in the elaboration of criteria for fixing rates, while Chapter 6 deals with the procedures and the bases for their adjustment. Then comes a consideration of the extent of non-compliance with minimum wages and the measures that might be taken to improve enforcement. The study concludes with a more technical discussion of the factors which have to be taken into account when the economic impact of minimum wages is evaluated empirically and of the ways in which such evaluations have been carried out.

The author of the study, Gerald Starr, was an official of the Labour Law and Labour Relations Branch of the International Labour Office until his premature death in 1989. Other ILO officials also made important contributions at various stages in the study’s preparation. The assistance of Mr. Hiromasa Suzuki was especially valuable, particularly with respect to Chapter 5 and the statistical appendices. Mr. Geoffrey McGill, while on detachment to the ILO from the Australian Department of Employment and Industrial Relations, Mr. S. E. G. Perera, of the ILO Regional Office in Bangkok, and Mr. Emilio Morgado Valenzuela of the ILO Regional Office in Lima also made substantial contributions through the preparation of working papers.

The ILO is reprinting this book because it remains a seminal discussion of the issues involved in minimum wage fixing, and provides an international comparative review of minimum wage regulation. A 1992 report of the ILO Committee of Experts on the Application of Conventions and Recommendations,1 surveying the law and practice relating to minimum wage-fixing standards, provides valuable recent information on procedures and practices but does not contain the analysis of the issues presented in this book. Despite isolated, very recent changes in some countries – notably in the United Kingdom, where the Government abolished minimum wage-fixing bodies as of July 1993 – and despite the fact that its statistical tables are dated, this book still constitutes a valid treatment of a highly topical subject which continues to be of central concern all over the world.

Note
## CONTENTS

Preface .................................................................................................................. v

1. The historical development of minimum wage fixing ................................. 1
   Early origins ...................................................................................................... 1
   Evolution since the Second World War .......................................................... 3
   Industrialised countries ................................................................................. 3
   Latin America .............................................................................................. 7
   Africa ............................................................................................................ 9
   The Caribbean ............................................................................................... 11
   Asia ............................................................................................................. 11

Patterns in the use of minimum wage regulation ............................................. 13

2. The role and scope of minimum wage fixing by industry ......................... 17
   The protection of vulnerable groups of workers ........................................... 18
   Characteristics and implications ................................................................. 18
   Experience .................................................................................................... 21
   The determination of “fair” wages .............................................................. 24
   Characteristics and implications ................................................................. 24
   Experience .................................................................................................... 27

3. The role and scope of general minimum wages ......................................... 39
   The establishment of a basic floor for the wage structure ......................... 39
   Characteristics and implications ................................................................. 39
   Experience .................................................................................................... 42
   Minimum wages as an instrument of macro-economic policy ..................... 47
   Characteristics and implications ................................................................. 47
   Experience .................................................................................................... 49
   Minimum wages as a reference wage .......................................................... 54
   The structure of general minimum wages .................................................... 54
   Exemptions and abatements ....................................................................... 55

4. Minimum wage fixing machinery and procedures ..................................... 61
   Types of minimum wage fixing machinery .................................................. 62
   Acts of the legislature ............................................................................... 62
   Executive authority decisions ..................................................................... 63
   Boards with powers of effective recommendation .................................... 65
   Boards with final decision-making authority .............................................. 70
Minimum wage fixing: An international review of practices and problems

Patterns of government, workers' and employers' participation in decision-making ............................................. 72
Participation by workers and employers ............................................. 72
Types of decision-making within minimum wage boards ............................................. 75
Co-ordination with national economic and social policy ............................................. 78
Difficulties encountered in the functioning of minimum wage fixing machinery ............................................. 80
The selection of board members ............................................. 81
The consistency and quality of board decisions ............................................. 83
Delays in decision-making ............................................. 85
Research support ............................................. 87

5. Criteria for fixing minimum wages ............................................. 91
Illustrations and characteristics ............................................. 91
The needs of workers ............................................. 95
Comparable wages and incomes ............................................. 100
Ability to pay ............................................. 105
The requirements of economic development ............................................. 110
Methods of application ............................................. 114

6. Minimum wage adjustments ............................................. 119
The frequency of adjustments ............................................. 119
The timeliness of adjustments ............................................. 122
Indexation ............................................. 124
The bases for updating minimum wages ............................................. 127
Consumer price trends ............................................. 128
Real wage and income trends ............................................. 130

7. Compliance with minimum wages ............................................. 135
Measuring the extent of compliance ............................................. 135
Improving compliance ............................................. 141
The allocation of manpower and financial resources ............................................. 141
Labour inspection strategies ............................................. 143
Reforms in legal administration ............................................. 145
Supplementary means of enforcement ............................................. 147
The implications of incomplete compliance ............................................. 148

8. Evaluating the economic impact of minimum wages ............................................. 153
The need ............................................. 153
The issues to be considered ............................................. 155
The impact on wages paid ............................................. 155
The adjustment to higher wages ............................................. 156
Income distribution effects ............................................. 157
Macro-economic effects ............................................. 159
Methods of evaluation ............................................. 159
General inquiries ............................................. 160
Special surveys ............................................. 166
Econometric analysis ............................................. 174
Concluding remarks ............................................. 182
Appendix I. Statistical tables ................................................................. 187
Appendix II. Extracts from Conventions Nos. 26, 99 and 131 and Recommendations Nos. 30, 89 and 135 concerning minimum wage fixing ... 193

List of tables
Table 1. Indicators of the effective scope of the minimum wage in the United States 1938–78 ................................................................. 44
Table 2. Proportion of workers benefiting directly from supplementary increases in the SMIC in France, 1970–78 ................................. 46
Table 3. Proportion of workers directly affected by minimum wage changes in individual industries and prefectures in Japan, 1975 .................. 103
Table 4. Main arguments invoked during the deliberations of the National Minimum Wage Board of Costa Rica in 1962 and 1972 ............. 116
Table 5. Extent of compliance with wages council rates in the west of Scotland and Great Britain, 1969–76 ................................................ 137
THE HISTORICAL DEVELOPMENT
OF MINIMUM WAGE FIXING

EARLY ORIGINS

While precursors go back to the Hammurabi Code, 2000 B.C., the practice of minimum wage regulation is generally considered to have first developed in New Zealand and Australia around the turn of the century. Initially it was used in these two countries as part of the procedure for the prevention and settlement of industrial disputes. Under the New Zealand Industrial Conciliation and Arbitration Act of 1894, the Court of Arbitration was empowered to settle industrial disputes by issuing awards fixing minimum wages that could be made binding for all workers in the industry in the district where the dispute had taken place. Soon afterwards the system of fixing minimum wages through arbitration awards spread to a number of Australian jurisdictions. At about the same time there also were experiments with using minimum wage regulation to eliminate “sweating”—that is, the payment of exceptionally low wages. The most important development in this regard was the adoption in 1896 by the Australian state of Victoria of legislation establishing a system of wages boards. Originally only six trades were covered but the application of the law was gradually extended. By 1911 all the states except Western Australia had systems of wages boards. Protection against unduly low wages in New Zealand and Australia also took the form of direct legislative action. Thus minimum wages were fixed in New Zealand for unorganised factory workers by the Employment of Boys and Girls without Payment Prevention Act of 1899 and for shop assistants by the Shops and Offices Act of 1904. Similar legislation was also introduced in a number of Australian states.

Other countries soon followed suit in providing protection against unduly low wages, with the difference, however, that the protection was confined in most cases to particular categories of workers considered to be especially vulnerable. After a careful study of the Australian systems the British Parliament adopted minimum wage legislation in 1909 aimed at abolishing “sweating”. Originally only four industries were covered. With the Trade Boards Act of 1918 the purpose of minimum wage fixing
was broadened somewhat and by the end of 1926 minimum wages were applicable to about 40 trades, employing approximately 1 ½ million workers. Minimum wage fixing through a series of committees was also provided for by the Coal Mines (Minimum Wage) Act, 1912, and the Agricultural Wages (Regulation) Act, 1924.

During these early days minimum wage fixing among continental European countries, where it existed at all, was very limited in scope, being basically confined to the setting of minimum wages for homeworkers. Legislation of this kind was adopted by France (1915), Norway (1918), Austria (1918), Czechoslovakia (1919), Germany (1923), Spain (1926) and Belgium (1934). In the case of Hungary it was agricultural workers who were singled out for protection of their wages by special legislation. Among these countries there were no instances of departure from systems with very limited coverage until after the end of the Second World War.

The first minimum wage laws introduced in the United States were different in that the vulnerable categories of workers singled out for protection were females and minors. In 1912 and 1913 nine states adopted such minimum wage laws, and by the end of 1923 the number had grown to 17. At this point further development was temporarily checked through constitutional challenges in the courts. A parallel pattern of minimum wage regulation occurred in Canada. Between 1917 and 1920 seven out of the nine provinces had passed minimum wage laws, most of which were restricted in scope to females.

Early experiments with minimum wage regulation were also carried out in a number of developing countries. As elsewhere, the laws were for the most part limited to certain categories of workers judged particularly vulnerable. Thus in Sri Lanka (then Ceylon) the Minimum Wages (Indian Labour) Ordinance of 1927 was passed in order to regulate the wages of Indian workers employed on plantations. In Africa a number of colonies introduced minimum wages soon after the First World War in order to prevent abuses in the hiring of indigenous workers under forced labour arrangements.4 Thus in the Belgian Congo decrees issued in 1922 permitted provincial governors to fix minimum wages in their territories. The British Colonial Office commended the Minimum Wage-Fixing Machinery Convention, 1928, to the governments of the overseas territories and urged the adoption of simple legislation in every colony empowering the government to intervene in any case where illiterate workers were receiving unduly low wages. During the 1930s a number of minimum wage ordinances, along with other forms of protective legislation, were issued in British colonies in Africa as well as in the Caribbean.5

Early interest in minimum wage regulation was particularly apparent in Latin America. In some cases it led to the establishment of special
machinery for particularly vulnerable categories of workers, as in Argentina, where the Home Work Act adopted in 1918 was in line with similar legislation then being introduced in Europe. More often in this early period minimum wages were fixed through ad hoc legislative measures. A particularly significant development was the inclusion of a reference to minimum wages in the Federal Constitution of Mexico adopted in 1917. Article 123, VI, of that instrument states that—

The minimum wage to be received by a worker shall be that which is considered sufficient, according to the conditions of each region, to satisfy the normal needs of his living, education and honest pleasures, considering him as the head of a family . . .

This constitutional provision, the first of its kind anywhere to recognise explicitly the responsibility of the State for ensuring minimum standards of living, eventually led to the creation in 1933 of a National Minimum Wage Board for the fixing of general minimum wages applicable to all workers throughout the country. Legislation introducing similar minimum wage regulation systems with a broad purpose and scope was introduced in a few other Latin American countries around the same time (Costa Rica and Cuba (1934) and Brazil (1938)).

EVOLUTION SINCE THE SECOND WORLD WAR

Although there were a few exceptions, in general minimum wage fixing remained a rarely used and limited instrument of government policy in both industrialised and developing countries before the Second World War. Many countries had no legislative provisions and those that did had frequently restricted their application to only a few categories of workers. Minimum wages were often fixed through ad hoc measures and machinery established by law was not used regularly, if at all. Towards the end of the economic depression of the 1930s and during the Second World War, the situation gradually began to change. More and more countries began adopting minimum wage legislation and extending wage protection to larger numbers of workers. While this development was noticeable in all parts of the world, the pace of the extension of minimum wage regulation and its forms have differed markedly among groups of countries. To facilitate comparison of these differences and because in some instances the approaches to minimum wage regulation of some industrialised countries influenced those pursued elsewhere, the following account of the evolution of minimum wage fixing begins with industrialised countries and then deals in more detail, by region, with developing countries.

Industrialised countries

Among industrialised countries the policies adopted with respect to
minimum wages have shown marked variations. Three basic patterns can be distinguished. First of all in some of them no, or very limited, use has been made of minimum wage fixing as defined in this study since the end of the Second World War. Where some form of minimum wage regulation exists, its application is limited to such a small number of workers (e.g. certain categories of homeworkers) that its influence is minimal. Countries falling in line with this general pattern include Austria, Denmark, Finland, the Federal Republic of Germany, Italy, Norway, Sweden and Switzerland. A common characteristic of these countries is that the collective bargaining systems, including in some cases statutory collective agreement extension procedures, cover a high proportion of all wage and salary earners. There has accordingly not been substantial pressure to provide unorganised workers with a form of protection through statutory minimum wages. Also in a number of these countries it is widely believed that wage determination should be left to the workers and employers immediately involved and that all forms of government intervention in the process, including the establishment of statutory minimum wages, should be resisted. The situation in the Federal Republic of Germany is illustrative. An Act passed in 1952 provides for the fixing of minimum wages when the following conditions are met:

(a) employees' or employers' associations for the industry or employment category do not exist or only embrace a minority of the employees or employers:

(b) the prescribing of minimum conditions of employment appears necessary for the satisfaction of the indispensable social and economic needs of the employees;

(c) remuneration or other conditions of employment are not governed by terms of a collective agreement which have been declared to be common rules.

However, the provisions of this Act have never been used, the usual explanation for this being the broad protection provided by the country's collective bargaining system. The only categories of workers protected by minimum wages in the country are homeworkers, whose terms and conditions of employment are governed by separate legislation.

A different approach has been followed in the United Kingdom and Ireland, where minimum wage machinery has continued to operate in selected industries. In the United Kingdom, although the relevant legislation has undergone a number of important modifications since the adoption of the Trade Boards Act of 1918, the emphasis has continued to be on providing minimum wage regulation in those industries where effective trade union organisation is lacking and wages are considered to
be inadequate or unreasonably low. In 1978 the wages council system of
the United Kingdom covered almost 3 million workers in 41 different
trades. Wage boards with similar functions covered about 400,000
workers in agriculture. Although the composition of the industries
affected has changed somewhat there has not been any marked increase
in the total number of workers affected since the end of the Second World
War. In total about one-sixth of all employees in the country are covered
by minimum wages.

In Ireland minimum wage regulation has followed the same pattern
but is not as extensive. Joint Labour Committees, under the Industrial
Relations Act, 1946, have been established for 15 trades covering about
32,000 workers, or only about 3 per cent of the economically active
population.

In a third, expanding group of industrialised countries minimum
wage regulation applies to almost all workers. In some of them such
broad coverage dates from before the Second World War. Thus by the
mid-1930s the arbitral and statutory wage regulation systems of New
Zealand and Australia had evolved to this point.

In a quite different institutional context, in the United States, the Fair
Labor Standards Act of 1938 established a nationally uniform minimum
wage for workers engaged in inter-state or foreign commerce. Section 2
of the Act states its purpose in the following terms:

(a) The Congress hereby finds that the existence . . . of labor conditions detrimental to
the maintenance of the minimum standard of living necessary for health, efficiency and
general well-being of workers . . . ; burdens commerce and the free flow of goods in
commerce; . . . constitutes an unfair method of competition in commerce; . . . leads to
labor disputes burdening and obstructing commerce . . . ; and . . . interferes with the
orderly and fair marketing of goods in commerce.

(b) It is hereby declared to be the policy of this Act . . . to correct and as rapidly as
practicable to eliminate the conditions above referred to in such industries without
substantially curtailing employment or earning power.

Since then the national minimum wage rate has been adjusted from time
to time and the scope of the protection gradually enlarged through the
elimination of various exclusions. Coverage expanded from 43 per cent
in 1938 to 84 per cent in 1978 of all non-supervisory employees in private,
non-agricultural employment. Minimum wage regulation through gen-
erally applicable rates has also been developing at the state level. Now
40 states have such laws, protection being afforded to both male and
female workers. A similar process of gradual extension of general
minimum wages has also occurred in Canada. By the early 1960s both
male and female workers were covered by minimum wage orders of
general application in all the provincial and federal jurisdictions of the
country.

In contrast with the North American pattern minimum wage
regulation was not introduced in Japan until quite late, the first major
legislation being the Minimum Wages Law of 1959. The original focus of the Act was on fixing minimum wages for particular industries or occupations in a given area. However, by the early 1970s this system had evolved in the direction of also providing general minimum wage protection for all workers in all prefectures throughout the country.

In the period following the Second World War minimum wage regulation of general application spread to a number of continental European countries. In Luxembourg general minimum wages were fixed for the first time by legislation in 1945. In subsequent years the rates were modified by special laws on a number of occasions, and in 1957 a system for the regular adjustment of minimum wages was put into effect. France also adopted this approach at a comparatively early date. When wartime wage controls were lifted in 1950 a minimum wage (le salaire minimum interprofessional garanti, or SMIG) of broad application was introduced. This system, although altered in form and name, has continued to provide protection for virtually all workers. The concept of a minimum wage was an important element of the wage control programme that was applied in the Netherlands from the end of the war until 1959. After the gradual lifting of controls during the 1960s statutory minimum wages of general application were again introduced in 1969 with the adoption of a special law providing for machinery for the fixing and regular adjustment of minimum wages for almost all workers in the country. Other Western European countries which have recently introduced general minimum wages include Spain (1963), Portugal (1974) and Belgium (1975).

The general minimum wage systems introduced by industrialised countries, while similar in respect of their broad coverage, are in most other respects quite distinctive. For example in some countries it is clear that a major objective of general minimum wage regulation has been to provide at least a certain degree of protection for a large number of workers falling outside the scope of collective bargaining. Yet some countries where the vast majority of workers are covered by collective agreements (e.g. Belgium and the Netherlands) have also introduced general minimum wage protection, apparently with a view to altering wage structures. The manner in which minimum wages are fixed also shows little uniformity. It varies from acts of the legislature (e.g. the United States), through the Belgian procedure of a rate established by national collective bargaining being given force of law by Royal Order, to the case of Japan, where decisions are taken based on the recommendation of minimum wage councils in individual prefectures. In some countries (e.g. France and the United States) there is a single minimum wage for the entire country, while elsewhere there are important regional variations and industry rates supplementing the general rates.

Although the general minimum wage systems of industrialised countries show considerable diversity, they do have two important
elements in common. The first is their continued application. Once established these systems have generally been maintained and actively administered. The rates fixed are adjusted on a more or less regular basis. The other important common element is that in these countries minimum wage fixing is viewed as a significant but basically supplementary method of wage regulation, the main method being collective bargaining.

Latin America

Beginning in the mid-1930s, and especially during the 1940s, minimum wage legislation was adopted throughout most of Latin America. This development was closely associated with the promulgation of comprehensive labour codes, a process which began in this region immediately before the Second World War. In some cases the introduction of such legislation was preceded by the adoption of constitutional provisions that recognised the right of workers to wages sufficient to provide a decent standard of living and, implicitly or explicitly, the responsibility of the State for fixing minimum wages. By the early 1950s legislation providing for the regulation of minimum wages existed in almost all Latin American countries.

However, legislative action and administrative action have not always been clearly in step. While in a number of Latin American countries minimum wage machinery was set up shortly after the enactment of the relevant legislation, this was not everywhere the case. The pioneer in establishing minimum wage machinery was Mexico, which introduced a nation-wide system in 1931 following the promulgation of its Labour Code. Other countries in the region introducing minimum wage fixing at an early date were Brazil (1938), Costa Rica (1943) and Uruguay (1943). In each of these countries minimum wage fixing in one form or another has continued to be practised.

In a number of other countries it took many years before machinery was set up; where minimum wages were fixed at all, it was through ad hoc statutory measures. In yet other countries the machinery established failed to be utilised in the manner or to the extent envisaged by the legislation. While the actual practice of minimum wage regulation in the region has never completely fulfilled the ambitious goals established in legislative texts, it has expanded significantly, particularly since the early 1960s. Today virtually all the countries of the region can be described as having an active minimum wage programme of some kind. In most of them rates are fixed on a more or less regular basis, and minimum wages are an important element of the national system of wage determination. Only in a few of the less developed countries are minimum wages still fixed quite irregularly.

Reflecting the notion that it was a responsibility of the State to ensure
a decent standard of living for all workers, the minimum wage systems established were of very broad scope, extending to virtually all trades and occupations. Where in addition rates were fixed individually for particular industries or groups of workers, the combined effect was for all, or nearly all, wage earners to be covered by some type of regulation. The most notable variation in this pattern in the early legislation was the exclusion from coverage in some countries of agricultural workers. However, they have now been brought within the ambit of minimum wage regulation nearly everywhere in the region.

Although most Latin American countries have constitutional or legislative texts that place a responsibility on the State for ensuring that workers are paid wages adequate to maintain a decent standard of living, the ways in which this goal has been pursued have varied widely. In some cases the minimum wage system is limited to fixing a basic floor for the wage structure, usually with regional variations. But in others the rates fixed are very complex combinations of industry, occupational, regional and general rates, with protection not confined to just the low paid and the unorganised.

As for the importance of minimum wages in wage determination, generalisations cannot help but be misleading in view of the complex patterns and frequent changes of government policy. It is apparent, however, that the experience of the region covers a broad spectrum. At one extreme the limited scope of individual industry minimum wages or infrequent adjustment of general minimum wages has meant that the impact of minimum wage levels on wages actually paid has only been erratic and marginal. At the other extreme the scope, level and frequency of minimum wage adjustments have had a predominating influence on wage movements and have resulted in minimum wage regulation being viewed as the major instrument of macro-economic wage policy to be used in the pursuit of broad economic and social objectives. The effect of minimum wage regulation in a significant number of Latin American countries seems closer to the latter extreme, when compared with industrialised countries and other developing regions.

One possible explanation of this pattern is the importance of the notion of a living wage in Roman Catholic social thought as epitomised by the papal encyclicals Rerum Novarum (1891) and Quadragesimo Anno (1931). Another is undoubtedly the Latin American tradition of extensive direct government regulation of terms and conditions of employment. Latin American labour codes in general bear the unmistakeable stamp of the Roman law approach of spelling out in legislation details of almost every aspect of the terms and conditions of employment. In addition there is a tradition of direct government intervention in economic decision-making. Thus minimum wage regulation is but one aspect of government intervention in wage determi-
nation that frequently involves the statutory determination of general wage adjustments or the setting of limits to negotiated increases. More basically the extensive use made of minimum wage fixing may reflect the combined influence of the relatively slow growth of trade unionism and collective bargaining and the relatively high proportion of wage and salary earners in the economically active population in these countries as compared with other developing regions.

Africa

While legislation on minimum wages was adopted quite early in many parts of Africa, it was not until the 1940s and 1950s that effective laws and a number of minimum wage fixing decrees were implemented on a significant scale. The systems of minimum wage regulation introduced at this time were heavily influenced by the colonial ties of most of the countries of the continent.

The form of the legislation introduced in the British colonies followed, for the most part, the pattern of the Trade Boards Act of 1918 and the Wages Council Act of 1945 of the United Kingdom. Wages councils or boards were to be established by the responsible Minister where he was of the opinion that no adequate machinery existed for the effective regulation of remuneration or terms of employment of any employees or class of employees in particular industries, or sometimes simply where he considered it expedient to do so. The councils or boards, tripartite in form, were composed mainly of members of the industries concerned. They regulated not only minimum wage rates for the lowest paid categories but also minimum wage rates for various occupational classifications, as well as other conditions of employment such as hours of work, rest periods, holidays and annual leave. In certain territories the colonial practice differed from that of the United Kingdom in one important respect, namely that the legislation sometimes gave authority for the fixing of minimum wages of general application. It was intended that these rates, established on the basis of recommendations of regional or national labour advisory boards, would apply chiefly in certain urban areas where economic activities were diversified.

In most of the British colonies minimum wage regulation, although authorised by legislation, was not extensively or regularly practised. Minimum wage orders, where they existed, were usually limited to just a few trades; only a few of general application were issued. However, after independence the role of minimum wage fixing changed markedly, particularly in East Africa, where a series of general minimum wage orders directed to raising the general level of wages were adopted. In some of the countries (e.g. Kenya and Zambia) there has also been more or less continued use of the wages council system. The situation in the
Minimum wage fixing: An international review of practices and problems

former colonies of West Africa evolved quite differently. The fixing of legally enforceable minimum wages appears to have been abandoned in Nigeria and is carried out only very irregularly in Ghana. However, in both these countries the lowest wage set for workers in government employment has to a certain extent acted as a *de facto* minimum wage, influencing considerably the setting of wages in the private sector.

Minimum wage fixing was introduced at a much earlier date and on a much more comprehensive scale in the French colonial territories in Africa. In fact, owing to concern about the employment of indigenous workers, general minimum wage regulation in the French colonial territories pre-dated that in France. However it was not until the adoption of the Labour Code for Overseas Territories in 1952 that the approach to minimum wage regulation became more or less comprehensive and standardised throughout the French colonies. The system adopted followed closely the one that had just been introduced in France. Section 95 of the Code stated that the chief officer of the territory shall, after receiving the recommendations of the labour advisory board, issue orders prescribing the wage zones and the general guaranteed minimum wages for all occupations. A distinction was typically made between the guaranteed minimum wage for non-agricultural workers (SMIG) and the guaranteed minimum for agriculture (SMAG). In most cases both the SMIG and SMAG varied in accordance with geographic zones, and occupational as well as general minima were fixed.

Since independence the minimum wages systems introduced by the Code, although altered in some respects, have continued to be applied. Adjustments to the rates have been made from time to time and there are only a few cases where the adjustments have been so delayed that minimum wage regulation appears to have been abandoned. In most of the countries concerned minimum wages tend to predominate in wage determination, with many unskilled workers being paid the minimum rates and only receiving increases when the statutory levels are changed. Moreover the rates laid down in collective agreements for semi-skilled and skilled workers have frequently been linked to the minimum wage.

Although in the territories formerly administered by Belgium, Portugal and Spain minimum wage regulation did occur at a comparatively early date, its use did not become well established until long after the Second World War. Thus in the Belgian Congo, now Zaire, minimum wage regulation did not become really effective until 1954, even though enabling laws had been adopted many years earlier. After independence in 1960 some modifications were made to the system but the principle of fixing general minimum wages by zone in line with the cost of living has continued basically to be adhered to.

In the other African countries subject to a quite distinctive external influence, minimum wage regulation also developed in the post-Second
World War period. Thus in Egypt and Libya, although there is no regularly operating minimum wage fixing machinery, decrees or laws fixing minimum wages have been issued from time to time. In the Sudan general minimum wages were declared in 1974 for the first time for workers in establishments with ten or more workers, in major urban areas or developed regions.

In summary, almost all countries in Africa have minimum wage fixing programmes, the notable exceptions being Ethiopia, Nigeria and Somalia. Since the prevalent procedure is to issue general minimum wage orders, a large majority of African wage earners in private employment in urban and rural areas are covered. Moreover, often minimum wage regulation is regarded as a key determinant of general wage movements and structures.

The Caribbean

As in Africa, the British colonies of the Caribbean inherited minimum wage systems closely patterned on the wages councils of the United Kingdom shortly before or soon after the Second World War. The legislation envisaged the fixing of rates in individual industries through a decentralised decision-making process. In some cases this machinery was used to cover a significant number of industries (e.g. Jamaica), but in most of the countries it was applied to only a few industries on an irregular basis. The workers most often covered are those in domestic service, small commercial enterprises and agriculture. Recently a number of Caribbean countries have modified their original legislation to provide for more centralised forms of decision-making as well as for general minimum rates applicable to most workers (e.g. the Bahamas, Jamaica and Trinidad and Tobago).

As for most of the non-Commonwealth countries or territories of the region, they have also had experience for many years with minimum wage fixing (Suriname is an exception). Usually there are minimum wages of broad legal scope but in some cases they have not often been adjusted.

Asia

The evolution of minimum wage regulation in Asia has differed in a number of ways from that in other developing regions. To begin with minimum wage regulation has not been as extensive as elsewhere. In several Asian countries it still does not exist and in others it is confined to a very limited number of workers. There are only a few countries where there is minimum wage regulation with broad coverage, primarily those of Western Asia. The diversity in the scope and methods of minimum wage regulation within the region also contrasts with elsewhere. Only to
a limited extent has a common colonial past or a tendency to follow regional models resulted in a uniform pattern.

The first major experiences with minimum wage regulation in Asia occurred during and shortly after the Second World War among the countries influenced by British practices. Legislation closely following the wages council system of the United Kingdom was adopted in Burma and Malaysia soon after the war and in Fiji in 1957. In Sri Lanka the Wages Boards Ordinance of 1941 established a system of minimum wage regulation for “sweated trades” that resembles in many ways the British system of wages councils. In India the Minimum Wages Act (1948), adopted just after independence, also followed the British pattern of fixing minimum wages by industry. However, there are important differences with respect to the implementing machinery and the procedures for deciding on coverage and for adjusting rates. In Pakistan the system of industry minimum wage regulation introduced in 1957 differs substantially from the British practice, with responsibility for decisions being assigned to centralised boards.

The coverage of the Asian systems of industry minimum wages varies greatly. In the case of Burma wages councils have been established for only two industries. Similar limited coverage is characteristic of Malaysia. In Bangladesh, Fiji, India and Pakistan the number of sectors subject to minimum wage regulation is significantly larger but, even so, just a small proportion of the non-agricultural labour force is covered in each country. Only in Sri Lanka has the wages board system been extended to the point where protection is provided for a majority of the workforce.

The only country with a comparatively long history of the application of general minimum wages is the Philippines. General minimum wages for both agricultural and non-agricultural workers were established by legislation in 1951 and have been adjusted on an irregular basis since then. More recently general minimum wages have been fixed in Nepal, Pakistan and Thailand, but the scope of the general minimum wage orders has sometimes been limited (e.g. in Pakistan to industrial establishments employing 50 or more workers) and regular adjustments have not in every case been made.

The countries of Western Asia that have introduced minimum wages with broad coverage include Afghanistan, Iran, Iraq, the Lebanon, Syria and Turkey. In Iran and Turkey the general minimum wages are legally required to be, and have in fact been, adjusted on a regular basis. While the minimum wage regulation systems of the countries mentioned have in common broad coverage, they differ in other important respects such as frequency of adjustments, the recognition of regional, occupational and industry differentials, and the form of decision-making.

Although minimum wage regulation has gradually become more
widespread in the Asian region, there are still a number of countries that have not introduced it at all (Hong Kong, the Republic of South Korea and Singapore) or only on a very limited scale (e.g. in Indonesia, where minimum wage fixing is just starting, with industry rates established by boards in individual regions). Neither are there minimum wages in Israel, but most workers receive protection through collective agreements.

PATTERNS IN THE USE OF MINIMUM WAGE REGULATION

The sketch provided above of the evolution of minimum wage fixing in various regions reveals a number of patterns that might usefully be summarised at this point.

Undoubtedly the most apparent is the prevalence of minimum wage laws in developing countries. The number that have not undertaken minimum wage regulation in some form or another is now quite limited. The rapid extension in the number and scope of minimum wage laws since the Second World War is characteristic of both industrialised and developing countries, but it appears that, despite the apparent obstacles, acceptance of the need for the government to become directly involved in wage determination has been more widespread and in many cases has taken place earlier among developing countries.

The reasons for this are multiple and complex. Clearly one important influencing factor has been the historical ties of many developing countries with industrialised countries that accepted the principle of minimum wage regulation at a relatively early date. However, as the experience of other developing countries in Latin America and elsewhere shows, this constitutes only a partial explanation. Another noteworthy influence has been the desire in a number of developing countries to bring about an alignment between their labour legislation and the ILO's standards on minimum wages. More fundamental causes reside in labour market conditions and the general orientation of government policies in developing countries. The desperately low living standards of many wage earners and their vulnerability owing to illiteracy and the scarcity of jobs have undoubtedly intensified the pressure on governments in developing countries to take direct remedial action. As a policy instrument for such direct action minimum wage regulation has had considerable appeal. While not involving any significant government expenditure it constitutes a simple and visible means of providing the required protection and achieving the frequently declared development objectives of social justice and an improved distribution of income. Moreover, given an apparent need, the governments of many developing countries have not been reluctant to intervene directly in the labour market via legislation. In part this reflects legal traditions and political pressures. It also reflects the comparatively narrow coverage of collective bargaining or other
forms of wage regulation (e.g. arbitration, collective agreement extension, etc.) in most developing countries. Unlike the situation in industrialised countries, in developing countries minimum wage fixing has represented one of the few practical alternatives for establishing minimum standards of protection against the vagaries of the labour market.

Another significant pattern is the diversity in the basic purposes and role of minimum wage fixing. Existing systems range from those whose scope is limited to just a few workers in selected industries to those covering virtually all workers. The rates fixed may be limited to a single basic minimum or consist of complex combinations of industry and occupational minima. Important differences among minimum wage systems are also to be found in the levels of the rates fixed and the frequency of their adjustment. In developed market economies these are such that the wages of only a comparatively small number of workers are affected, even where coverage is broad. Although meaningful, minimum wage regulation is clearly of secondary importance compared with collective bargaining or other methods of wage determination. In contrast, in at least some developing countries minimum wage adjustments at certain times have affected virtually all workers and have been the predominant influence on the wages actually paid.

There is also considerable diversity in the ways in which minimum wage systems are administered in developing countries. In many of them, in line with normal practice in industrialised countries, minimum wage regulation is carried out on a more or less regular basis in pursuit of well defined objectives. But in some this is clearly not so. The attention paid to minimum wage fixing is intermittent at best, the initial objectives apparently having been lost sight of. Where minimum wage rates have actually been fixed, coverage does not always extend to the target groups of workers or the rates have been allowed to become so out of date that they have ceased to provide meaningful protection. In some instances minimum wage regulation is the result of ad hoc government action rather than being carried out by machinery established for the purpose. Elsewhere certain approaches to minimum wage regulation, after being followed for a time, have been abandoned or radically altered.

These patterns of irregular implementation appear to reflect in large measure the intense controversy and uncertainty surrounding minimum wage fixing in many developing countries. Frequent doubts about the extent to which this type of government intervention is effective in achieving various objectives have made it difficult to reach broad agreement on the appropriate role for minimum wage fixing within the national system of wage determination. In the next two chapters a closer examination will be made of the various roles devised for minimum wage fixing, the objectives to which it is directed and the problems encountered.
Notes

1 For a more detailed account of the early origins of minimum wage fixing, see ILO: Minimum wage-fixing machinery; An international study of legislation and practice Studies and Reports, Series D, No. 17 (Geneva, 1927); and ibid.: The minimum wage: An international survey; Studies and Reports, Series D, No. 22 (Geneva, 1939).

2 Belgian Congo (1922), French Equatorial Africa (1923), Madagascar (1925) and French West Africa (1926).


4 For example: Equador—workers engaged in the transport of kerosene, 1896, and agricultural workers, 1900; Uruguay—agricultural workers, 1923; Peru—indigenous workers employed in the Sierra, 1916, maritime workers, 1922, and homeworkers, 1937.


6 The Home Work Act of 1951.


8 See ILO: Minimum wages in Latin America, op. cit., pp. 8–12.


THE ROLE AND SCOPE OF MINIMUM WAGE FIXING BY INDUSTRY

Official declarations of the objectives of minimum wage fixing frequently stress its use in ensuring that wage earners receive what at a particular time and place are considered to be decent wages. At the same time a host of other related objectives are pursued. Those most frequently mentioned are the elimination of "sweating" or exploitation, the preservation of purchasing power, the reduction of poverty, the removal of unfair competition, the ensuring of equal pay for equal work, the prevention of industrial conflict, as well as the promotion of economic growth and stability.

As the sketch of the historical development of minimum wage fixing in the previous chapter shows, there is a wide diversity of views on the relative importance of these objectives and how they might best be achieved. Despite general recognition of the need for the State to become involved in fixing legal lower limits to wages, quite different conceptions of the proper role for minimum wage fixing in the national system of wage determination have evolved. In this and the following chapter a closer examination will be made of the nature of these differing conceptions. In addition to identifying the main objectives which appear to be associated with the various roles devised for minimum wage fixing, an analysis is made of their economic and administrative implications and of what are often considered to be the main advantages and disadvantages of each approach. Illustrations of national practice are provided and some comments are also made concerning the general experience of both industrialised and developing countries in attempting to administer minimum wage programmes in line with each of the specified roles.

At the risk of oversimplification, only four basic roles are identified. The most limited envisages the use of minimum wage fixing to provide protection for only a small number of low-paid workers who are considered to be in a specially vulnerable position in the labour market. Another one is the use of minimum wage fixing to ensure the payment of
what may be termed "fair" wages. Although this also implies fixing separate minimum wages for particular groups of workers, those singled out for protection are not necessarily confined to the lowest paid categories. Next there is a discussion of the use of minimum wage fixing to provide a basic floor for the wage structure. This conception views minimum wage fixing as an instrument for making a modest contribution to the reduction of poverty by providing all or almost all workers with "safety net" protection against unduly low wages. The last and most comprehensive conception of the proper role of minimum wage fixing described here concerns its use as an instrument of macro-economic policy for achieving such broad national objectives as economic stability and growth and major improvements in the distribution of income. The first two roles, which are closely identified with industry minimum wage systems, are discussed in this chapter. The next chapter covers the last two roles, which are commonly associated with general minimum wage systems of broad coverage.

Because of the multiplicity and complexity of the objectives often ascribed to minimum wage fixing, not all of the experience of developing countries can be neatly aligned with the four "model" roles. Classification is also made difficult because ostensibly similar minimum wage programmes have tended to evolve in particular ways in individual countries. Also in some instances the role of minimum wage fixing has changed over time, or more than one role has been pursued simultaneously. None the less, restricting attention to the four identified roles does make it possible to focus on what appear to be the essential differences between various approaches to minimum wage fixing and establishes a manageable framework for considering the experience of various countries. By clarifying the implications of each approach, this and the following chapter are intended to shed light on what considerations should be taken into account by those seeking to introduce or reform minimum wage fixing programmes and on the prerequisites for effectively implementing whatever role for minimum wage fixing appears best adapted to national conditions.

THE PROTECTION OF VULNERABLE GROUPS OF WORKERS

Characteristics and implications

This role is based on the assumption that minimum wage fixing should be a highly selective instrument of government policy, limited in application to those groups of workers who, because of their particular characteristics, are in a very weak bargaining position on the labour market. As has been mentioned, the notion of vulnerability was in a few countries originally associated with certain broad categories of workers,
Minimum wage fixing by industry

viz. homeworkers or young, female or indigenous workers. However, now it is most often related to conditions prevailing in individual industries. What factors should be taken into account in deciding which are the industries where there is a need for minimum wage protection is usually not precisely defined in legislative texts or operating practice. But generally it is assumed that they should be those characterised by both an absence of effective collective bargaining and low pay.¹

Under the original United Kingdom Trade Boards Act of 1909, the objective of which was frequently described as the elimination of "sweating", minimum wages were to be fixed where "the rate of wages prevailing in any branch of the trade is exceptionally low, as compared with that in other employments". The United Kingdom Trade Boards Act of 1918 was couched in somewhat broader terms. Minimum wage fixing was to operate where the Minister of Labour was of the opinion that "no adequate machinery exists for the effective regulation of wages throughout the trade, and that accordingly, having regard to the rates of wages prevailing in the trade ... it is expedient that the principal Act should apply..." Even though the relevant legislation has been amended a number of times, this formulation basically still governs decisions with respect to coverage. Wording similar to that used in the 1918 legislation of the United Kingdom appears in the laws of a number of countries which at one time were influenced by British legal approaches and practices, although often the formulation is more flexible. In a number of cases the legislation makes no reference to low wages and merely refers to the absence of effective machinery as the necessary condition for minimum wage fixing. In others authority is granted for the fixing of minimum wages simply where it is considered expedient to do so.

Where the notion of vulnerability is closely identified with the absence of effective machinery for the regulation of wages, this role is often pursued by establishing a substitute collective process for wage regulation that is to some extent patterned on collective bargaining. Thus minimum wages may be fixed through a decentralised system of boards or councils which, although tripartite, frequently function in such a way as to place the main responsibility for reaching agreed decisions on representatives of the workers and employers from the individual industries concerned. As in collective bargaining, no attempt is made to prescribe the precise criteria which the parties should take into account for this purpose. Moreover, not infrequently it is not just a single minimum rate that is fixed. Instead an entire structure of occupational minimum rates, similar to those found in collective agreements, is established. In addition to fixing minimum wages, the industry level machinery may be used to regulate other terms of employment, such as holidays and hours of work. In some instances the non-wage terms of
employment so regulated are almost as detailed and comprehensive as those found in collective agreements.

One of the reasons for establishing a minimum wage fixing process that resembles collective bargaining is the belief that this is the best way of ensuring that the decisions reached will be acceptable both to those inside the industry and to the general community. Another is to strengthen the position of the representatives of workers and employers in individual industries and to give them experience in the joint regulation of terms and conditions of employment so as to encourage the voluntary development of collective bargaining. However, even though the process of minimum wage fixing is made to resemble collective bargaining, it is usually clearly implied that this is a "second best" alternative that should be dispensed with as soon as possible. When the United Kingdom Trade Boards Act of 1918 was being passed, the Minister of Labour said that trade boards were intended to be "a temporary expedient facilitating organisation within the industry, so that, in the course of time, the workers or the employers will not have need of the statutory regulations". It is clear that this conception of the proper role for minimum wage fixing rests on the belief that wage determination should to the extent possible be left to the joint decision of workers and employers and that minimum wage fixing should not overlap into those areas where satisfactory industrial relations patterns have developed. More generally there is the presumption that the Government's direct involvement in the determination of wages and other terms of employment should be minimised. Hence legislative provisions usually provide for extensive consultations with representatives of employers and workers in the industries concerned when proposals are made for the introduction or abolition of minimum wages. Such consultation is required by Convention No. 26.

For those who believe that there is only limited scope for achieving improvements in the relative position of low paid workers through government regulatory action before running the risk of unacceptable economic repercussions, this conception of the proper role of minimum wage fixing has a number of attractive features. To begin with, by focusing attention on just a few groups of workers, minimum wage fixing can be confined to those who appear to be really in need of protection, and rates that are closely in line with the capacity to pay of individual industries can be established. Such a highly selective approach is seen as minimising the risk that minimum wage fixing will have significant adverse economic consequences. In the absence of predetermined criteria it is generally assumed that those responsible for fixing minimum wages will not go beyond the correction of manifest anomalies in the wage structure or the achievement of a somewhat better alignment between the wages in the industries concerned and those paid elsewhere, since they
Minimum wage fixing by industry

are likely to be guided by the pattern of prevailing wages rather than by an over-all conception of what the national wage structure should be. There are, however, a number of commonly cited arguments against placing such restrictions on the scope of minimum wage fixing. Perhaps the most fundamental of these is that this approach constitutes an unnecessarily modest attempt to bring about a reduction in poverty. It is contended that the wages of the lowest paid could be raised by more than is likely to be achieved by this approach without there being negative economic repercussions. A related argument is that this role does not permit the government to make a co-ordinated effort to improve the position of the lowest paid wage earners. The effectiveness of this approach in promoting the development of voluntary collective bargaining is also questioned. It is suggested that the establishment of detailed occupational minimum wage rates, as well as other terms of employment, through a collective process in individual industries serves to discourage rather than encourage the growth of collective bargaining, since the incentive for unorganised workers to join trade unions and support the establishment of voluntary machinery may be diminished.

Also, from a strictly administrative point of view it is not always easy to ensure that, with this approach, all workers who are in fact in need of protection are legally covered by up-to-date minimum wages. It clearly cannot be counted on to extend coverage to pockets of low-paid workers in industries where the average wage level is satisfactory or to workers in exceptionally small industries. Moreover the fact that it implies the creation and continued operation of many wage fixing bodies makes it difficult to achieve appropriate coverage and timely adjustments in cases where, as in most developing countries, the number of workers protected by collective agreements is small and the number of those receiving unacceptably low wages is very large.

Experience

The wages council system of the United Kingdom, which has been in operation in one form or another for some 70 years, perhaps comes closer than any other to fulfilling the role of minimum wage fixing described in this section. Over 3 million workers are covered by the system, mainly in retail trade, hotels and restaurants, hairdressing, clothing and agriculture. Although it appears to have withstood the test of time, opinions concerning its efficacy and the desirability of its retention vary widely. The 1968 report of the Royal Commission on Trade Unions and Employers' Associations (the Donovan Report) concluded that "statutory protection does not result in raising the pay of lower paid workers in relation to other workers. . . . Nor does pay in wages council industries seem to have improved significantly in relation to that in other industries."² It was also observed that "wages councils are doing little to
fulfil the aim of extending voluntary collective bargaining”.³ Despite apparent widespread agreement with these conclusions and careful consideration of alternatives such as a national minimum wage, it has been decided to maintain essentially the same role for minimum wage fixing. The main reasons appear to be the reluctance of most employers’ and workers’ representatives to accept broader, direct government intervention in wage determination. However a number of important legislative changes in the wages council system, aimed at encouraging the development of voluntary machinery, have recently been made.⁴ In addition, in order to deal with the situation of relatively small groups of low-paid workers with little bargaining power, Schedule 11 of the Employment Protection Act of 1975 was introduced to permit claims to be made to the Central Arbitration Committee on the ground that the terms and conditions of employment of particular workers fall below those which are “recognised” (i.e. established by collective agreements) or, in the absence of a collective agreement, below the general level for comparable workers in the same industry and district.

Among developing countries it is almost exclusively those which have been influenced at one time or another by British legal traditions and practices that have assigned the role of protection of vulnerable groups of workers to minimum wage fixing. Their experience with the operation of wages council systems in various forms might at best be described as mixed. While in some of the smaller countries (e.g. Fiji and the Seychelles) this system has been in constant use for a number of years, in many instances it has been partially or completely abandoned or substantially modified. In a number of countries (e.g. Nigeria and some Commonwealth Caribbean countries) the failure of the wages council systems has led to the abandonment of minimum wage fixing in any form. In others (e.g. Kenya and Malta) the industries covered by minimum wage orders have not all been low paying, or (e.g. in Guyana, Mauritius and Sierra Leone) the machinery for fixing industry rates has been centralised with a view to more effective administration. In yet others minimum wage fixing has been extended to so few workers that it is evident that a significant proportion of those who might well be considered vulnerable are not receiving protection. For example in Burma only the rice milling and tobacco industries are covered.

In order to achieve more complete coverage a significant number of countries have introduced general minimum wages either as a complement to or a replacement for industry minimum wages fixed by wages councils or boards (e.g. Kenya, Malta, Tanzania, Zambia). In this regard the experience of Jamaica is illustrative. Under the Minimum Wage Law of 1938, which was enacted during the period of British colonial rule, wage advisory boards were established for a large number of industries, namely bakeries, beverages, biscuit-making, catering, dry goods, hotels,
Minimum wage fixing by industry

laundries and dry cleaners, petrol, printing, garment-manufacturing, frozen confectionery and dairy food processing, and drug merchandising. At one time the economically important sugar industry was also subject to minimum wage fixing, but the development of collective bargaining dispensed with the need for an advisory board. Excluding this industry the advisory board system in 1973 covered about 27,000 workers, i.e. less than 10 per cent of the wage and salary earners in the labour force. In 1975 the Minimum Wage Act was changed. The advisory boards for various industries were replaced by a minimum wage advisory commission, and a national minimum wage was provided for as a complement to the minimum wages in individual industries. When introducing the legislation the Minister for Labour and Employment stated the following:

At present a substantial number of workers in Jamaica depend solely on minimum wage legislation to determine wages and conditions of employment. But there are thousands of others in this country who are protected neither by minimum wage legislation nor by collective bargaining... between trade unions and employers. These workers are obliged to work for any level of wages available to them and in some cases for extremely long hours for such wages. The Government proposes by this legislation to protect such workers and all persons employed in Jamaica by the introduction of a national minimum wage.

Dissatisfaction with incomplete coverage has also been experienced in the administration of the 1948 Minimum Wages Act in India. Under this Act the appropriate governments (state or central) were obliged to fix minimum wages in 13 specified low-paid and unorganised "employments", including agriculture. In addition, under the discretionary provisions of the Act minimum wage protection has gradually been extended to about 100 different industries in the various states. Although no official estimates are available it seems that as many as 6 million non-agricultural workers might be covered by the Act out of a total of 30 million non-agricultural wage and salary earners. Despite this high figure and continuing efforts at effective application of the provisions, the Act has remained a source of controversy owing to gaps in coverage, irregular adjustment of the rates fixed, difficulties of enforcement and, more generally, because it has had only a limited impact as regards raising low wages. The establishment of a national minimum wage has recently been recommended.

The reasons why so many developing countries have experienced difficulties in operating minimum wage systems restricted to the protection of vulnerable groups of workers are not always clear. It does appear, however, that where the coverage of collective agreements is limited, as is the case in most developing countries, serious practical problems are often encountered in extending minimum wage protection to all those in apparent need of it. Moreover, for those industries covered, there have been many obstacles to the effective operation of the
decentralised minimum wage fixing machinery, related partly to weaknesses in labour administration and partly to a lack of awareness of, or interest in, minimum wage fixing among those in the industries concerned, as evidenced by infrequent demands on public authorities to revise outdated minimum rates or to establish wages councils or boards in new industries and sometimes by inadequate participation in the work of minimum wage fixing bodies. An additional problem has been finding a reasonable basis for selecting those industries which should be singled out for minimum wage protection. Nor has it been easy to decide when the organisation of workers and employers in an industry has evolved to a point where the minimum wage fixing machinery can safely be dispensed with. Finally it is not often immediately apparent that the participation of representatives of workers' and employers' organisations in decentralised minimum wage fixing machinery has served to promote the extension of voluntary collective bargaining.

THE DETERMINATION OF "FAIR" WAGES

Characteristics and implications

This role resembles the one previously described in that it also implies fixing minimum wages for individual industries and occupations. A distinguishing feature, however, is the much broader conception of the scope for wage regulation. Coverage is not necessarily confined to a small number of low-paid, unorganised workers but potentially involves all workers, including those with comparatively high wages. Underlying this role is the belief that in certain, or even in most, industries a collective process for establishing wage standards is likely to produce more acceptable wage levels and structures than if wage determination is left to unregulated labour market pressures and decisions in individual enterprises. Considerable importance is attached to having a "common rule" for individual industries or occupations in order to promote the application of the principle of equal pay for equal work and to reduce areas of industrial conflict. There is, as well, the desire to isolate wages from excessive competitive pressures, the reasoning being that while producers should be free to compete in matters of price, design, quality of product or service, it is unfair for competition to be based on a bidding down of workers' wages. In short, by providing, through a collective decision-making procedure, for a common rule on remuneration and for legal protection to isolate that common rule from unfair competitive pressures, minimum wage fixing is conceived of as a means of improving wage structures and industrial relations. The emphasis is not exclusively or even mainly on the reduction of poverty by means of improving the relative position of the lowest paid, but rather on the determination of
what are judged to be "fair" wages in the particular circumstances of a given industry or occupation.

This role for minimum wage fixing is associated with differing patterns of employee coverage. In countries where collective bargaining is virtually non-existent or very inadequately developed minimum wage fixing thus conceived of serves in some instances as a substitute collective process for wage determination applicable to most workers. In others, however, minimum wage fixing aimed at ensuring "fair" wages has been carried out on a much more selective basis. The industries and occupations to be protected are usually not specified in legislative texts, with wide powers of discretion in this respect being left to government authorities. It is evident none the less that industrial relations considerations are often decisive. Industries, in which the trade unions have organised some workers but are too weak to conclude collective agreements, or which require legal coverage to ensure that the agreements negotiated are not undermined, figure prominently among those singled out for protection. In these cases, since minimum wage fixing is directed to reducing industrial conflict and encouraging the development of stable collective bargaining relationships, it is essentially to be understood as an instrument of industrial relations policy rather than as a means of achieving any predetermined goals for the modification of wage structures. Particular attention is also sometimes paid to industries whose structure makes it difficult for the workers to be organised (e.g. retail and wholesale trade), or where it is feared that, in the absence of wage regulation, competitive conditions on the product market, created by ease of entry and flexible pricing arrangements, could result in unacceptable downward pressures on wages (e.g. construction). Another important factor influencing coverage has been the likelihood of enforcement. It is sometimes argued that the scope of various protective legal provisions should not extend beyond those groups of workers for whom enforcement procedures can be reasonably effectively applied, and that to do otherwise would be to encourage disrespect for the law. The relative wage position of individual industries is also sometimes taken into account in this connection, the adequacy of the wages being judged not just by their level but also in relation to the circumstances of the industry concerned.

As in the case of minimum wage fixing for the protection of vulnerable groups of workers, the "fair" wages conception often involves fixing a range of occupational minima rather than just a basic rate for individual industries. However, given the greater concern for ensuring equal pay for equal work and establishing minima close to prevailing wage rates, the occupational structures used are generally much more detailed and elaborate. In some cases they have been developed using formal job evaluation and classification schemes.
In some countries the notions of equity or fairness on which this approach is based are specific to individual industries. In such cases the minimum wage fixing process usually takes into account the specific labour market and economic conditions of each industry covered and is designed to give those immediately affected a major voice in the decisions taken. It is presumed that the wages fixed through a series of independent industry-level decisions will be compatible with broad national economic and social goals. In other countries the major concern has been the development of a national wage structure that is both equitable and economically viable. This is most often considered to require highly centralised minimum wage fixing machinery. Even so, the procedures followed frequently attempt to provide representatives from the individual industries or occupations affected with an opportunity to express their views.

When compared with the fixing of general minimum wages the determination of "fair" wages is sometimes defended on the ground that it permits closer adaptation to the circumstances and possibilities of individual industries and occupations. This can be a particularly important consideration in the context of developing countries, where, typically, wide disparities in wages mean that minima fixed having in mind the conditions of the lowest paid are of little relevance for workers in the more advanced sectors and occupations. This role for minimum wage fixing also enables governments to take a gradual and cautious approach in the extension of minimum wage protection. Minima can first be fixed in the economically important industries and occupations or those which pose the fewest problems. Coverage can then be extended as experience in fixing rates is acquired and the realities of enforcement permit.

Where the role of ensuring "fair" wages is pursued through selective minimum wage coverage there is the considerable advantage that governments have available a flexible policy instrument for responding pragmatically to a variety of wage structure and industrial relations problems. This flexibility is sometimes particularly desirable in developing countries, were wage structures often appear to be badly distorted and where, even though workers' organisations may exist in many industries, they are often too weak to conclude satisfactory collective agreements without statutory assistance. But such limited coverage inevitably is open to criticism. Thus it is not always easy to give the public a convincing explanation of why certain groups of workers are given the privilege of having their wages protected by law and others are not. This is particularly the case where coverage evolves on a more or less pragmatic basis rather than in accordance with clearly defined goals for a minimum wage programme, or where, due to industrial relations or enforcement considerations, minimum wage fixing is confined to higher paid categories of workers.
Another frequent criticism is that by giving legal backing to a common rule for individual industries, the associated absence of competitive economic constraints may result in unduly large increases in wages being granted. The risk of this happening is seen as particularly great where minimum wage fixing is confined to the ratification of independently negotiated collective agreements or where the public members of minimum wage fixing bodies pay inadequate attention to national economic and social objectives. The result may be not only a reduction in employment opportunities but also a deterioration in the distribution of income if the workers concerned are already among the higher wage and salary earners. While the fixing of “fair” wages may create what are regarded as more equitable wage relationships within industries (greater fulfilment of the principle of equal pay for equal work), it may widen income disparities between sectors.

These potential problems are mitigated if the scope of minimum wage fixing extends to most industries. But then other possible disadvantages are encountered. Perhaps the most basic is that such universal coverage implies extensive government intervention in the determination of wages and working conditions and a corresponding reduction in flexibility and in the freedom of decision of workers and employers in this area. Moreover, although industry-level minimum wage fixing machinery may serve to strengthen the position of workers’ and employers’ representatives in poorly organised industries, once the respective organisations have reached a certain stage of development the existence of statutory machinery may be felt to be more of a hindrance than a help. It is sometimes feared that this approach to minimum wage fixing may prevent the emergence of purer and more acceptable forms of collective bargaining. Hence, depending on the circumstances in individual industries and countries, trade union attitudes to this form of minimum wage fixing may vary from strong support to ambivalence or even marked opposition.

Finally it is evident that the determination of “fair” wages in a wide range of industries requires elaborate decision-making machinery and extensive governmental administrative support. Whether many governments are in a position to devote the required human and financial resources to this task is questionable. In addition some would argue that, regardless of the resources devoted to the task, attempts to regulate industry and occupational wages on a detailed basis are bound eventually to generate serious distortions in wage structures.

Experience

There is only limited experience with this role for minimum wage fixing in industrialised market economies, inasmuch as it usually
presupposes comparatively weak trade union organisations and the acceptance of extensive government or third-party involvement in determining wages; it is thus not well adapted to the industrial relations patterns prevailing in most of these countries.

There are however a number of examples that may be cited. The most important would appear to be the systems of industrial tribunals and boards which have been operating in New Zealand and Australia since the turn of the century. In the Australian states of Victoria and Tasmania the wages board systems, although originally intended for the protection of vulnerable workers, have evolved into the predominant institutional framework for the determination of terms and conditions of employment. The boards, which consist of equal numbers of employer and employee representatives with an independent chairman, provide the forum for the negotiation of the minimum rates for various occupations in individual industries, with their decisions becoming the common rules to be applied throughout the industries concerned. In Victoria there are over 200 wages boards covering virtually all workers within the state jurisdiction. The arbitration systems existing in the other Australian jurisdictions can also be viewed as a means of establishing minimum wages in line with the "fair wage" concept. Although the functions of the federal arbitration tribunals are limited constitutionally to the "prevention and settlement of industrial disputes extending beyond the limits of any one state", and their decisions are binding only on the parties to the dispute, in practice the scope of the federal awards is so broad that nearly half the total number of wage and salary earners in the country are covered by them. The state arbitration tribunals can act even if no dispute exists and their decisions can be made common rules applying to all those within the state jurisdiction. Combined, the federal and state systems cover about 88 per cent of all employees through a comprehensive structure of awards and determinations fixing minimum rates in individual industries and occupations. The legally binding character of the tribunal decisions, their broad scope and the phenomenon of "over-award" payments (i.e. payments in excess of the minimum rates fixed by arbitration awards) give the arbitration systems of Australia many of the characteristics of the minimum wage fixing arrangements being examined in this section.

Another developed market economy having experience with this role for minimum wage fixing is Japan. Up to 1967 most minimum wage rates were fixed on the basis of inter-employer agreements and applied to only a part or all of an industry in a given prefecture. Since then most minimum wages have been fixed on the basis of recommendations of minimum wages councils in the 47 prefectures of the country. In each prefecture there is a general minimum wage plus a number of higher minimum rates for individual industries. For example in the prefecture of
Minimum wage fixing by industry

Tokyo there are, in addition to the general minimum wage, eight industry minimum wages covering in total approximately one-half of all workers in the private sector. The industries concerned are publishing, printing and related activities; machine and metal goods manufacturing; foodstuffs; automobile repair; textiles; wholesale and retail trade; lumber, wooden materials, furniture and equipment manufacturing; and paints. Although there are some variations based on local employment patterns, these industries are also frequently singled out for protection in many other prefectures.

In several provinces of Canada, in addition to general minimum wages, legislation provides for the fixing of industrial standards which encompass minimum wages as well as other minimum conditions of employment for particular industries. Except in Quebec these special industry rates apply to a limited number of industries where the problem of "unfair" competition with respect to wages is believed to be particularly acute. In Ontario, in 1974, there were 84 schedules in force, eight of which concerned the clothing industry and the needle trades, 28 construction and 48 barbers' shops. Special industrial standards for the construction industry have also been laid down in other Canadian jurisdictions. In general, however, the use of industrial standards is limited in scope and is on the decline. 8

In both Portugal and Spain legislation was adopted during the Second World War which provided for the fixing of minimum wages and other conditions of employment in individual industries. The systems were of broad scope and many regulations covering a wide range of industries were issued during the 20 years following the legislation's entry into force. However, in both countries this approach to minimum wage fixing has declined in importance. In Spain it was reduced in significance by the national minimum wage fixed in the early 1960s. As a result of Royal Decree adopted in 1977, the authority of the Minister of Labour to regulate minimum conditions has been restricted to those areas and industries not covered by collective agreements. In Portugal industry minimum wages are now only used in a few sectors (e.g. the chemical industry, the metal trades, road transport, driving schools, office employees) to which it has not been possible to extend the scope of collective agreements or of the arbitration awards resulting from the system of "portarias" (regulation by ministerial order). The national minimum wage, introduced in 1974, has become of much greater importance.

In addition to the examples of the use of the "fair wage" concept of minimum wage fixing in industrialised countries which have just been given, it should be noted that the practice of legally extending the application of collective agreements throughout an industry has quite similar objectives and is an important feature of the industrial relations
Minimum wage fixing: An international review of practices and problems

systems of a few continental European countries (e.g. Belgium and France).

Although not the most prevalent practice, using minimum wages to determine "fair" wages is more common in developing countries than in industrialised market economies. In some of those influenced by British tradition and practices minimum wage systems originally intended to protect vulnerable groups of workers have evolved in the direction of providing much broader coverage. For example in Sri Lanka minimum wage fixing was first introduced for the protection of low-paid immigrant Indian workers on tea plantations, but has since expanded into a programme covering most wage earners (1½ million wage and salary earners out of a total of 2½ million). Minimum wages have been fixed by 33 tripartite wages boards and 12 remuneration tribunals in a wide range of industries. These include the plantation sector, which employs about 700,000 workers; such modern sector branches of economic activity as engineering, textiles, dock work and port transportation, and building; various manufacturing industries; and such services as banking, cinemas and nursing homes. Under the Shop and Office Employees Act the establishments covered are required to be specified in a schedule attached to the minimum wage determination order. These are usually larger enterprises in the Colombo area, since the policy followed is to include only those which can afford a minimum wage fixed at what is considered to be a reasonable level. The decision to extend minimum wages to new industries has usually been in response to trade union demands, and deliberations in the wage fixing bodies have been described as a form of collective bargaining under the aegis of the Department of Labour. For many workplaces the minimum wages fixed are often the rates actually paid, although higher wages may be found in larger organisations where the trade unions are well established. Higher wages are also paid for skilled labour in short supply. Although the deliberations in the minimum wage fixing bodies resemble negotiations, they are viewed by the trade unions as an inferior form of collective bargaining. Wherever possible, they prefer to negotiate collective agreements, but the number of these remains relatively small. Although the need for minimum wage protection is recognised by the trade unions, they regret that the existence of statutory bodies has tended to discourage collective bargaining on a range of matters that have come to be determined by law. This feeling is reflected in the common complaint that minimum wages have become maximum wages.9

In Kenya the minimum wage programme has also gone beyond the protection of a few groups considered to be specially vulnerable. In addition to a general minimum wage, greatly varying industry minimum wages were fixed in 13 industries. Part of the reason for the variations was that during the early years of independence the Government endorsed
the policy of having the minimum wages fixed by wages councils aligned with the rates established in collective agreements in order to encourage the growth of trade unions. Subsequently the possible conflict between this policy and the objectives of employment creation and equality of pay between sectors became a matter of increasing concern. Consequently, in line with recommendations of the comprehensive employment mission to Kenya organised by the ILO in 1972\textsuperscript{10}, para. 212 of Sessional Paper No. 10 on Employment presented to Parliament in 1973 declared that a general reduction of wage differentials should be aimed at and that equal pay standards for jobs of equal effort and skill requirements should be established. To this end a comprehensive order formulated in terms of occupations rather than industries was prepared. The intention was to have this general order replace the industry-wide orders, except in a few cases like those of road transport and building where it was considered necessary to have continued separate regulation of wages in order to stabilise competition in the product market. The general order lays down minimum rates for 17 unskilled and semi-skilled occupations in different industries, the reasoning being that it is in respect of these categories that there is a risk that employers might take advantage of the unfavourable market position of jobseekers. A large number of skilled artisan and clerical occupations in which manpower shortages have been experienced are not covered by this general order, even though they were subject to wage regulation under the industry-wide orders.\textsuperscript{11}

Concern for rationalising industry/occupational minimum wages is also apparent in the minimum wage programme of Costa Rica. The National Minimum Wage Board, created in 1949, inherited a comprehensive, detailed set of occupational/industrial minimum wages established by a decentralised system of wages boards. Even though there have been several attempts to reduce the number of rates fixed, several hundred distinct minimum wage rates were still in force in the mid-1970s. But the Government wishes to narrow the differences between low, medium and high-paid categories in the national wage structure and to have closer co-ordination between the minimum wage programme and other wage policies. It is hoped that eventually a single minimum wage for each occupational category will be achieved in order to ensure "equal wages for equal work under identical conditions of efficiency"—a principle embodied in the Constitution of 1949.\textsuperscript{12}

In Puerto Rico, also, the determination of "fair" wages has been pursued by means of a minimum wage programme covering almost all private sector wage and salary earners. Shortly after a national minimum wage was fixed in the United States in 1938 a system of tripartite industry committees was introduced in Puerto Rico. These committees were to recommend the highest possible minimum wage rates which they considered would neither substantially curtail employment nor give the
Minimum wage fixing: An international review of practices and problems

industries concerned a competitive advantage over their counterparts on the United States mainland. The general objective was to raise minimum rates to the level of the mainland as quickly as was economically feasible. A large number of committees were established and by 1963 almost 150 separate industrial minimum rates had been fixed covering the vast majority of workers. Throughout the 1950s and 1960s an effort was made to gear the minimum rates to the estimated ability to pay of each industry, with the result that there was often a considerable margin between the highest and lowest rates fixed. Most workers in each industry were paid little more than the legal minimum rates and the annual or biennial adjustments resulted in proportionate changes in the average industry wage levels. In other words the decisions of the various industry committees had a predominant effect on the wages actually paid. In the 1970s things began to change. As mentioned, the industry committee system was largely envisaged as a transitional measure, to operate until the level of the general minimum wage rate on the mainland was attained. As of 1 January 1977, 22 out of 36 industry groups in Puerto Rico had in part or completely reached the equivalent mainland statutory level. The 1977 Amendments to the Fair Labor Standards Act provided for automatic increases that would eventually bring all minimum rates up to the mainland level.

Yet another example of an attempted comprehensive approach to the determination of “fair” wages was the wages council system introduced in Uruguay in 1943. The tripartite industry-level wages councils quickly evolved into the most important institutional mechanism for wage determination throughout the private sector. In addition to fixing minimum wages and defining the associated occupational categories, the councils participated in enforcement and in the conciliation of disputes arising between employers and workers in the areas under their jurisdiction. Initially there was some fear that this system would impede the development of collective bargaining in the industries concerned. In fact it is widely recognised now that the wages council system in its earlier years had a favourable effect on the growth of trade unions in the country as a result of the election of workers’ representatives and their participation in the minimum wage fixing machinery. Moreover, to a significant degree the fixing of wages through collective agreements evolved from the system of wages council awards. Initially the wages councils simply served to bring the representatives of workers and employers together. The government representatives played the decisive role in taking decisions. But gradually the parties were left more and more scope to reach their own solutions. In some cases the wages councils eventually served only to sanction and make generally applicable collective agreements negotiated directly between the parties. There was a significant expansion of such negotiations in the late 1950s
when the acceleration in inflation imposed the need for a quick method of restoring the purchasing power of wages. In 1968 the activities of the wages councils were suspended with the creation of the Prices, Incomes and Productivity Commission (COPRIN (later DINACOPRIN)). This body was given the main responsibility for wage decisions in order to achieve improved co-ordination with national economic objectives. Although the various wages council orders remain in force, the regular adjustment of the wages is ensured essentially through the decisions of the Commission. As in a number of other countries, general minimum wages for adults and young workers were introduced as a complement to the industry-specific occupational rates established through the wages council system.¹⁴

Although a much less frequent practice, occupational minimum wages are sometimes introduced as a supplement to general minimum wages. For example the 1962 amendments to the Constitution of Mexico and the Federal Labour Act granted authority to the National Minimum Wage Board and the regional boards to fix occupational as well as general minimum rates, to be applied to important categories of workers where there are no other legal procedures for wage regulation and no collective agreements in the region applicable to the majority of the workers in the occupation or trade concerned. The Labour Act makes special reference to the fixing of rates for homeworkers and various occupational categories in hotels, restaurants, bars and other similar establishments. In 1977–80 occupational minima were fixed separately for most of the regions (more than 100) in the country. The occupations concerned, all defined through a short job description, range from the lowest skill categories to motor mechanics, multicolour offset press operators, electricians and nurses. In many instances the rates fixed are well above the general minimum wage levels.¹⁵

A number of French-speaking African countries have also established generally applicable occupational minimum rates in addition to a general minimum wage. These, however, have been based on a comparatively simple job classification structure. In Rwanda, for example, the only distinctions made are between light, ordinary and heavy work. In Zaire manual workers are divided into five categories, with the highest category receiving three times more than the lowest. Among the former colonies of France occupational minima, which generally apply only in the absence of collective agreements, appear to be based on variants of the widely used Parodi system of classification. Thus for non-agricultural activities in the Ivory Coast 11 rates spread over 7 occupational categories have been established for manual workers, the ratio of the highest to the lowest being 3.4:1 in 1973. In addition rates have been fixed for four categories of vehicle drivers and seven categories of non-manual workers. Similar occupational classifications have been
used for a number of agricultural sectors.

In a number of these countries occupational minima have become of less importance in recent years as a result of the development of collective agreements with very broad coverage. With the scope of these agreements being in many cases legally extended by decrees, their effect is in fact quite similar to that of systems for fixing occupational minimum rates. An interesting development in this respect was the introduction in 1971 in Cameroon of a standard national classification of occupations and a national wage structure. The National Commission for Collective Agreements and Wages, presided over by the Minister of Labour and Social Insurance, takes decisions in respect of all the employees who are represented on the Commission. These decisions are then rendered generally legally binding by order of the Minister, so that virtually all the workers in the country are covered. Economic activities have been divided into four broad sectors: primary, secondary, tertiary I and tertiary II. For each sector the same structure of 12 occupational categories is used, there being 7 steps in each category. The first 6 categories cover labourers, tradesmen and clerical workers; categories 7–9 cover supervisory employees, technical and related staff; categories 10–12 are for engineers and management staff. Generally for each category there is a broad definition together with specific illustrations of the types of jobs covered.

In some countries the legislation adopted appears to anticipate the fixing of minimum wages for most industries, though in practice the number of industries covered by up-to-date minimum wage rates is limited. Thus in Ecuador the 1938 Labour Code stipulates that the State shall establish minimum wages and salaries “in the various kinds of employment” and the criteria laid down refer to individual industries. Up to 1977 about 600 separate minimum wage orders for particular industries or occupations had been issued. Some of these orders are very broad in scope (e.g. railway workers throughout the country) while others are just the opposite (e.g. street cleaners in a given city or town). There has been little consistency over time in the industrial coverage of these orders, so it is difficult to say how many workers are protected. Just during the period 1974–77 about 60 different industries were covered. While a significant number of workers seem to benefit from reasonably up-to-date minimum wages, they represent far from a majority of the non-agricultural wage and salary earners outside the public sector. The industries covered vary greatly in their characteristics and include both those which are high and low paying. To supplement the industry orders, general minimum wages have been fixed from time to time and, since the mid-1960s, have been regularly adjusted.

In the Philippines a law of 1970, in addition to revising the general minimum wages rate applicable to the country as a whole, created a
Minimum wage fixing by industry

Wage Commission with authority to determine industry rates. The Commission was charged with the continuing study of wage rates and other economic conditions in all industries, with a view to ascertaining whether a "substantial number of employees in any given industry" were receiving wages "less than sufficient to maintain them in health, efficiency and general well-being". If so, the Commission was to encourage the employers' and workers' representatives to try to agree on industry-wide minimum wages through collective bargaining. Where agreement was reached the Commission was to issue an order giving the agreement legal effect. If agreement was not reached within the time-limit set by the Commission, it could itself fix minimum wages for the industry concerned. On this basis four industry minimum wage rates were fixed, two through collectively negotiated agreements and two through orders of the Commission. However doubts about the wisdom of establishing a large number of industry-wide minimum wage rates resulted in this approach being abandoned in 1974. Subsequent minimum wage fixing has been carried out by means of upward adjustments of the general minimum wage rate.

As the above examples show, the characteristics of the minimum wage systems fulfilling the determination of "fair" wages role are exceedingly diverse. Their coverage varies from comprehensive systems meant to apply to most workers to those which are highly selective. Among the latter, the industries singled out for protection may be those in which the workers are not covered by collective agreements, those considered to be subject to excessive competitive pressures, those where it is believed feasible to fix and enforce minimum wages at reasonable levels, those where conditions present a potential source of industrial conflict, those which are economically important or those which have some complex combination of these different characteristics. The objectives emphasised in administering these minimum wage programmes have been, to varying degrees, the improvement of the incomes of the lowest paid, the rationalisation of industrial or occupational wage structures, the improvement of industrial relations. In some countries minimum wage systems of this type have been administered continuously for many years, whereas elsewhere they have been applied only irregularly or quickly abandoned. All this makes it difficult to generalise about the experience with this approach to minimum wage regulation.

Some limited observations can nevertheless be made. To begin with, where attempts have been made to fix "fair" wages through minimum wage regulation on a comprehensive and detailed basis, the degree of acceptance by organised employers and workers of such extensive statutory intervention in wage determination can vary widely. Exceptionally the system of minimum wage fixing may be regarded as an appropriate institutional framework within which collective bargaining
in the widest sense of the term, and dispute settlement, may take place. More frequently it may be viewed as necessary for protecting those falling outside the scope of independently negotiated collective agreements or as providing temporary or permanent support for collective bargaining in poorly organised industries. While trade unionists may sometimes regret the reluctance of employers to agree to go beyond the statutorily determined minimum terms and conditions of employment, this dissatisfaction has not generally reached the point where the desirability of maintaining statutory regulation has been called in question. Moreover such regulation has not proved to be an insurmountable barrier to the achievement of improvements through collective bargaining, which is widely viewed as the more flexible and preferable means of determining terms and conditions of employment. However, the extensive government intervention in wage determination implied by the comprehensive "fair" wages approach has sometimes generated distrust and opposition among trade unionists when it is suspected that its basic intent is not the provision of minimum standards but rather the thwarting of the growth of collective bargaining and the implementation of a restrictive wage policy.

Another general pattern that can be discerned is that often, even though legislation has envisaged the application of the "fair" wage role for minimum wages on a comprehensive basis, the number of rates actually fixed and regularly adjusted is disappointingly small. It is evident in these cases that the difficulty of establishing a highly detailed structure of industrial and occupational rates, and the associated administrative burden involved in the adjustment and enforcement of those rates, have been seriously underestimated. In order to obtain adequate coverage general minimum wages have frequently been fixed as well.

The lack of an apparent rationale for the complex wage structures that have gradually emerged when "fair" wages have been implemented through a long series of independent minimum wage decisions is also a cause for concern. Although clearly not the original intent, such minimum wages have sometimes been perceived as hampering rather than promoting the principle of equal pay for equal work. Hence the frequent efforts to rationalise the structure of the industry/occupational rates so as to achieve greater simplicity and inter-sector uniformity.

When coverage has been selective a common problem has been the pragmatic (some might say haphazard) way in which decisions to extend protection to individual industries have sometimes been taken. Short-term industrial relations concerns rather than clearly specified criteria have generally been the dominant basis for determining coverage. And once minimum wages have been fixed for an industry, there is a natural tendency to treat them as an acquired right. The result is that minimum
wage protection may be retained even though it is no longer essential for ensuring industrial peace or promoting sound industrial relations. Another snag that has arisen concerns the use of such criteria for determining coverage as the existence of “unfair” competition. Wages in all industries are subject to varying degrees of competitive pressure. It has not proved an easy matter to decide at what point this pressure should be considered “excessive”. What is viewed by some as essential protection against the undercutting of wages may be seen by others as nothing more than an attempt to give certain groups of workers a privileged position on the labour market. The justification for industry rates is brought further into question when, as has often happened, general minimum wages have been introduced to provide supplementary protection. The lack of an immediately obvious rationale for past coverage decisions creates not only lingering doubts about the proper limits to state intervention in wage determination but also uncertainty regarding the objectives that should be pursued when industry rates are being fixed.

Notes

1 The Minimum Wage-Fixing Machinery Convention, 1928 (No. 26), calls for the establishment of machinery for the fixing of minimum wages “for workers employed in certain of the trades . . . (and in particular in homeworking trades) in which no arrangements exist for the effective regulation of wages by collective agreements or otherwise and wages are exceptionally low”.


3 ibid., p. 59.


5 (1) wollen carpet making or shawl weaving establishments; (2) rice, flour, or dal mills; (3) tobacco manufactory; (4) plantations; (5) oil mills; (6) local authorities; (7) road and building construction; (8) stone breaking and crushing; (9) lac manufactory; (10) mica works; (11) public motor transport; (12) tanneries and leather manufactory; (13) agriculture.


Minimum wage fixing: An international review of practices and problems


12 Official communication from the Minister of Labour and Social Security to the National Minimum Wage Board, dated 20 September 1976.


In view of the difficulties associated with industry minimum wage systems, a growing number of countries have introduced general minimum wages which are applicable uniformly to almost all workers or all those within broadly defined sectors. This trend was one of the reasons for the adoption by the International Labour Conference in 1970 of Convention No. 131 and Recommendation No. 135, which envisage minimum wage systems covering virtually all wage and salary earners. In some cases, as already mentioned, general minimum wages have been introduced as a complement to industry minimum wages. Elsewhere they constitute the only form of minimum wage.

While general minimum wages in various countries may resemble each other in form, the actual role they play in the national system of wage determination can be quite distinctive. The following sections deal with their use first as a means of establishing a basic floor for the wage structure and then as an instrument of macro-economic policy. The final sections describe the structure of general minimum wages, their use as a reference wage and the various exemptions and abatements to which they are subject.

THE ESTABLISHMENT OF A BASIC FLOOR FOR THE WAGE STRUCTURE

Characteristics and implications

The basic aim in this case is the reduction of poverty. Instead of attempting to fix rates in line with the circumstances of individual industries or occupations, a generally applicable lower limit is set in order to protect workers in all industries against wages which appear unacceptably low. Even though the legal coverage of these generally applicable minimum rates is made virtually universal, the number of workers receiving them is comparatively small, since the minimum rates
are set at levels that provide "safety net" protection rather than at levels that have a major influence on prevailing wages.

Although this role implies that minimum wages are not differentiated according to occupational categories or the economic possibilities of individual industries, the general minimum rates may be fixed at different levels for various regions or broad sectors of economic activity (e.g. agriculture, industry). Greater flexibility in the structure is also sometimes achieved through the exemption of certain categories of workers or by the application of lower rates to them (e.g. apprentices, young workers, the handicapped).

This role is based on the belief that minimum wages can only make a positive contribution to the achievement of social and economic goals when they are confined to protecting the lowest paid wage earners against the vagaries of the labour market. The ILO employment mission to the Philippines made this point in the following terms:

To the extent that minimum wage standards in fact become a major influence on average money wages, they are being diverted from their primary and legitimate function of providing supplementary protection for the real wages of low-income workers in imperfect labour markets. Since labour—even so-called unskilled labour—is not a homogeneous commodity exchanged in perfectly competitive markets, actual observations of wage rates prevailing for an occupational category such as unskilled labour will show a wage distribution over a considerable range. The logic of imposing a legal minimum wage constraint rests on the presumption that rates at the lower end of the distribution falling below the standard set are prima facie the result of market failure and/or the abuse of economic power with respect to the specific kinds of labour and in those sectors where the standards are intended to be effective.¹

This role reflects the view that while the existence of important labour market imperfections justifies establishing a floor for the wage structure, there are severe economic constraints on the level at which this floor can be fixed. If set at a level having a major impact on the existing wage structure and the average level of wages, it is feared that there would be unacceptable economic repercussions in the form of increased unemployment, reduced growth and an acceleration of inflation. Hence, minimum wage fixing is seen as making a significant yet necessarily limited contribution to the reduction of poverty. It is thought of as a wage policy instrument of narrow effective scope that should not be of direct relevance for more than a small number of workers, nor expected to do more than apply mild upward pressure on the lower end of the wage structure. In the context of developing countries, limiting the effective scope of minimum wages in this way is sometimes supported on the grounds that this is in basic harmony with development plans that place the highest priority on employment creation and the improvement of the position of the lowest income groups often found among the self-employed in rural and urban areas.

The limited effective scope associated with the basic floor concept implies adjustments in minimum wages that "lag" rather than "lead"
general wage movements. Although the adjustments may be closely aligned with movements in consumer prices and in money wage levels, no attempt is made to use minimum wage fixing to exert control over such movements—that is, to achieve such short-term macro-economic stabilisation objectives as the maintenance of aggregate demand or the restraint of inflationary wage trends. As this role presupposes that the influence of minimum wages on average wage movements will be marginal, their use for macro-economic stabilisation purposes is precluded.

With general minimum wages being of immediate relevance only for various groups of unskilled and unorganised workers in smaller establishments, the vast majority of workers are left to have their wages determined on the basis of supply and demand or by other more flexible methods of wage regulation such as collective bargaining. Supporters of the basic floor concept consider that the limiting of government intervention in this manner is essential for ensuring that most wage levels remain responsive to continually evolving economic conditions. Moreover, with minimum wages being confined to providing "safety net" protection, they are viewed as unlikely to impede the determination of higher wages through collective bargaining, or in other ways to discourage workers from seeking to improve their position by joining trade unions. Thus the process is conceived of as being clearly complementary to collective bargaining rather than as a competing or substitute process for determining wages.

Part of the attractiveness of this conception of the role of minimum wage fixing is that it is consistent with the widely held notion that all workers are entitled to wages that do not fall below a minimum acceptable level. Moreover, with everyone being given the same degree of legal protection of their wages, the question of having to justify either singling out particular groups of workers for coverage or statutorily fixing higher rates in some industries than in others does not arise.

There are in addition considerable advantages in strictly administrative terms. With there being only one or a few different rates fixed by law, it is much easier to ensure that workers are aware of their rights and employers of their obligations than when industrial and occupational rates are fixed. Enforcement is thereby greatly simplified and made more effective. Also, through the establishment of generally applicable minimum rates, it is easier to extend coverage to all those in apparent need of protection, including workers in very small industries or low-paid workers in the high-paid sectors. Perhaps even more important is that once such generally applicable rates are fixed, they are much more easily kept up to date through regular adjustment than are a large number of independently determined industry wage rates.

However, a basic floor minimum wage, while easy to administer, is
Minimum wage fixing: An international review of practices and problems

difficult to establish. Deciding upon an appropriate level for the floor is more complex and subject to greater uncertainties than fixing wages in individual industries. Information on industry wage rates is usually much more detailed and complete than equivalent information for a given region or for the nation as a whole. In addition complementary information on labour and product market conditions in individual industries permits reasonable assessments of how alternative levels of minimum wages might affect the prevailing patterns of wages and employment. Making such assessments at the regional or national level can be much more difficult and problematic. The result is that those fixing general minimum wages are often forced to take their decisions on the basis of highly fragmentary information and in a state of considerable uncertainty about the likely effects.

An additional drawback is that the important differences that may exist in the extent of modernisation or advancement of various industries and in the kinds of labour hired are not taken into account when only a floor minimum wage is fixed. What might be viewed as a reasonable general minimum wage in certain industries may be considered totally irrelevant elsewhere. In some developing countries wages in the lowest paying sectors may be so far below what are deemed acceptable levels that governments may be reluctant to give them official recognition by using them as the basis for their minimum wage decisions. It is often feared that if a general minimum wage is set at too low a level it may have a depressing effect on wages because of the tendency for the minimum to become the maximum wage. Another frequently expressed concern is that, since collective agreements usually only cover a small proportion of the economically active population, limiting minimum wage fixing to the setting of a basic floor results in many workers being denied any form of collective regulation of their wages. Also, the setting of general minimum wage rates inevitably extends minimum wage protection to certain groups of workers in respect of whom such rates will be very difficult to enforce.

Experience

As already mentioned, a significant number of industrialised market economies, especially those that have collective bargaining systems covering less than a majority of the economically active population, have introduced general minimum wages, even though industry minima are also fixed in a few cases (e.g. several provinces of Canada, Japan, Portugal and Spain). Although the official purpose of the general minimum wage system in these countries is expressed in varying terms, the role it actually fulfils is close to the basic floor concept being examined in this section. The main orientation has been towards
providing protection for a comparatively small number of low wage earners, with, at the most, the minimum rates being used to put mild upward pressure on the lower end of the wage structure. Adjustments in them are not directed to, or seen as having a major influence on, average wage movements. The latter are seen as responding to supply and demand pressures, as modified by collective bargaining and in some instances by national income policy measures aimed directly at regulating the size of wage and salary increases.

An indication of the effective scope of general minimum wages in industrialised economies can be obtained by considering both their level relative to prevailing wages and the number of workers directly affected by them. In the United States the increase in the national minimum wage as of 1 January 1978 from $2.30 to $2.65 an hour, or slightly under 50 per cent of average earnings in non-agricultural industries, was estimated to have directly affected only 8.4 per cent of all covered workers and to have resulted in a direct increase in the wage bill of the covered industries of just 0.4 per cent. As table 1 illustrates, similar limited direct effects were typical of all previous adjustments. In only 3 of the 13 major changes made since the minimum wage was introduced in 1938 has the proportion of affected workers exceeded 10 per cent. The highest direct impact on the wage bill was 1.1 per cent and generally the minimum wage has been maintained at approximately 50 per cent of average earnings.

Although similar comprehensive statistics do not exist for Canada, the available information suggests direct effects roughly comparable to those of the United States. An increase in the minimum wage in Quebec in June 1975 from $2.30 to $2.60 an hour (59 per cent of average hourly earnings in manufacturing) was estimated to have directly affected about 11 per cent of the workers and to have increased wage costs by 0.7 per cent. In other jurisdictions, however, the direct effects are believed to be appreciably smaller as in most cases minimum wages have been kept at 50 per cent or less of average earnings.

In Japan minimum wages appear to occupy roughly the same relative position in the wage structure as in North America. During 1975-77 the average of the general minimum wages applied in each prefecture was between 42 and 44 per cent of the average earnings of production workers in manufacturing. The average of the industry minimum wages was about 50 per cent of this level. In Australia general minimum wages, which were introduced in 1966 as a complement to the award wages covering individual industries, have also been set at levels roughly comparable to those found in the United States. In December 1978 the general minimum wage applying to the state of New South Wales represented 52 per cent of national average earnings for adult males.

In France before 1968 the number of wage earners close to the
Table 1. Indicators of the effective scope of the minimum wage in the United States, 1938-78

<table>
<thead>
<tr>
<th>Date of minimum wage change</th>
<th>Minimum wage per hour (US$)</th>
<th>Share of all non-supervisory employees in private non-agricultural work covered by minimum wage (per cent)</th>
<th>Minimum wage in relation to straight-time hourly earnings in manufacturing (per cent)</th>
<th>Share of covered employees paid less than minimum wage prior to increase</th>
<th>Increase in wage bill in covered sectors caused directly by minimum wage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1938</td>
<td>0.25</td>
<td>43.4</td>
<td>41.7</td>
<td>2.7</td>
<td>*</td>
</tr>
<tr>
<td>October 1939</td>
<td>0.30</td>
<td>47.1</td>
<td>49.5</td>
<td>5.2</td>
<td>*</td>
</tr>
<tr>
<td>October 1945</td>
<td>0.40</td>
<td>55.4</td>
<td>42.1</td>
<td>8.0</td>
<td>*</td>
</tr>
<tr>
<td>January 1950</td>
<td>0.75</td>
<td>53.4</td>
<td>54.0</td>
<td>6.2</td>
<td>*</td>
</tr>
<tr>
<td>March 1956</td>
<td>1.00</td>
<td>53.1</td>
<td>52.9</td>
<td>8.3</td>
<td>0.7</td>
</tr>
<tr>
<td>September 1961</td>
<td>1.15</td>
<td>62.1</td>
<td>51.2</td>
<td>9.3</td>
<td>0.4</td>
</tr>
<tr>
<td>September 1963</td>
<td>1.25</td>
<td>62.1</td>
<td>52.7</td>
<td>10.8</td>
<td>0.3</td>
</tr>
<tr>
<td>February 1967</td>
<td>1.40</td>
<td>75.3</td>
<td>51.5</td>
<td>11.3</td>
<td>0.5</td>
</tr>
<tr>
<td>February 1968</td>
<td>1.60</td>
<td>72.6</td>
<td>55.6</td>
<td>17.5</td>
<td>1.1</td>
</tr>
<tr>
<td>May 1974</td>
<td>2.00</td>
<td>83.7</td>
<td>47.2</td>
<td>7.5</td>
<td>0.5</td>
</tr>
<tr>
<td>January 1975</td>
<td>2.10</td>
<td>83.3</td>
<td>45.1</td>
<td>7.9</td>
<td>0.2</td>
</tr>
<tr>
<td>January 1976</td>
<td>2.30</td>
<td>83.0</td>
<td>46.0</td>
<td>6.9</td>
<td>0.2</td>
</tr>
<tr>
<td>January 1978</td>
<td>2.65</td>
<td>83.8</td>
<td>48.4</td>
<td>8.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>

1 Highest rate. Lower rates applied at various dates to newly covered workers.
2 Allowance made for lower rates applied to newly covered workers.

minimum wage and therefore directly benefiting from the regular adjustments was around 1.5 per cent of the total employed population.\textsuperscript{4} In 1968 there was an increase of more than a third in the minimum wage, which temporarily raised this figure to 12.5 per cent. However, with a return to a policy of adjusting the minimum wage through gradual changes, the ratio has fallen again to between 2 and 6 per cent, depending on the size of the increases (see table 2). In October 1977 the ratio of the national minimum wage to average hourly earnings in non-agricultural industries was 63 per cent, i.e. noticeably higher than in Canada, Japan or the United States.

In the Netherlands, where the basic floor concept has been applied more frequently than in other developed countries, the national minimum wage was approximately 75 per cent of non-agricultural earnings in 1977. While no information is available on the number of workers directly affected by minimum wage adjustments, a survey carried out in November 1976 indicated that 10.5 per cent of all covered workers, aged 16 to 64, received wages equal to or below the minimum level.\textsuperscript{5} It should be noted, however, that in the Netherlands, if more than 10 per cent of a company's wage bill goes to minimum wage earners the company is entitled to a subsidy. Also in Spain it is reported that between 10 and 15 per cent of workers are employed at the minimum wage.\textsuperscript{6}

The use of minimum wage fixing to establish a basic floor for the wage structure appears to have gained general acceptance in industrialised market economies. There are no instances of this form of state intervention in wage determination, once instituted, having been abandoned. On the contrary the trend is to make the general floor more comprehensive and uniform. For example originally in France separate minimum wages were fixed for agricultural and non-agricultural activities and for different zones. These differentials were subsequently eliminated and there now exists a single national minimum wage applicable throughout the country. Also in the United States, since the passage of the Fair Labor Standards Act, there has been a gradual elimination of various exclusions and exemptions from the minimum wage provisions. In 1938 the Act covered under half of the private non-agricultural labour force but coverage has gradually been expanded to the point where almost seven-eighths of these workers were protected in 1978.\textsuperscript{7}

Although state intervention to fix a basic floor for the wage structure has gradually gained legitimacy, this does not mean that all controversies have been eliminated. Quite the opposite. Widely different views are often held about the level at which such a basic rate should be fixed, and even regarding the categories of workers and areas to which it should apply. For example in the United States there was recently a prolonged debate on whether young workers should receive a lower minimum wage
Table 2. Proportion of workers benefiting directly from supplementary increases in the SMIC in France, 1970–78

<table>
<thead>
<tr>
<th>Date</th>
<th>Rise in SMIC¹ (per cent)</th>
<th>Proportion of workers benefiting directly (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1970</td>
<td>4.2</td>
<td>3.6</td>
</tr>
<tr>
<td>July 1971</td>
<td>4.6</td>
<td>2.6</td>
</tr>
<tr>
<td>May 1972</td>
<td>4.1</td>
<td>1.7</td>
</tr>
<tr>
<td>November 1972</td>
<td>5.8</td>
<td>2.7</td>
</tr>
<tr>
<td>July 1974</td>
<td>7.6</td>
<td>5.8</td>
</tr>
<tr>
<td>July 1975</td>
<td>6.0</td>
<td>5.4</td>
</tr>
<tr>
<td>July 1976</td>
<td>6.2</td>
<td>5.1</td>
</tr>
<tr>
<td>July 1977</td>
<td>2.6</td>
<td>4.1</td>
</tr>
<tr>
<td>July 1978</td>
<td>3.8</td>
<td>3.8</td>
</tr>
</tbody>
</table>

¹ Increases additional to those made automatically for changes in consumer prices.


than adults in order to promote youth employment opportunities, and in Japan there has been extensive discussion on whether the general minimum wage should be fixed at the prefectoral, regional or national levels. But these controversies have generally not called into question the need for the State to establish such a floor.

Even among those countries without statutory minimum wage fixing, the notion of establishing a basic floor for the wage structure has had considerable appeal. In Denmark, Finland and Greece lower limits to wages of broad application have been fixed from time to time through centralised collective bargaining between employers’ and workers’ organisations. And in the United Kingdom the Trades Union Congress in the early 1970s established a minimum wage target to be implemented through negotiations in individual industries and enterprises.

The experience of developing countries is more difficult to summarise. While general rates are the most widely used form of minimum wage there are few statistical indications of their effect on the wages actually paid and only limited insights in this respect can be obtained from official declarations of the intent of minimum wage decisions. Moreover, what information is available suggests that these effects have varied widely, not only among countries but also within the same country at different times. As a result, it is usually not possible to characterise in simple terms the precise role of general minimum wages in individual countries or to discern basic patterns in developing countries as a whole.

None the less it appears safe to state that in these countries general minimum wage systems, at least in the initial stages, normally reflect
much more ambitious intentions than those associated with the basic floor concept. Thus general minimum wages are expected to raise the average wage level and bring about important changes in wage structures. Achieving a decent minimum standard of living and more egalitarian wage structures figure prominently among the stated purposes of minimum wage fixing in developing countries, whereas the notion of simply "safety net" protection is much less common. For these reasons the experience of these countries in applying general minimum wages can be more appropriately reviewed in the following section.

MINIMUM WAGES AS AN INSTRUMENT OF MACRO-ECONOMIC POLICY

Characteristics and implications

The final and by far the most far-reaching role for minimum wage fixing examined in this study is its use as an instrument of macro-economic policy, to alter the general level and structure of wages in line with broad national economic stabilisation, growth and income distribution objectives. As with the basic floor concept, this role presupposes broad coverage. But in addition there is the presumption that the minimum rates fixed will to a large extent determine the wages actually received by many workers; this result might be achieved either by fixing general minima at comparatively high levels or by linking a comprehensive structure of industrial/occupational rates to general minima.

Either way it is important to bear in mind both the direct and indirect effects that minimum wages can have on wages actually paid. There is a direct effect when increases in minimum wages legally require the raising of wages actually paid. Minimum wages may, however, also indirectly influence above-minimum rates. In some cases these indirect effects may arise from formalised institutional arrangements. Thus the wages specified in collective agreements may be based on minimum wage rates and more or less automatically adjusted when the latter change. In other cases the indirect effects may be produced simply by pressures to maintain traditional wage relationships. Those negotiating collective agreements or employers making unilateral pay decisions may use the size of minimum wage adjustments as a guideline or at least take some account of them. The extent of the indirect effects of minimum wages on wages actually paid are not always easily discernible and vary greatly depending on labour market conditions and institutional arrangements for wage determination. Whenever there are important direct effects, however, the indirect effects are likely to be significant as well. In contrast with the basic-floor concept, when minimum wage fixing is used as an instrument of macro-economic policy, the presumption is that the
combined direct and indirect effects will have a major if not decisive influence on the over-all level of average wages.

The use of minimum wages as a macro-economic policy instrument implies a view of the operation of labour markets which in many ways is the direct antithesis of the one implied by the basic floor concept. Labour market pressures are seen as producing substantial rather than just minor departures from the wage patterns considered desirable in terms of national economic and social goals. It is believed that labour markets, if left unregulated, are likely to maintain average wages at unnecessarily low levels, as judged by what is considered necessary to provide a decent standard of living and what is economically feasible. Moreover there is thought to be a natural tendency for wage movements to depart from what would be most desirable in terms of the short-term stabilisation goals of reduced inflation, high levels of employment and a balance of payments equilibrium. It is also feared that in periods of economic recession or accelerating inflation, the purchasing power of wages, if left unprotected, will suffer major declines. In addition to being inequitable, such reductions are seen as jeopardising employment by lowering the level of demand for goods and services.

Unlike in the case of the basic-floor concept, it is also assumed, with this role for minimum wage fixing, that minimum wages can be used to influence the wages paid to most workers without incurring unacceptably high economic costs. Thus it is believed that the wages of the lowest paid workers or even the general level of wages could be substantially raised without causing serious unemployment or resulting in the increased costs associated with these higher wages having to be absorbed essentially by other low income groups in the community. It is also believed in this case that minimum wage fixing can be used to gain increased government control over wage movements and wage structures without producing major adverse effects on the resource allocation and incentive functions of wages.

The attraction of this role for minimum wage fixing is that it makes available to the government a highly visible and direct means of bringing about greater consistency between a large number of independent wage decisions and national economic and social priorities. However, such an ambitious programme requires the minimum wage fixing authorities to deal with a wide range of highly complex and uncertain issues. A way must be found of reconciling conflicting pressures towards economic stabilisation and the distribution of income. In addition account must be taken of a wide range of possible economic repercussions of minimum wage fixing, and their magnitudes are usually far from clear. Unlike in the case of the other roles for minimum wage fixing, there are no simple guidelines or agreed points of departure which the authorities responsible can rely upon. Inevitably with minimum wage fixing being used
as an instrument of macro-economic policy decision-making becomes more problematic at the same time as the consequences of error become more serious.

When minimum wage fixing is confined to the establishment of general rates, one of the factors making decision-making difficult is uncertainty regarding what the eventual impact will be on the wages actually paid. This uncertainty is essentially due to the impossibility of predicting the magnitude of the indirect effects on wages above the minimum. But if, in an attempt to achieve a more pervasive control of wage structures and movements, a comprehensive set of industrial and occupational minimum rates is introduced, administration of the system becomes highly complicated and burdensome. Moreover the necessary centralised control of such a comprehensive and complex system of minimum wage regulation inevitably implies an important limitation on the opportunity for workers and employers to have an effective voice in the determination of what is perhaps the most important condition of employment.

More generally, since in this role it is assumed that minimum wage fixing will have a major influence on wage movements and structures, the related decisions are inevitably viewed as one of the most important elements of national economic policy. Accordingly they are normally taken or finally approved by the highest governmental authorities. Even though opportunities for participation in them may be provided to representatives of workers' and employers' organisations, their actual influence on the decisions tends to be limited.

Experience

As already described, general minimum wage systems in industrialised market economies have been confined to providing "safety net" protection, or at most applying mild upward pressure on the lower end of the wage structure. With the exceptions of the arbitration systems in Australia and New Zealand, rarely have minimum wages been used in attempts to exert control over general wage level movements. Indeed in some countries (e.g. France and Spain) there are legal provisions prohibiting the linking of other wages to the general minimum wage. However, in a large number of developing countries minimum wage systems with broad legal coverage have had at various times an important influence on wages actually paid. Minimum wage fixing in these countries is often conceived of as the key instrument of government wage policy.

Thus shortly after independence a number of East African countries used minimum wages to raise the average level of wages in an effort to break migratory employment patterns and to establish what was called a "high wage" economy. Also in a number of French-speaking African
countries many workers receive wages close to the SMIG or SMAG and generally only receive wage increases when these minimum rates are adjusted. Moreover the provisions of collective agreements which fix the minimum rates for various occupational categories are not infrequently based on the minimum wage. Adjustments in the latter more or less automatically result in increases in the wages laid down by collective agreements (e.g. Senegal). In Tunisia the collective agreements for various sectors generally use the SMIG as the basis for their wage scales. In addition general increases in wages and minimum wage adjustments are closely co-ordinated through decisions of the National Wages Board. Thus the absolute increases decided upon for the SMIG and SMAG in 1977 were also applied to all other wages, and as part of the Social Pact for 1977–81 a common procedure was established for the future adjustment of wages.

Similar examples of important effects of minimum wage fixing on wage determination are to be found in developing countries in other regions. In Colombia the Government estimated that a recent minimum wage adjustment, aimed at recapturing lost purchasing power, would affect more or less immediately 75 per cent of all urban wage and salary earners, half of them directly as a result of the statutory decision and half of them thanks to indirect effects on above-minimum rates. In Mexico, during the 1960s and 1970s, minimum wages increased much faster than prices and large numbers of unskilled workers in small and medium-sized enterprises began to be paid at or around the level of the minimum wage. As early as 1964 one study reported that the ratio of average unskilled industrial wages to the legal minimum wage in 12 urban centres was less than 1 in 6 of these centres and was between 1 and 1.1 in the others. Also the Government-determined limits for changes in collectively bargained wages have sometimes followed closely percentage changes in the legal minimum wage.

In other developing countries adopting this role for minimum wage fixing, the impact on wages actually paid, while significant, is far less extensive and apparent. This is true, for example, of Costa Rica, where most private sector workers are covered by a comprehensive structure of industry/occupational minimum rates that have been regularly adjusted over the past 30 years. During 1967–73, although minimum wages rose much faster than consumer prices, wages actually paid increased at a still much faster rate. However, with the onset of inflationary conditions during 1973–75, this pattern changed markedly. Average real wages in May 1977 were slightly less than in January 1973 although the real value of minimum wages increased. There is also some statistical evidence that in a number of sectors comparatively few workers are paid the minimum wage, and that the compression of industrial and occupational wage differentials has not been nearly as great as the compression in the
corresponding minimum wages.\textsuperscript{10} None the less, minimum wages are still regarded as exerting a significant influence on wage determination in the country. Adjustments in them are believed to provide a basis for more or less generalised increases in other wages in order to maintain traditional wage relationships, though the size and frequency of these increases are thought to depend as well on the situation of individual enterprises and on assessments of future economic conditions. Generally, the influence of minimum wage adjustments on wages actually paid appears to have been greater in periods of recession than of expansion.\textsuperscript{11}

Although the introduction of minimum wage programmes in developing countries normally has been accompanied by ambitious expectations concerning their use as an instrument of macro-economic policy, in recent years these expectations have been tempered by a growing preoccupation with structural imbalances. Since the mid-1960s greater concentration on improving employment opportunities in the modern sector and on rectifying rural-urban income inequalities and excessive rural-urban migration has not infrequently been accompanied by greater restraint in minimum wage fixing, as well as in other aspects of wage policy. Operating in the same direction has been the desire to avoid aggravating inflationary pressures, which had become severe in many parts of the world by the mid-1970s. The result has been caution in terms of the size and frequency of minimum wage adjustments, which usually have attempted to do no more than maintain, to the extent considered possible, the purchasing power of the lowest paid wage earners. Also the growing importance of collective bargaining in a number of countries has lessened the pressure on governments to use minimum wages to control wage movements. A recent review of minimum wage policies in 12 Latin American countries during 1966–77 revealed that the level of minimum wages in real terms had risen significantly in only one country (Mexico), while in most there had been virtually no change or a substantial decline. In 9 out of the 12 countries, the ratio of industrial wages to minimum wages had increased, and in 8 cases the ratio of agricultural wages to minimum wages had also increased. It was concluded that minimum wages had become less representative of wages actually paid than in the past.\textsuperscript{12}

An earlier review of minimum wage policy in developing countries noted that, apart from in a number of the larger Latin American countries, where regular annual or biennial adjustments were the standing practice, general minimum wages had undergone few changes between the early 1960s and 1973–74, when accelerating inflation forced a number of governments to take action. It was also observed that when adjustments were made they appeared to have followed rather than prompted changes in average wages and earnings and that in a number of countries the level of the general minimum wage relative to average wages has been declining.\textsuperscript{13}
A more general review of wage policies in developing countries also concluded that there has been a marked shift in government policies in the direction of wage restraint. It pointed out that:

The "high-wage policy" that allegedly characterises LDCs, and that is routinely attacked in discussions of employment and equity, is a misrepresentation of wage policy in LDCs. Cases of straightforward redistributive pro-labour policies, such as the post-independence experience of several African countries and the Peron period in Argentina, have been the exception not the rule. Wage restraint and industrial consensus policies are the more common LDC attitudes toward modern-sector labour.14

Thus while there may be comparatively few instances of the basic-floor concept of the minimum wage having been explicitly adopted in developing countries, there is considerable evidence that policies of wage restraint appear to be shifting minimum wage fixing practices in this direction; as shown by the country examples in the next three paragraphs.

The Brazilian Constitution of 1934 recognised the need to establish minimum wages sufficient to satisfy normal requirements of the worker, and general minimum rates were fixed in the various states from 1940 onwards. During the following decade the rates were not regularly adjusted, but there were large increases in December 1951 and other significant adjustments were made in 1954, 1956 and 1959. Subsequently minimum rate adjustments were made annually. With the tripling of the minimum wage in 1951, it became the standard basic wage in the industrial sector, having an important influence on wages actually paid. By 1963–64 the annual minimum wage adjustments had become one of the most important factors determining expectations about inflation in Brazil. At this time government policy shifted clearly in the direction of wage restraint, and the real value of the minimum wage was allowed to decline markedly until 1967; it was then stabilised until 1974. Over the past few years its real value has increased but not as quickly as the real value of average wages. The moderation in minimum wage adjustments over the past 15 years has resulted in a substantial decline in the ratio of minimum wages to average wages, and in the proportion of workers in the formal sector receiving just the minimum wage. As a consequence minimum wages have lost much of their significance as a standard for urban wages compared with the 1950s.15

In Tanzania minimum wage fixing essentially began with independence and a substantial increase in the average wage level was produced by the introduction of a high general minimum wage in 1963. However, emphasis soon shifted to avoiding further declines in employment and a widening of the income gap between urban and rural workers. The general minimum wage was left unadjusted until 1969 and then the increase was modest, failing to match the increases in prices that had occurred in the intervening period. With the onset of inflationary conditions in the early 1970s minimum wage fixing activity picked up. Adjustments in the general minimum wage were made in 1972, 1974 and
1975 but if the wage earners’ index of consumer prices for Dar es Salaam is taken as a basis for comparison, it appears that these adjustments were not adequate to maintain the real value of the minimum wage. Moreover, even though inflation has continued at a moderate rate, the general minimum wage was left unadjusted from 1975 to 1979.

The final example of a country practising restraint in the fixing of minimum wages is the Philippines, which introduced a general minimum wage in 1951. During the following two decades there was only one adjustment of the non-agricultural rate and two adjustments of the agricultural rates. However, in 1970 there was a large increase in the minimum wage which had a substantial effect on wages actually paid. In the years immediately following, wage surveys indicated that many workers in both urban and rural areas received wages close to the statutory levels. Subsequently concern was expressed that perhaps the 1970 adjustment had gone too far. There was no further change until May 1976, when the amount of the increase fell far short of matching the intervening increases in prices. There has been a substantial decline in the value of the general minimum wages relative to wages actually paid, which is partly due to the fact that government policy shifted to the issuing of decrees granting emergency allowances to compensate for increases in the cost of living and requiring employers to provide certain benefits and pay bonuses and premiums.16

In summary, while general minimum wages have traditionally played a more prominent role in wage determination in developing as opposed to industrialised market economies, the degree of difference in approach is highly variable. There are important divergences among developing countries as regards both the regularity with which and the extent to which they have attempted to use minimum wages to control over-all wage levels and trends. Many governments in developing countries during the 1970s adopted policies of wage restraint that have reflected in infrequent and moderate wage adjustments. This, combined with the growing importance of collective bargaining, has meant that minimum wage fixing no longer plays as dominant a role in wage determination in some countries as in the past. In fact minimum wage fixing in a number of these countries is coming to resemble more and more closely the basic-floor concept. However, where minimum wage fixing has continued to be used as an instrument of macro-economic policy, it is clear that this has proved the most problematic of all its roles. This approach has often generated intense controversy and opposition, owing to the complexity and importance of the economic issues at stake and the need to reconcile basic conflicts in policy objectives. Moreover it is this role which has received the most criticism from development economists, inasmuch as it appears to run the greatest risk of unexpected adverse economic consequences.
MINIMUM WAGES AS A REFERENCE WAGE

In addition to their basic function of protecting low wage earners, general minimum wages also serve in a few developed and developing countries as a reference wage in various government programmes, either as a means of calculating certain social benefits or of determining the applicability of legislative provisions to individuals. On the assumption that minimum wages are regularly adjusted, their use as a reference wage has the advantage of ensuring that various government programmes are kept in line with changing wage levels. The case for such a link with various income maintenance schemes appears particularly strong where, as in a number of Latin American countries, the minimum wage is viewed as an indicator, albeit an imperfect one, of what is required to sustain a decent standard of living. Where there is no connection, it may appear that minimum wage decisions are benefiting wage earners partly at the expense of those who depend on various social benefits. However, this complementary role for minimum wages is not without its drawbacks. To the extent that they determine the amount of public expenditures and receipts, government authorities may be reluctant to raise minimum wages because of the direct financial implications in other areas. This link might well mean a reduction in the rate at which minimum wages are increased.

Such conflicting pressures are not easily dealt with. Thus, there was considerable controversy over the use of the minimum wage as a reference wage when the system in France was reformed in 1970. Previously the SMIG, which was automatically adjusted in line with price movements, was used. With the introduction of the SMIC, which was tied not only to price movements but also partially to wage movements, the link with other government programmes was in part disconnected (being maintained where the social benefits concerned were viewed as equivalent to a wage). The minimum garanti was created as the reference for the calculation of various social benefits. This independent reference wage is linked to price movements only, and is at a level considerably below the SMIC.

THE STRUCTURE OF GENERAL MINIMUM WAGES

Systems of general minimum wages exhibit considerable diversity as regards how far it is attempted to differentiate rates in accordance with varying labour market conditions. At one extreme high priority has been given to the establishment of a single national minimum wage covering most of the labour force (e.g. France, the Netherlands, Spain and the United States). At other extreme highly complex structures of general minimum rates have been created. For example in Mexico there are 111
different zones, in each of which there are different general minima for agricultural and non-agricultural labour as well as minimum rates for specific occupations or trades. Most countries appear to occupy a middle position between these two extremes: there are only a small number of regional differences and no attempt is made to go beyond the basic distinctions of agricultural and non-agricultural labour or urban and rural employment.

Because of the marked variability in the structure of general minimum wage systems, it is difficult to distinguish clear patterns. It does appear, however, that pressures to create extensive regional differences in minimum rates have been particularly strong in the larger developing countries, where low levels of economic integration have produced substantial differences in average wage levels by region. Simple general minimum wage structures are much more common in smaller and more economically integrated developing countries. It is also apparent that there is a continuing trend towards the reduction or elimination of zonal and sectoral differences in order to achieve simpler and more uniform structures. For example in Zaire the number of minimum wage zones has been reduced from 257 in 1960 to 7 at the present time. In Brazil minimum wages were originally fixed more or less independently in the more than 20 states and territories, but recently the number of different rates has been reduced to five. In Colombia during the 1950s and 1960s the general minimum wage decrees were highly elaborate, making a distinction at various times between six sectors of economic activity, the size of enterprises as determined by capitalisation, various regions of the country and urban/rural locations. Since 1975 the decrees have been greatly simplified, there being only three separate rates. In a number of instances (e.g. Algeria, Gabon, Turkey) all differentiation has been suppressed and a single national minimum wage established. The trend towards simpler general minimum wage structures reflects not only recognition of their advantages in terms of administrative efficiency but also the reduction in differences in the cost of living in various parts of a country that occur as economic integration progresses. Doubts have also arisen about the extent to which regional wage variations act as an incentive to attract investment into the least developed regions and sectors. Moreover the equalisation of wages throughout a country is seen as one way of stemming the flow of migration to urban areas.\(^{18}\)

EXEMPTIONS AND ABATEMENTS

The final aspect of the scope of minimum wage protection to be considered in this chapter is the exclusion from coverage of certain categories of workers or the application to some categories of special
rates which are lower than those more generally applicable. These exemptions and abatements may either be specified in legislation or result from the decisions of the minimum wage fixing authorities. The persons most commonly affected are those whose productivity is expected to be too low to permit them to be paid the normal minimum wage without seriously jeopardising their job prospects (e.g. the young, learners and the handicapped). Also sometimes excluded are those not considered in need of minimum wage protection because, for example, they are covered by public sector wage regulation procedures or favourable collective agreements or they have high incomes. Occasionally, exemptions and abatements are authorised because the special characteristics of the employment relationships of certain categories of workers (e.g. domestic servants, “outside” commission salesmen, those receiving tips) would make the enforcement of minimum wages difficult if not impossible.

While some exemptions exist in virtually all countries, their extent and significance vary greatly. In a few cases concern for mitigating the possible adverse effects of minimum wages has resulted in extensive exemptions. Thus in Bangladesh and the Sudan minimum wages are applicable only to establishments with ten or more workers. Elsewhere minimum wages do not apply to agriculture (e.g. Canada and Pakistan), or apply only partially (e.g. to agricultural establishments with ten or more workers in the Dominican Republic). The United States has a highly complex and extensive set of exclusions based on type of professional activity, product or size of firm (e.g. executive, administrative and professional employees and “outside” salesmen, certain retail and service establishments, seasonal amusement establishments, custom manufacturing in exempt retail establishments, catching and processing fish and seafood, certain categories of agriculture, small newspapers, switchboard operators of small telephone exchanges, seamen on foreign vessels and casual babysitters and companionship services). At the other extreme many countries, including most developing countries, have conceived of the minimum wage as a basic right that should have the widest possible application. With the exception of abatements for a few categories of low productivity workers (discussed below), minimum wages are made applicable everywhere in the private sector, including in those areas posing the greatest problems of economic adaptation and enforcement. Thus in France the minimum wage applies to all sectors, with the exception of public enterprises subject to other wage regulation procedures, domestic servants, building superintendents and commission salesmen not subject to fixed hours. Such broad coverage, with only limited exceptions, is also typical of the vast majority of countries in Africa, Latin America and the Middle East. As an example, in most French-speaking African countries only public sector employees are excluded from protection.
Abatements are much more common than full exemptions. In many countries provision is made for lower rates for younger workers, often by means of a percentage reduction of the general minimum wage. However, the level of the abatements and the age limits at which they apply can vary enormously. In industrialised market economies the highest young-worker age limit is found in the Netherlands, where the national minimum wage applies only to persons at least 23 years old. Each year under 23 gives rise to a 7.5 per cent reduction in the minimum wage. In France the abatements are considerably less. All workers over 18 are entitled to the full minimum wage while for those aged 16 and 17 there are abatements of 20 and 10 per cent respectively. In Canada the reductions are also quite small. Most jurisdictions apply abatements to workers under 18 or 17 years of age that vary between 5 and 15 per cent. In Ireland, Luxembourg and the United Kingdom the abatements for young workers lie between the extremes just described. Among developing countries having abatements for young workers is a common but not the prevailing practice. Where there is provision for such abatements, 18 years of age is often the threshold. Thus in Argentina young persons working six hours per day have their wages decreased by 10 per cent for each year under 18. In Egypt, Kenya and Tanzania a separate minimum wage rate is fixed for those under 18. In India and Sri Lanka reductions of various kinds for young workers are a common feature of minimum wage orders.

Although many countries do not have lower minimum wages for all young workers (e.g. the United Republic of Cameroon, Colombia, the Congo, Costa Rica, Honduras, Jamaica, the Philippines, Thailand and the United States), usually there are abatements for apprentices. Normally minimum apprentice wages are fixed as a proportion of the legal general minimum or the journeyman rate, a proportion that progressively increases with years of training. In some countries other learners may also receive lower rates. Thus in the United States, where no general youth abatement exists, learners and apprentices may be employed at below minimum wage rates when special certificates are obtained pursuant to regulations which specify limitations as to time, number, proportion of workers and length of service. Also full-time students working in specified forms of employment and under certain conditions may be paid up to 15 per cent less than the general minimum. Similarly in Jamaica those exempted from the 1975 national minimum wage include registered apprentices, students employed during their vacations, individuals employed in designated basic school or day-care centres or sheltered workshops, individuals performing work which is part of their training by certified vocational training institutions, and any individual certified to be a learner and performing work which is a part of his training during the period specified in his certificate.

Having abatements for the handicapped is also a widely followed
practice. Usually some discretion is left to the Ministry of Labour to determine the minimum employment conditions to which these workers will be subject. To illustrate, in Kenya an employer or an employee may make an application to a labour officer or labour inspector if the employee is affected by infirmity or physical incapacity which renders him incapable of earning the minimum wage. If the official is satisfied that this is so, he may issue a permit subject to such conditions as he thinks fit, authorising the payment of below minimum wages.

Domestic servants receive very different treatment in different countries. In many the special nature of their employment relationship and obvious problems of enforcement have resulted in them being excluded from minimum wage laws (e.g. Brazil, Canada, France, Thailand and Uruguay). Elsewhere domestic servants are covered, but at very reduced rates (e.g. in Ecuador and Panama they are entitled to roughly 40 per cent of the non-agricultural minimum wage). In still other countries they are entitled to the same minimum wage as other workers (e.g. the United Republic of Cameroon, Jamaica and the United States).

A bewildering variety of other exemptions and abatements can be found. Thus in the Netherlands part-timers working less than one-third of the normal working hours are exempted from coverage. Moreover, on request the competent Minister may permit below minimum wages if he considers that the activities carried out in an undertaking, branch of industry or occupation are seriously endangered, provided that the workers' and employers' organisations concerned have been consulted and the matter discussed in the Labour Foundation. A similar provision exists in Portugal, where the national minimum wage need not be applied in undertakings with ten or fewer workers if the ministries concerned consider that its application would be economically non-viable for such undertakings. Also the Government may apply special rates below the national minimum to certain sectors or zones considered to be in a state of crisis. The 1974 Labor Code of the Philippines enables the Secretary of Labor to authorise the payment of wages up to 50 per cent below the minimum by firms providing employment opportunities in severely depressed areas. Registered cottage industries are also fully exempted from the law. In Ecuador handicraft workers are subject to a lower minimum wage, while in Honduras a lower rate applies to establishments having up to five employees. Differentiation of minimum rates by size of enterprise used to be practised in Colombia and Egypt but this practice has recently been eliminated in these countries. Abatements for women workers, at one time quite common, have now all but disappeared. In the United States, for employees receiving tips over a specified amount, employers could, as of 1 January 1980, credit towards their minimum wage obligation up to 40 per cent of the minimum wage. Also in a few jurisdictions in Canada some industries where the income from tips is
important have a special lower minimum applied to them. All the exemptions and abatements mentioned in this paragraph, however, constitute exceptional rather than the usual practice, being limited to one or only a few countries.

Notes


3 See also C. Aykroyd: A survey of recent Canadian minimum wage research (Department of Labour, Canada), Jan. 1976, p. 5.


6 Manuel Alonso: “Spain”, in Blainpain, op. cit., p. 68.


8 See for example Ukandi G. Damachi, H. Dieter Seibel and Lester Trachtmann (eds.): Industrial relations in Africa (London and Basingstoke, Macmillan, 1979), passim; and ILO: Les salaires dans les pays d’Afrique francophone, op. cit., passim.


11 ibid., pp. 35–42.


There is little uniformity among countries in the methods they use to fix minimum wages or to decide upon the groups of workers who should receive legal protection of their wages. Apart from some similarities in legislation deriving from common colonial or regional influences for a few countries, diversity prevails. This diversity reflects the differences between countries in their industrial relations systems and traditions of public policy decision-making as well as in their size and stage of economic development. Adding to the variation of practice is the fact that each of the roles for minimum wages described in the last two chapters has its implications for what might be regarded as appropriate machinery for minimum wage fixing. This chapter begins with a brief survey of the various methods used to fix minimum wages and a description of some of their apparent advantages and disadvantages. A closer examination will then be made of the different ways in which representatives of workers, employers, the government and members of the public may participate in minimum wage decisions and of the problem of co-ordinating minimum wage fixing with general economic and social policy.

To attempt to arrive at judgements concerning the effectiveness of various methods of minimum wage fixing based on international experience encounters formidable obstacles. For one thing, for each method several examples of apparently both successful and unsuccessful experience can be found. Moreover the variations appear essentially attributable not to the technical characteristics of the machinery but rather to the degree of support given to minimum wage programmes by the government and the representatives of workers and employers immediately involved. It is also clear that the appropriateness of minimum wage fixing machinery can really only be judged in a given national context taking into account the role chosen for minimum wage fixing, and the importance attached to such values as popular participation in decision-making and to the consistency and uniformity of the
Minimum wage fixing: An international review of practices and problems

rates fixed. This being the case, no attempt is made here to arrive at summary evaluations of different types of machinery, based on how smoothly they appear to be operating in different countries. Instead, this chapter concludes with a discussion of some of the problems involved in the operation of the various types of minimum wage fixing machinery commonly identified by labour administrators and a description of some of the measures taken to overcome them.

TYPES OF MINIMUM WAGE FIXING MACHINERY

The methods of fixing minimum wages include a broad and varied range of practices that are not easily categorised. At the risk of some oversimplification, the following analysis distinguishes between four basic patterns, based on the location of what appear to be the most critical decision-making powers. Separate treatment is given to machinery where the key decisions are taken by the legislature, the executive branch of government, boards with powers of effective recommendation, and boards with final decision-making authority. However, the boundaries between these categories are not always clear because of the existence of complex and changeable arrangements of shared responsibility, and within each category there remain wide variations in practice.

Acts of the legislature

In some countries, though very few, minimum wage rates have been fixed by means of a legislative process. In most instances such legislation has been viewed as a special measure required by particular circumstances rather than as the normal method of minimum wage fixing that is to be used on a continuing basis. An important exception, however, is the United States. The national minimum wage, established under the Fair Labor Standards Act of 1938, can only be adjusted upwards or extended to new categories of workers by means of legislative enactments.

Where no enabling legislation exists, there may be no other means to establish a legal minimum wage except by an Act of the legislature. This approach may also be defended on the ground that it permits minimum wage decisions to be taken with the participation of the highest political authorities and after close scrutiny ensured by legislative hearings and debates. This may be considered as exceptionally important in countries where, as in the United States, minimum wage decisions are viewed as having major economic implications and there persist widely divergent and difficult-to-reconcile opinions on the basic policy that should be followed.

In most countries the use of legislation to fix and adjust minimum
Machinery and procedures

wages has been thought to be too drawn out and inflexible a method and therefore likely to produce serious delays in the taking of decisions. This has been a continuing criticism of the procedure in the United States, and on a number of occasions attempts have been made to change the law so as to provide for automatic or more flexible forms of adjustment.¹ Doubts have also been expressed about whether the legislature constitutes the most appropriate forum for taking decisions on minimum wages. In the Philippines, during the 1950s and 1960s, minimum wages were fixed by legislative acts, each accompanied by widespread controversy. After it was decided to establish a permanent body for minimum wage fixing the President of the Republic noted that: “Up to now, our efforts at raising the minimum wages have been political acts, emergency measures not based on a facile, objective consideration of the realities relevant to wage determination. I think it is time we departed from this irrational, dislocating and costly practice”.²

In a few cases, although the main task of minimum wage decision making has been removed from the legislature, the latter still retains a role. In Jamaica any order made by the Minister in relation to a national minimum wage is subject to the adoption of an affirmative resolution by the House of Representatives. In Trinidad and Tobago the responsible Minister may by order fix minimum wages but these are subject to negative resolution of the Senate and House of Representatives.

Executive authority decisions

In the interests of greater flexibility the minimum wage legislation in a number of countries empowers the executive authority to fix rates and decide upon coverage. Minimum wages are thus determined by order, regulation or decree of the government or the minister of labour. Moreover, it is relatively common for the main responsibility for the preparation of the decisions in question to be also entrusted to the executive and its services.

In some cases the legislation grants the executive complete freedom regarding the decision making process, the nature and extent of consultations outside the government being left to the government’s discretion. Thus in the federal jurisdiction in Canada and in the Province of Ontario the enabling legislation simply prescribes that minimum wage rates can be fixed by Cabinet-level decisions.

A more common practice is for the legislation to impose an obligation on the government, before finalising its decision, to consult with tripartite general advisory or consultative bodies that are concerned with a wide range of labour policy issues. Although consultation in a prescribed form is made mandatory, the presumption is that the executive authorities retain the main responsibility for both the develop-
ment of minimum wage proposals and their final acceptance. Thus the law in France provides for discretionary adjustments in the SMIC to be made from time to time by decrees of the Government. But these can only be issued after the receipt of the opinion of the Collective Agreements Board (la Commission supérieure des conventions collectives), a permanent general consultative body composed of 16 workers’ representatives, 16 employers’ representatives, three persons representing family associations and three representatives of the State (the Minister of Labour, who presides, the Minister of the Economy and the President of the Social Section of the Council of State). The procedure is similar in most French-speaking African countries, many of whose Labour Codes have taken over without substantial modification the machinery envisaged by the 1952 Labour Code for Overseas Territories, which provided for the fixing of minimum wages by the executive authority after consultation with a labour advisory body. The latter takes different forms and goes under a variety of names according to the country (e.g. Labour Advisory Committee (Commission consultative du travail) in the Ivory Coast, Central Committee on Wages and Prices (Commission centrale des prix et des salaires) in Morocco and National Council on Labour and Social Legislation (Conseil national du travail et des lois sociales) in Togo) but essentially serves the same purpose in the context concerned.

The nature of the consultations which take place in countries using this type of minimum wage fixing machinery may be quite varied. At one extreme they may constitute no more than a procedural formality, any submissions made by interested parties having very little influence on the decision ultimately taken. At the other extreme the consultations may represent a key step in the decision-making process, with an effort being made to achieve a measure of consensus on at least the general direction of minimum wage policy. Either way, however, the implication is that the initiative in minimum wage fixing is taken largely by the executive authority, which is seen as bearing the main responsibility for the decisions.

This type of machinery leaves considerable discretion to the responsible units in the government as regards making proposals on both the timing and magnitude of minimum wage adjustments. Such flexibility is often seen as necessary where minimum wage decisions are national in scope and their economic impact so significant that it is considered essential to achieve close co-ordination with the government’s general economic policy. Machinery of this type is also favoured by those who believe that once the general direction of minimum wage policy has been defined by the highest political authorities, decisions on the workers to be covered and the particular rates to be fixed are essentially technical problems whose solution is best left to specialists.
These features are thought by others to constitute the essential weakness of this type of machinery. Since most of the decision-making power rests with government departments the representatives of workers and employers, even if consulted, not infrequently believe that they do not have an effective voice in the decisions ultimately taken. It is also sometimes questioned whether the preparation of decisions on a matter like minimum wages should essentially be confined to civil servants in government departments. According to this way of thinking the development of minimum wage fixing proposals is not simply a technical matter but rather one that requires the reconciliation of widely divergent interests and perspectives which the normal departmental decision-making process is not well suited to achieve. Nor is it always thought likely to ensure the necessary continuing and impartial scrutiny of the adequacy of minimum wages, in view of what some regard as a natural tendency for government departments to defer the taking of controversial decisions and to be too responsive to immediate political pressures.

Boards with powers of effective recommendation

For these and other reasons many governments, particularly in developing countries, delegate the task of preparation of minimum wage decisions to designated bodies, while themselves retaining ultimate responsibility for the rates fixed. The designated bodies, which go under a variety of appellations such as boards, councils, commissions or committees, enjoy varying degrees of autonomy vis-à-vis the government. In some cases the enabling legislation states that they are simply to “recommend” rates which may be fixed by the government. In others the legislation indicates that the designated bodies (hereafter simply called “boards”) are to “fix” or “determine” the rates, but enables the government to make modifications in those rates if it considers it necessary to do so. In a number of countries that adopted wages council systems patterned on the practice of the United Kingdom, the government only has authority to refer back (i.e. to accept or reject) wages council proposals, not to alter them. In still other instances the boards are granted authority to issue wage orders subject to the approval of the government. Even though in each of these cases the government could ultimately modify or reject the proposed rates, the presumption is that this authority will be used selectively and that decision making will be effectively carried out by the boards.

Where the role of minimum wage fixing is conceived of as being either the protection of vulnerable categories of workers or the determination of fair wages, board decisions as opposed to executive authority decisions appear to be by far the most widely used means of fixing the
minimum rates. This is because, with detailed rates usually being fixed in both cases on an industry-by-industry basis with the direct participation of those immediately concerned, boards provide the most convenient framework for the purpose. However, when minimum wages are used to create a basic floor for the wage structure or as an instrument of macroeconomic policy, the means of fixing them varies. Both board and executive authority decision making have been used, although the latter type of machinery appears to be somewhat more prevalent where minimum wages are the main element of a national wage policy.

The boards are generally specialised in the sense that the recommendation of minimum wage rates and ancillary decisions constitute their main function. Where they are given additional duties, these tend to be of secondary importance. Another common characteristic is that usually they are permanent rather than ad hoc, although in some countries the minimum wage system involves a combination of both. The prevalence of permanent boards reflects recognition of the need to keep minimum wages under continuing review and the expectation that the quality of decisions will improve with accumulated experience. The boards are almost invariably tripartite: in addition to an equal number of representatives of employers and workers, they include independent members who may or may not be representatives of the government. The presence of the independent members serves to ensure that final decisions are reached, as well as representation of the public interest.

In other respects there are many variations in both the form and functions of the boards. Industry minimum rates are mostly fixed by industry-level boards, but in some cases this is done by centralised boards. Similarly regional variations in minimum wages are established in some countries by having a system of regional boards, whereas elsewhere national boards establish rates that vary regionally. The recommendations of the industry or regional boards are often submitted directly to the responsible government authority for approval. However, in a few countries these recommendations are first reviewed by a higher level, or national, board. In some cases the boards may only formulate minimum wage recommendations when requested to do so by the government. In other countries they may make recommendations on their own initiative or are required to make them at specified intervals. Decisions concerning which workers are to receive minimum wage protection are often made by the executive authorities, but in some countries the boards have important responsibilities in this regard. They may also be entrusted with ancillary functions such as supervising the enforcement of wage rates, providing guidance for departments or branches of the government giving statistical, technical or administrative support to the minimum wage programme, and formulating general wage policy recommendations. Even with the boards being, as already
Machinery and procedures

mentioned, almost always tripartite, many differences nevertheless exist in their composition. In some countries the employers' and workers' representatives respectively are far more numerous than the independent members, whereas in others the three groups have equal representation. Sometimes the independent members outnumber the representatives of each of the social partners individually or even combined. The size of the bodies can vary greatly—from 3 to 20 or more members.

The following examples illustrate the wide variety of minimum wage board systems.

First, India is representative of a rather complex decentralised system of minimum wage regulation. Under the Minimum Wages Act of 1948 ultimate responsibility for the fixing of minimum wages in individual industries is divided between the central and state governments, with the latter having the broader jurisdiction. The appropriate government can fix minimum wages under either the committee or the notification method. Under the committee method ad hoc committees of varying size are established to hold inquiries and make recommendations with respect to the fixing and revision of minimum wages in particular industries. Under the notification method the government’s proposals are published in the Official Gazette, with interested parties being allowed at least two months to make their representations. All proposals made under the notification method require consultation with permanent advisory boards established in each jurisdiction. In some jurisdictions the committee method is used for fixing minimum wages for the first time while the notification method is used for adjustments. Additional functions of the advisory boards include co-ordinating the work of the ad hoc committees and such subcommittees as may be appointed to assist them, as well as providing general advice to the government concerned on the fixing and revision of minimum wages. The Act also empowers the central Government to appoint a Central Advisory Board to co-ordinate the work of the different advisory boards and provide policy advice on minimum wages to the central and state governments. All the committees and advisory boards are tripartite, having equal numbers of workers' and employers' representatives and independent members whose number may not exceed one-third of the total membership.

In Japan minimum wage fixing is also decentralised, with responsibility distributed between the Central Minimum Wages Council and prefectural minimum wages councils according to the scope and significance of the minimum wage being considered. Where the Minister of Labour or the Chief of the Prefectural Labour Standards considers it necessary to fix minimum wages, the council concerned is requested to carry out investigations and deliberate on the matter. When the minimum wages to be established are for a specified occupation or
industry, the council is required to appoint an ad hoc committee which includes representatives of those directly affected. The Minister of Labour or the Chief of the Prefectural Labour Standards is authorised to decide on minimum wages with due regard to the opinion of the council concerned. When he finds it difficult to accept the opinion of a council, he must request it to reconsider the matter, giving the reasons for his request. The councils and ad hoc committees are required to be composed of an equal number of members representing respectively workers, employers and the public interest.

A much simpler type of industry-level machinery exists in Sri Lanka. The Wages Board Ordinance, 1941, provides for the establishment of permanent tripartite wage boards in individual industries. The boards, which are chaired by a labour commissioner who has no voting rights, are composed of a number (not exceeding three) of independent persons, and of an equal number of employers' and workers' representatives. With the approval of the Minister they may constitute tripartite district wages committees to assist them in their work, although this option has not been taken up. The boards are required to publish their proposed decisions and consider any objections received, after which they submit them to the Minister, who may return them for reconsideration or modify them. Decisions of the boards take effect only after having been approved by the Minister.

In contrast with these comparatively decentralised systems, other countries place the major part of the responsibility for the preparation of minimum wage decisions on a single board. In Panama the Labour Code stipulates that minimum wages (which may be either of general application or limited to specified industries) are to be fixed by decree of the Executive on the basis of recommendations from the National Minimum Wages Board. In addition the Board is required to send to the competent unit in the Ministry of Labour and Social Welfare complaints or claims concerning non-compliance with the minimum wage decrees. The Board is composed of five government officials from various ministries, three representatives of trade unions and three representatives of employers.

In Colombia the Labour Code provides for consultation of workers and employers in connection with the fixing of general or industrial minimum wages. The National Wages Council was set up to this end. It is composed of five government officials from various departments, a medical doctor, an industrial engineer, two representatives each of private sector employers and workers, a representative of public sector workers and a pensioners' representative. The Council's functions are: (1) to divide the country into zones or economic regions for the purposes of wage regulation; (2) to fix and revise minimum wages at least every two years; (3) to prescribe guidelines for the investigation and determination
of the cost of living of the middle and working classes in both the urban and rural areas of each economic region; and (4) to serve as a government consultative body on general wage policy. The decisions of the National Wages Council are communicated for an opinion to the National Labour Council, which is a tripartite body providing general advice to the Government on labour and social welfare matters. The Government then issues the minimum wage decrees, based on the recommendations of the two bodies.

In Iraq, as in a number of other West Asian countries, the wage board system is also highly centralised. The Labour Code of 1970 envisages the fixing of minimum wages in various industries, trades and occupations on the basis of recommendations made by a central wages board. This board comprises eleven government officials and three representatives each of employers and workers. Additional duties of the board include the formulation of general wage policy proposals, advising the Ministry of Labour, on request, about specific wage issues, fixing grants, bonuses and other financial incentives and preparing an annual report for the Government on wage movements in the country.

In other countries the wage board systems include both centralised and decentralised elements. In Kenya a permanent General Wages Advisory Board is responsible for inquiring, on request, into the fixing of a basic minimum wage and other conditions of employment for employees generally or for certain categories of employee and for examining the expediency of establishing wages councils in given industries or trades. An Agricultural Wages Advisory Board has similar functions in respect of agricultural workers. The Minister may amend or refer back any minimum wage proposals made by either board. Moreover he may issue a minimum wage order directly, provided that notice is given to the board concerned. On the recommendation of the board concerned the Minister may decide to establish wages councils in specific industries or trades. The duties of the wages councils include submission to the Minister of proposals for fixing minimum wages and other conditions of employment including annual leave, sick leave, termination, redundancy and meal and accommodation arrangements. These proposals must be published and the wages councils are required to consider any representations made. The Minister may accept, amend or refer back the wages council proposals. The General and Agricultural Wages Advisory Boards each comprise not more than four independent members and not more than three persons representing respectively workers and employers. Wages councils may be of any size but the number of independent members must be an odd number and there must be an equal number of members representing employers and workers.

Ecuador provides another example of a minimum wage system containing both centralised and decentralised elements. Sectoral boards
may be established to fix and revise minimum wages in particular industries and geographic areas as set out in the initiating Ministerial Order. The sectoral boards comprise a representative of the Ministry of Labour and Social Welfare, who presides, and one representative each of employers and workers. An appeal against decisions of the sectoral boards may be lodged with the Ministry within three days of the decision being announced; the Minister, who may modify the recommendations of the sectoral boards, solicits the views of the National Wages Board before a final order is issued.

The National Wages Board was established in 1974 as a technical consultative body for the Ministry. It comprises four government officials from various ministries and one representative each of workers and employers. The Board meets once a month but can also be convened by the chairman or at the request of two of the members. Its functions include advising the Minister of Labour and Social Welfare on the following: priorities for the fixing and revision of minimum wages in particular industries and geographic areas, the establishment and functioning of the sectoral boards, adjustment of the basic minimum wages, measures aimed at offsetting the effects of inflation, new methods and systems of wage fixing reflecting modern techniques, effective methods for ensuring compliance with wage regulations, and studies on wages that should be undertaken within the Ministry.

Boards with final decision-making authority

Separating the responsibility for preparing minimum wage proposals from the authority to actually fix the rates is not without its problems. If all minimum wage proposals are automatically accepted by the government without serious review, questions may be raised concerning whether the government is in fact complying with its obligation to ensure that the decisions being taken are acceptable. If, however, the proposals made are frequently altered, decision-making in the wage fixing bodies concerned may be undermined. The reasons for overturning difficultly achieved tripartite agreements may not always be completely clear to those immediately involved, who may conclude that minimum wage fixing is not being effectively sheltered from short-term political pressures. To avoid such problems and to entrust those directly concerned with full responsibility for their decisions, wage boards in some countries have been granted the final authority to fix minimum rates and as regards other aspects of minimum wage policy. The government’s role is restricted to being represented on the board and to making submissions. In the event of a serious policy dispute with the board, there remains the exceptional and inevitably highly controversial possibility of the government’s by-passing the established machinery or
enacting new legislation. Accordingly, even though the boards may have been granted final authority on minimum wage policy matters, their independence from the government can rarely be viewed as complete.

It is more common to limit the role of wage fixing bodies to making recommendations than to grant them full authority to fix minimum rates. There are, however, a significant number of examples of this practice, and it is interesting that the boards which have been given this authority differ widely in their characteristics.

In Costa Rica authority to fix minimum wages in virtually all industries in the private sector has been vested since 1949 in the National Minimum Wage Board. Although attached to the Ministry of Labour and Social Welfare, the Board is a permanent autonomous body. It comprises nine members, there being equal representation of the Government, workers and employers. The Board meets regularly, as well as at the request of any three members, and is required to make annual adjustments in the wage rates it has fixed. The Board passes a resolution indicating the reasons for the minimum rates decided upon. This resolution is forwarded to the Ministry of Labour and Social Welfare, which may return it with comments. However, if the Board reaffirms its original decision, the Government is bound to promulgate the resolution as it stands.

The degree of independence of the minimum wage fixing boards in Mexico is even more pronounced. The law provides for the determination of general and occupational minimum wages in the first instance by regional boards consisting of a government representative and two to five representatives each of employers and workers. The regional boards are required to determine annually minimum rates in line with a procedure prescribed by law. Their resolutions are submitted to the Council of Representatives of the National Minimum Wage Board for revision and approval. This body consists of a chairman, two non-voting advisers, and an equal number—not less than five or more than 15—of employers' and workers' representatives. The Chairman of the National Minimum Wage Board orders the resolutions adopted to be published in the Official Gazette before the end of the year preceding the year of their entry into force.

It is comparatively rare for governments to delegate full authority to fix minimum wages to industry-level boards. This, however, has recently been done in the United Kingdom with a view to making the wage fixing system more effective by increasing the responsibility of those involved. A legislative change in 1975 gave authority to wages councils, after the publication of their proposals and the consideration of any written representations, to issue orders fixing minimum wages, holidays or any other terms and conditions of employment. The wages councils are composed of not more than three independent persons and an equal
number of representatives (in practice quite numerous) of workers and employers. Any member is entitled to set in motion at any time the procedure for altering the legal minimum wages and conditions of employment but in practice it is respective members’ trade unions and employers’ associations that make the requests for council meetings to be held.

The functioning of various industrial tribunals and wages boards in Australia can also be viewed as implying the delegation to them of the final authority for fixing minimum wages. A decision reached under the wages board systems of Victoria and Tasmania becomes a legally binding "common rule". The only review of the board decisions is by way of an appeal to a tripartite industrial court, a procedure not often used. Similarly the industrial tribunals in the other Australian federal and state jurisdictions are empowered to issue legally enforceable awards within the legislative and constitutional framework in which they function. These tribunals have a quasi-judicial character and reach decisions in most instances mainly on the basis of submissions made by workers’ and employers’ representatives. The role of the government is limited to making submissions to the tribunals in those cases that it considers might affect the public interest. In the national wages cases, which since 1975 have been considered periodically by a full bench of the Australian Conciliation and Arbitration Commission, adjustments of all federal wage awards and the general minimum rates are decided upon following detailed submissions from the federal and state governments, as well as from the national organisations of workers and employers, with the Commission having the final say in the matter. The significance of these decisions is heightened by the fact that usually they are subsequently applied in the state jurisdictions as well.

PATTERNS OF GOVERNMENT, WORKERS' AND EMPLOYERS' PARTICIPATION IN DECISION-MAKING

Participation by workers and employers

One of the few common elements in national minimum wage fixing practices is the effort made to associate representatives of workers and employers, as well as governments, in the decision-making process. There are a number of reasons for this. To begin with, since workers and employers are the ones most directly affected, it is often considered essential that their views should be made known to, and taken account of, by those with the final responsibility for fixing minimum wages. Moreover they often possess valuable information on the workers’ needs and on the condition and problems of the industries immediately concerned. This can be specially important when industrial or occu-
Machinery and procedures

pational minima are being fixed and when, as in many developing
countries, official statistics are rare and more disparate sources of
information must be relied upon. Perhaps just as significant, the
participation of workers' and employers' representatives can serve to
enhance the legitimacy of the decisions taken. Although employers and
workers are bound to take quite different positions about the level at
which minimum wages should be fixed, the final decisions are more likely
to be considered at least tolerable if everyone is convinced that they have
been reached after careful examination of all relevant information and
points of view.

It is for these reasons that the ILO instruments on minimum wage
fixing have underscored the need to have representatives of workers and
employers closely associated with the decision-making process. Convention
No. 26 provides that before minimum wage fixing machinery is
applied in any trade, representatives of the employers and workers
concerned, including representatives of their respective organisations,
should be consulted. It also requires that employers and workers be
associated in the operation of the minimum wage fixing machinery in
equal numbers and on equal terms. Recommendation No. 30 elaborates
on this principle by suggesting that representatives of the employers and
workers concerned, equal in numbers or having equal voting strength,
should jointly take a direct part in the deliberations and decisions of the
wage fixing body, and that the employers and workers concerned should
have a voice in the selection of their representatives. Also, under
Convention No. 131 ratifying States are required to create and/or
maintain machinery for fixing and adjusting minimum wages and must
make provision, in connection with the establishment, operation and
modification of such machinery, for full consultation with representative
organisations of employers and workers concerned, or where no such
organisations exist, representatives of employers and workers
concerned. It also states that wherever it is appropriate to the nature of
the minimum wage fixing machinery, provision shall be made for the
direct participation in its operation of representatives of organisations of
employers and workers.

The actual ways in which workers' and employers' representatives
participate in decision-making on minimum wages vary. Almost every-
where they are at least able to make representations on minimum wage
policy issues before final decisions are taken. In many countries,
especially those where minimum wages are fixed for individual
industries, this right of representation is formalised by law. In some cases
the minimum wage fixing body is obliged to hold public hearings at
which information can be submitted and arguments presented by anyone
concerned. More frequently the law requires the proposals of the
minimum wage fixing bodies to be published and a period of time
prescribed for those who may be affected to voice their objections.

Although the importance of providing an opportunity for those who may be interested to make representations is widely recognised, it rarely constitutes the sole form of participation by representatives of workers and employers. Most minimum wage systems also provide for more direct involvement. As a minimum this may take the form of obligatory consultations with advisory bodies including workers' and employers' representatives. As already mentioned, such arrangements have often been made in countries where the scope and implications of minimum wage fixing are so broad that the government has considered it necessary to maintain for itself the main responsibility for the preparation and adoption of the final decision. Legislative provisions on consultations normally state simply that they will take place with no attempt to specify their character. In practice consultations do appear to vary greatly in nature and effectiveness. At one extreme the consultations may go well beyond an exchange of information and views, and involve deliberations aimed at achieving at least some common understandings if not general agreement. At the other extreme the consultations may simply constitute a formal exercise, with presentation of the diverging positions of the parties being quickly made and there being no real expectation that the consultations will have an important influence on the decisions ultimately taken.

For workers and employers the most meaningful form of participation is often thought to be the involvement of their representatives as members of the bodies responsible for preparing minimum wage decisions. Participation in the deliberations of the boards is usually seen as the best way of ensuring that the decisions will reflect all the relevant information and that each side has a full opportunity to convince others of the need to take into account its point of view. For governments, such participation can have the advantage of contributing to the technical soundness of the decisions by expanding the range of information on which they are based. Perhaps even more important, the direct involvement of representatives of workers and employers in the deliberations of the boards is likely to increase the acceptability of the ultimate decision. With decision-making being viewed as a democratic process of discussion and mutual accommodation of conflicting views, and each side becoming more aware of the range of opposing views, the decisions finally reached are more likely to be at least tolerated, if not fully endorsed. Even where it has not been possible to obtain complete agreement on the decisions within the boards, their rationale is bound to be better understood and appreciated. It would also appear that in at least some circumstances participation in minimum wage boards can be an instructive exercise for employers' and workers' representatives—and also for those whom they represent—which promotes acceptance of the
principle of the collective regulation of the terms and conditions of employment.

Types of decision-making within minimum wage boards

Legislative provisions on minimum wages usually do not go into detail about how the members of tripartite wage boards are to approach their task. It is none the less clear that there can be important differences in the way in which the neutral members conceive of their role and in the extent to which they shift responsibility for taking decisions to the workers' and employers' representatives, who often outnumber them. Since the independent members are frequently government officials with what are basically industrial relations responsibilities, or persons from outside the government with industrial relations experience, they generally conceive of their role as being to promote agreement between the social partners by means of conciliation and mediation rather than to present and defend their personal conception of the public interest. To encourage negotiation and voluntary agreements, the procedure followed in some countries restricts the scope for action of the independent members to either supporting or not supporting specific proposals made by either the employers' or the workers' side. In some cases the respective unity of the employers' and workers' representatives is reinforced by provision for "side voting" in which the majority vote of each side becomes its total vote, or by rules establishing equality of the voting strength for each side regardless of the number of members attending the meeting.

A novel way of encouraging voluntary agreement between the two sides in minimum wage fixing has recently been introduced in the United Kingdom. The 1975 legislative changes in the wages council system, in addition to giving the councils final authority for the fixing of minimum wages and increasing the range of terms of employment for which minimum standards may be established make provision for the conversion in certain circumstances of wages councils into statutory joint industrial councils, consisting only of an equal number of workers' and employers' representatives. By omitting the independent members it is hoped that the representatives of workers and employers will be encouraged to negotiate mutually acceptable agreements. In the event that no agreement is possible provision is made for the Advisory Conciliation and Arbitration Service, a permanent technical body with varied industrial relations functions, to attempt to bring about a settlement of the dispute. If this attempt fails the matter is referred for settlement by arbitration by one or more persons or by the Central Arbitration Committee.

The preliminary work of industry-level boards is usually devoted to
fact-finding, the initial presentation of proposals and an exchange of information and views with a view to clarifying the areas of disagreement. After this stage is completed there are two basic ways in which the independent members can pursue their mediation role. They may attempt to develop a proposal that they believe would be generally acceptable, as a reasonable compromise between the final positions of the employers' and workers' sides. Alternatively they themselves may not make any direct proposals, simply letting it be known that in the end they will vote for a proposal coming from one or other of the two sides. This strategy is based on the assumption that each side's fear that its proposal will be the losing one will generate pressures for concessions and ultimately general agreement. In this context independent members also come under pressure to do everything possible to avoid a vote, which would inevitably mean that one side's proposal is totally rejected.

Whichever approach is followed, the individual sides are often amenable to conciliation efforts, bearing in mind as they must that in the end the position of the independent members will be decisive. Separate meetings may be held to determine possible areas of compromise. Moreover the parties may be made aware that they are expected to develop and submit their own proposals for narrowing the differences. The process of mutual concessions may be furthered by the independent members indicating in a number of subtle ways what they would not vote for without suggesting precisely what they would accept. These and other possible interventions by the independent members can put the two sides under pressure to demonstrate the reasonableness of their position and their willingness to make concessions for the sake of agreement by making them aware that they are dealing with "conciliators with a casting vote".

While the main preoccupation of the independent members is often to achieve agreement, this does not mean that what is required by the public interest is disregarded. Although they may not articulate what, in their view, would be in the public interest, any proposals they may make, or any indication of support they may give for one side's position over the other's, is bound to reflect at least in part their judgement of what is right and not simply what would in some sense be most acceptable to both parties. The role of the independent members is thus bound to be "a complex amalgam of conciliation and arbitration".

In at least some countries a comparatively high proportion of the decisions in tripartite industry boards appear to be unanimous. For example in the state of Victoria in Australia it has been reported that 80 per cent of the cases are decided without the chairman having to exercise a casting vote. In part this reflects the tendency for wage board decisions to be used simply to ratify agreements already negotiated independently.
on a joint basis and in part the comparative effectiveness of the conciliation-cum-arbitration function performed by the independent members.

In other minimum wage systems decision-making is viewed as essentially a tripartite rather than a bipartite activity. The notion of the role of the independent members is that basically they are representatives of the public interest and should bring to bear in the wage fixing process considerations relating to the well-being of the community as a whole. The objective is not just to obtain agreement on any terms acceptable to the employers' and workers' sides but to achieve terms that also take account of the general interest, which it is the responsibility of the independent members to present and defend. Under this approach the search for general agreement and the attempt to promote what is believed to be in the general interest may be given varying emphasis.

The conception of minimum wage fixing as essentially a tripartite process is most usual where the responsibilities of the boards extend beyond a single industry and involve fixing a large number of industry rates or generally applicable minimum wages on either a regional or national basis. When the decision-making is of such broad scope, the implications of minimum wage decisions for the public interest are more apparent and the need to take these implications explicitly into account is more strongly felt.

Often this alternative conception of minimum wage fixing is clearly reflected in the composition of the tripartite boards. The number of independent members is made equal to or greater than the number of representatives of employers and workers. Sometimes it even exceeds the combined voting strength of the social partners. Moreover the independent members are usually clearly designated representatives of various departments or agencies of the government, each with their own particular interests and responsibilities, rather than having the choice limited simply to persons with industrial relations experience inside or outside of the government.

Apart from the fact of knowing that more explicit consideration is given to issues related to the interests of the community, it is difficult to discern a pattern of decision-making when this approach to minimum wage fixing is pursued. The fragmented information available suggests that there is a wide range of practices, combining in varying degree elements of fact-finding, negotiation and adjudication. In some instances the deliberations within the boards may take the form of three-way negotiations, with each side presenting its position and extensive efforts being made to reach a common agreement.

In other instances the members of the different sides, instead of systematically defending the interests they represent, may be expected to act more independently, to the best of their knowledge and under-
standing. This appears to happen when the boards are comprised essentially of government members who are convinced that because of the wide divergence of views between the social partners no satisfactory reconciliation of the interests of all concerned is possible or that minimum wage fixing is really a technical problem to be resolved on the basis of thorough assessment of the facts that leaves little scope for the usual process of negotiation. Either way the contribution of the social partners to the decision-making process may be viewed as being essentially the provision of information and the presentation of arguments on specific issues to assist the deliberations of the board, as opposed to the rigid defence of particular interests and the pursuit of a bargaining strategy. In such circumstances, rather than negotiating, the members of the board are expected to participate in a collegial pattern of decision-making.

The evolution of decision-making in the National Minimum Wage Board of Costa Rica provides an interesting example of what can happen over time. This Board, composed of three representatives each of workers, employers and the Government, has been responsible since 1949 for fixing minimum wages for all industries in the country. A detailed analysis of its decisions in 1962 and 1972 shows that the arguments presented by the three groups represented on the Board reflected, as was to be expected, quite different goals. The employers' representatives emphasised the need to prevent pay increases that would substantially increase production costs, while the workers' representatives tried to protect or increase workers' real incomes and to ensure for them their share of the nation's economic growth. The government members for their part accorded priority to economic stabilisation objectives. As for the voting patterns, in 1962 96 out of the 160 motions were carried unanimously but by 1972 only 28 out of a total of 407 got through unopposed. At the same time there was a shift from a split to a block voting pattern, there being usually no division within the respective interest groups. With the growing polarisation between the workers' and employers' sides, it was found that the government group was increasingly having to cast the deciding votes.6

Co-ordination with national economic and social policy

Concern with co-ordination between minimum wage fixing and national economic and social policy has been particularly apparent amongst developing countries. This reflects, on the one hand, the major impact that minimum wages have had on wage determination in a number of these countries and, on the other, the important role of the State in economic affairs, particularly with regard to development planning. In many countries it is felt that wage questions have too important a bearing on the success of general economic and social
development policy to be completely isolated from the general policy-making machinery.

The ways in which the minimum wage fixing machinery has been adapted to ensure the required co-ordination vary. As already mentioned, in some countries this has been the essential reason why the main responsibility for the preparation and acceptance of minimum wage decisions has remained within the executive. Elsewhere, however, this approach has been viewed as incompatible with the need to provide an opportunity for employers' and workers' representatives to participate directly in the taking of decisions on minimum wages.

Another way is to delegate responsibility for the preparation of minimum wage decisions to tripartite bodies but have the executive authority scrutinise the resulting recommendations to ensure their compatibility with national economic and social policy and, where necessary, make the required changes. As noted earlier, this approach appears to be widely envisaged in the minimum wages legislation of developing countries. However, when relied upon as the sole means of ensuring co-ordination it has a number of practical limitations. In addition to delaying decision-making, a detailed and substantive review of minimum wage recommendations may require those in the executive agencies concerned to duplicate much of the work carried out by the boards. Perhaps of greater importance is the fact that, even if the legislation clearly envisages the possibility, it is not always easy for the minister of labour or the government to reject or substantially amend the recommendations of a tripartite minimum wage board, formulated often after lengthy debates and a process of mutual accommodation, without running the risk of undermining confidence in the decision-making process among the members of the board.

As a general principle it would appear preferable for the government officials responsible for ensuring that the minimum wage decisions conform with national economic and social policy to do everything possible to influence the minimum wage proposals at the stage of their preparation and thereby avoid the eventuality of having to reject them. With the responsible government officials taking part in the discussions of the boards, they may influence the views of the other participants—providing them with information on national needs and problems that may not otherwise be available—and in turn be influenced. This avoids a situation where their advice is being sought on decisions without their having heard the discussions on which the decisions are based or having had access to all the information taken into account. Moreover participation of the key ministries in the preparation of minimum wage recommendations may help to ensure that differences of view within the government (e.g. between the ministries of labour and of finance) are identified and reconciled at a comparatively early stage rather than in the final stages of the decision-making.
This is why, when minimum wage fixing plays a major role in the national system of wage determination, the independent members of the minimum wage boards are not infrequently representatives of specified government departments or agencies, in particular the department of labour and those units concerned with economic planning and finance; as well as others. For example in Ecuador the National Wages Board is composed of the Under-Secretary of Labour, who presides, the Under-Secretary of Finance or his Permanent Representative, the Technical Director of the National Planning Committee, the General Manager of the Ecuadorian Social Security Institute, a workers' representative and an employers' representative. In Iraq the committee responsible for fixing minimum wages includes representatives of the Ministries of Labour, Industry and Mines, Planning, Finance, Agriculture and Agricultural Reform, and Economy (foreign trade), as well as representatives of the Central Bank, the Central Employment Agency and employers and workers. In Guatemala membership of the National Minimum Wage Commission is limited to six persons—two each representing workers, employers and the Government—but in addition there are a number of advisers to the Commission representing the government agencies concerned (the Ministry of Labour, the Ministry of the Economy, the National Bank, the Guatemalan Institute of Social Security, the National Institute of Statistics and the Indigenous Population Institute).

In order to ensure a unified presentation of the views of the Government some countries (e.g. Colombia and Costa Rica) have adopted the practice of making co-ordinated government submissions to the minimum wage board, setting out precisely the official position concerning economic trends and prospects and the scope that exists for wage increases. Since such submissions normally bear the stamp of approval of the highest political authorities, they inevitably have a considerable influence on the decisions ultimately taken.

DIFFICULTIES ENCOUNTERED IN THE FUNCTIONING OF MINIMUM WAGE FIXING MACHINERY

Although the assignment of effective responsibility for decision-making has been the most fundamental issue in the design of minimum wage fixing machinery, other problems of a more technical or administrative nature have arisen from time to time, particularly in the functioning of minimum wage boards. The following section deals with what appear to be the most widely encountered and important of these problems and the measures taken to overcome them.
The selection of board members

Where minimum wage fixing implies an important role for tripartite boards, the acceptability of their decisions will depend in no small measure on the extent to which the members are viewed as being representative and as having appropriate qualifications. This is particularly important for the workers’ and employers’ members, who must meet with the approval of the groups they are deemed to represent. The Minimum Wage-Fixing Machinery Recommendation, 1928 (No. 30), states the following:

In order to ensure that the employers' and workers' representatives shall be persons having the confidence of those whose interests they respectively represent, the employers and workers concerned should be given a voice as far as is practicable in the circumstances in the selection of their representatives, and if any organisations of the employers and workers exist these should in any case be invited to submit names of persons recommended by them for appointment on the wage-fixing body.

The same principle is found in a number of other ILO instruments (e.g. the Minimum Wage Fixing Machinery (Agriculture) Recommendation, 1951 (No. 89), the Consultation (Industrial and National Levels) Recommendation, 1960 (No. 113), and the Minimum Wage Fixing Convention, 1970 (No. 131)).

The methods used to ensure that those selected to serve as employers' and workers' members are in fact truly representative fall into four categories. First, the employers' and workers' organisations considered eligible to participate in the selection process are in some countries given the right to name their own representatives. Thus in the United Kingdom, as a result of a recent change in legislation, the workers' and employers' representatives on wages councils are appointed by trade unions and employers' associations nominated for that purpose by the Secretary of State. Second, legislation in a few instances prescribes that elections be used to select the employers' and workers' representatives or the candidates from among whom the representatives may be appointed by the competent authority. In Mexico detailed regulations govern the conditions and procedure for conducting elections in meetings periodically convened by the Government. The participants in the elections are the delegates of duly accredited groups of employers and workers. A notice concerning the holding of the elections prescribes the number of representatives to be chosen and their distribution among specified groups of industries and activities. The employers' and workers' delegates for each of these groups elect the number of representatives assigned to them. In Ecuador there are elections in meetings specially convened for the purpose only where either the employers or the workers are unorganised. Otherwise a representative organisation of the employers and a representative organisation of the workers in the region and industry concerned each designate a member of the sectoral boards.
Third, employers and workers are sometimes given the right to present a list of candidates from which the competent authority is obliged to make appointments. Thus in Costa Rica, with a view to the appointment of members to serve on the National Minimum Wage Board, the Minister of Labour and Social Welfare must issue a notice one month in advance inviting the employers’ and workers’ associations each to submit to him a list of ten persons. On receipt of these lists three employers’ and three workers’ representatives are nominated by the executive from among the proposed candidates. Finally, perhaps the most widely used method is for the competent authority to consult the organisations concerned before nominations are made. There is usually no prescribed procedure in this connection. In both Kenya and Tanzania the legislation simply requires that, before appointments are made to wages councils or boards, the Minister shall consult with any organisations appearing to him adequately to represent the employers and the workers concerned. In some cases (e.g. India) consultations are a matter of administrative practice rather than legislative requirement.

In certain countries (e.g. Costa Rica and Sri Lanka) the legislation provides not only that the workers’ and employers’ members must be selected in close collaboration with the respective organisations but also that they may be replaced if they fail to retain the confidence of the organisations they represent. Such arrangements make it clear that they are appointed not in their personal capacity but as being representative of specific interests.

Selection and revocation procedures vary greatly in terms, on the one hand, of administrative convenience and cost implications and, on the other, of how far they are likely to ensure true representation of the groups concerned. While elections may be the surest way of achieving true representation and of demonstrating the neutrality of the government, they necessarily involve considerable cost and delay. If instead, for reasons of convenience, particular organisations are given the right to nominate candidates or their own representatives, it may be objected that other organisations have been excluded from the consultation process, or that unorganised workers and employers have been given no opportunity to make their voice heard. Governments may wish to remain free to select candidates from lists in order to ensure that the persons appointed have the requisite abilities and attitudes, that there is a proper distribution of seats among the different organisations concerned and that the organisations do not always name the same people to serve on various boards. But again this may give rise to charges that the selections are being made on political grounds or in ways that are bound to foment squabbling and rivalry within the trade union movement itself. Similarly, if governments opt for retaining some flexibility concerning which organisations to consult on selections, it may not always be easy
Machinery and procedures

for them to demonstrate that the choices are being made in a fair and impartial manner.

Exercising discretion in the selections is clearly most difficult where there are several organisations with conflicting claims to representation. In some countries efforts are made to adjust the size of the boards to the number of such organisations. This is specially true in countries running industry-level minimum wage systems patterned after the wages councils of the United Kingdom. In other instances it may be considered necessary for practical reasons to limit the right to participate in the selection of the workers' and employers' representatives to what are judged to be the most representative organisations. In Trinidad and Tobago this consideration is reflected in the minimum wage legislation, which prescribes that the Minimum Wages Board is to include one member nominated by "the associations most representative of employers" and one member nominated by "the associations most representative of labour". Apart from the requirement that they should be representative, it is relatively rare for legislation to specify other qualifications for the workers' and employers' members beyond very basic ones relating to age, citizenship and literacy. One exception is the state of Tasmania in Australia, where the qualifications required include involvement with the industry concerned and where there is a prohibition on legal practitioners.

Persons selected to serve as independent members are generally not required by law to have any particular qualifications other than those common to all board members. However, the legislation often states explicitly that the independent members of industry boards must not have a financial involvement in the industry concerned. Occasionally technical qualifications required of the independent members are also specified in general terms. Thus in Pakistan the chairman and the independent members are to be persons with an adequate knowledge of the industrial, labour and economic conditions of the province. In Mexico the Chairman of the National Minimum Wage Board and the technical advisers must have an advanced degree in law or economics.

The consistency and quality of board decisions

One of the main advantages of decentralised minimum wage fixing machinery, involving a series of boards at the industry or regional level, is that the economic issues that must be dealt with by board members are usually much more tractable than those associated with comparable decisions at the national level. Moreover, such decentralised machinery gives considerable scope to workers' and employers' representatives to participate in a meaningful fashion in the decision-making, since generally acceptable results can often be achieved through negotiations
conducted mainly between them. However, decentralised systems can give rise to concern about the quality and consistency of the ultimate decisions. Since these are reached through a process of independent negotiations in separate bodies, there is no guarantee that they will be sufficiently uniform to be acceptable from the public policy point of view. Moreover decentralised decision-making inevitably tends to give priority to industrial or regional factors, and in some instances this may appear to be at the cost of national economic and social policy objectives or of neglecting problems that are apparent only at the level of the system as a whole. Also, when decisions are made by a large number of independently functioning boards, it is not easy to ensure satisfactory accumulation and sharing of experience, or to have the benefit of scarce technical expertise. And with a large number of boards it is not always easy to find a sufficient number of suitably qualified individuals to act as members, especially independent members.

These and other difficulties are among the reasons why in some countries a single national board is relied upon to fix minimum wages, even where the rates are differentiated by industry and/or region. In other countries attempts have been made to improve the quality and consistency of minimum wage decisions while maintaining the advantages associated with decentralised decision-making. For example this has been done through the establishment of a two-tier system of boards, with a national board reviewing the decisions of lower-level boards. In Mexico the recommendations of the 110 regional minimum wage boards are submitted to the National Minimum Wage Board, which has the authority to modify them if necessary. In Ecuador the National Wages Board advises the Minister of Labour and Social Welfare not only on the decisions but also on the policies of the sectoral boards. In Japan, for the first time in 1978, the Central Minimum Wages Council issued suggested increases for prefectural general minimum wages, to be taken into account by the 47 prefectural minimum wage councils.

A problem with two-tier board systems, however, is that the operation of the machinery may be too cumbersome and time consuming to be effective. Moreover it may not always be considered practical for the higher-level board to modify decisions of lower-level boards reached after protracted fact-finding and negotiations.

Accordingly other ways have been devised to achieve greater consistency and quality in the decisions emerging from decentralised machinery. Under the Wages Boards Ordinance of Sri Lanka the Labour Commissioner is required to act as the non-voting chairman of all wages boards. In addition, as in the United Kingdom, an effort is made to appoint the same set of people to serve as the independent members of several boards. In the state of Victoria in Australia there are three full-
time chairmen who share responsibility for chairing over 200 boards, while in the state of Tasmania there is one full-time chairman, and a full-time deputy-chairman who may replace the chairman as required, for all the industrial boards, the chairman or his deputy being the only independent member of each board. Bangladesh, Jamaica and Pakistan have followed a different approach. In each of these countries a permanent tripartite body has been established to fix minimum wages for all industries, but whenever the minimum wage for a particular industry is being set, a representative of the employers and a representative of the workers in the industry concerned are added to the membership on a temporary basis.

It is also sometimes maintained that better results might be achieved from decentralised machinery if the boards were obliged to adhere to precise criteria and/or to set out in writing the reasons for their decisions. In practice, however, attempts to bring about improvements in decision-making in this way appear to have been comparatively few. The practicality of this approach is open to question on a number of grounds. As will be described in the next chapter, the usual criteria for minimum wage fixing are so general and multidimensional that they cannot be used as a source of close guidance. Precise indications on how specific criteria are to be applied and on the relative importance of the different criteria are rare. Furthermore it is often very difficult to describe except in quite general terms the reasons why a particular decision was taken, as decision-making in the individual boards is usually more akin to negotiation than adjudication.

Delays in decision-making

Another frequently encountered problem in the operation of decentralised wage board systems are the long delays in decision-making, though experience in this respect is remarkably diverse. In the United Kingdom, for example, a study of the operation of wages councils published in the early 1960s showed that most of them were convened rapidly and reached a decision at the end of just a single meeting. Subsequent procedural requirements took about seven to ten weeks. In general the wages councils are able to take their decisions and put them into effect reasonably expeditiously. Also, in the Australian states of Victoria and Tasmania, one of the generally recognised virtues of the board system is the speed with which meetings are convened and business carried out. 8 Decision-making also appears to be expeditious where, as in Iran, Japan and Mexico, there is a commitment to adjust minimum wages on a precise date every year. On the other hand, delays in decision-making in some countries have been very long—in some cases extending over several years.
The reasons for long delays vary. In some instances they are due to the fact that the boards do not consider it practical to base their decisions on readily available information and launch special surveys that take time to design and execute. Ad hoc boards appear to be particularly slow in reaching decisions. Not only may it take a long time to constitute them, but also, since the members usually lack experience, the frequent doubts about how to proceed are reflected in lengthy deliberations. Another cause of lengthy delays is cumbersome machinery which makes initial board recommendations subject to a series of reviews. Delays may also be caused by non-attendance at meetings or the difficulty of scheduling meetings at a time convenient to all board members, most of whom have many other responsibilities. Legal challenges to board procedures have also been known to constitute a serious source of delay. In addition, for administrative reasons that are not always apparent, long delays sometimes occur between the formulation of recommendations at the wage board level and the issuing of minimum wage orders by the government. This can be particularly troublesome as, by the time the orders are finally issued, the economic conditions which formed the basis of the original recommendations may have changed. More generally it is evident that lengthy delays can undermine the effectiveness of minimum wage fixing machinery and cause serious hardship, especially where the regular process of wage adjustment is suspended until minimum wage decisions have been finalised.

One of the ways in which it has been attempted to minimise delays has been through setting time-limits for the decisions by the boards and for the related administrative procedures. In other cases a timetable for the work of individual boards is more or less imposed by the existence of a commitment by the government to fix or adjust minimum wages by a specified date. However, such deadlines are not always effective, especially where there is no scope or desire for the application of sanctions or recourse to alternative procedures when the decision-making takes longer than the prescribed limits.

The minimum wage laws of many countries contain provisions specifically designed to eliminate commonly encountered causes of delay, like those envisaging secretarial support for the boards in order to ensure that the time of the members is not spent on routine administrative matters, or those requiring the appointment of a substitute or alternative for the regular members so as to avoid the problem of non-attendance at meetings. In Pakistan, if a member absents himself from three consecutive meetings without leave of absence from the chairman, he ceases to be a member of the board. In addition, if either the employers' or workers' side fails to attend three consecutive meetings, then the quorum rule requiring representation of each of the three groups is waived. Also a number of countries (e.g. Jamaica, Pakistan and the United Kingdom)
have legislation that stipulates that the proceedings of the boards shall not be invalidated for technical reasons such as a vacancy or a defect in the appointment of a member.

Efforts to reduce delays have also been made by streamlining and simplifying the operation of the minimum wage fixing machinery. In many countries there is no provision for appeal against board decisions (Ecuador and the Australian states of Tasmanina and Victoria are exceptions) and usually no more than a single review of board recommendations by higher authorities is provided for. In a number of countries the desire to achieve more expeditious decision-making is one of the main reasons why a single centralised board has replaced a more elaborate system of decentralised machinery. Other countries try to keep the size of the boards small, to limit the number of separate rates and to make the orders fixing the rates as simple as possible. Also when draft minimum wage regulations are required to be published, the period during which objections may be submitted is often kept comparatively short (e.g. two weeks in the United Kingdom).

However, machinery, rules and administrative practice influence the pace of decision-making only up to a point. Of much greater significance in this respect is the priority given to the minimum wage programme by all concerned. For the workers and the employers this is reflected in their participation in the wage fixing boards and in the pressure they bring to bear on the government to ensure that the machinery operates effectively. For the government it is reflected in the extent of its efforts to administer effectively the minimum wage fixing programme and the resources it makes available for the technical support of the programme. Enormous differences in this respect occur from country to country as well as over time. In the following section a closer examination will be made of the nature of the technical support that governments may provide.

Research support

There appears to be general recognition that the soundness of minimum wage decisions depends in no small measure on having available relevant and properly evaluated information. None the less there are important differences in the priority assigned in various minimum wage systems to information collection and research.

In a few industrialised countries, such as Ireland and the United Kingdom, the minimum wage fixing machinery appears to serve essentially as a forum for negotiations between the employers' and workers' sides and for arbitration on differences of views. To a large extent the collection and analysis of information is seen as the responsibility of the members of the two sides and as being outside the framework of the regular activities of the minimum wage boards. The
assumption is that each side will collect and present the information required to support its negotiating position, thereby providing an adequate basis for reaching decisions.

However, elsewhere, including in most developing countries, fact-finding and research appear to be conceived of as an integral part, if not as the main activity, of the minimum wage fixing machinery. The boards are viewed as investigatory bodies whose duties include, first of all, the consideration of information which they themselves have collected or have had especially collected for them. The reconciliation of divergent views only occurs after this first stage has been completed.

Minimum wage legislation often grants the boards powers to enable them to carry out such investigations. They may be entitled to hold hearings, compel the attendance of witnesses and receive statements under oath. Employers may be obliged to co-operate with them by making available documents and information and allowing access to their premises for on-the-spot investigations. Provision is also sometimes made for experts to work with the boards as non-voting advisers or assessors.

Often such legislative powers of investigation have been supplemented by provisions that envisage the existence of a full-time technical staff whose duties include essentially the compilation and analysis of the information required by the boards. In some cases the technical staff is attached directly to the board. Thus in Mexico the National Minimum Wage Board consists of a Chairman, a Council of Representatives and a Technical Directorate (Dirección técnica). The functions of the latter, prescribed by law, are as follows: (1) to carry out the necessary and appropriate technical studies for the division of the Republic into economic zones, submitting a report in this regard to the Council of Representatives; (2) to propose to the Council of Representatives modifications in this division whenever circumstances justify it; (3) to carry out the investigations and studies necessary and appropriate for the regional boards and the Council to fix minimum wages; (4) to make recommendations regarding occupational minimum wages; (5) to publish regularly information on fluctuations in prices and their repercussions on the cost of living for each of the economic zones . . . ; and (6) to resolve, upon the order of the Chairman, questions raised concerning fluctuations in prices and their repercussions on the purchasing power of wages. The studies undertaken by the Technical Directorate are considered by the regional boards, which may carry out investigations of their own. The Council of Representatives may also carry out its own studies, and approves the annual plan of work of the Technical Directorate.

In other countries the legislation makes a unit of the ministry of labour responsible for providing technical support to the minimum wage fixing bodies. In Ecuador the Department of Wages of the Ministry of
Labour and Social Welfare acts both as the technical and the administrative secretariat for the National Wages Board. Its functions vis-à-vis the Board, as defined by a Presidential Decree, are to organise investigations aimed at collecting the data necessary for the fixing and revision of minimum wages and salaries; to solicit, at the request of the Board, technical data and economic reports in the possession of public, semi-public and private enterprises; to prepare reports to serve as a basis for discussion by the Board; to advise the Board on trends and wages policies in Latin America and, in particular, in the Andean Pact countries; and to act on the requests of the Board.

Even where there are no directly relevant legislative provisions, labour administrations often make arrangements to supply information to the minimum wage fixing authorities. In Sri Lanka, for example, where the minimum wage law makes no reference to research activities, the normal practice is nevertheless for the Ministry of Labour to undertake an extensive survey in the industries where it is proposed to fix minimum wages. The findings of these surveys are important not only when it comes to defining the scope of minimum wage orders but also in giving an indication of the pattern of prevailing wages.

While the need to supply minimum wage boards with adequate information is widely recognised, in developing countries lack of information is still a serious, if not the most serious, constraint on the work of the boards. Unlike the situation in developed countries readily available sources of information are often very limited and only of partial relevance for the problem at hand. This means that the needed data can be obtained only by means of special surveys, which not only take a long time but also are costly to carry out on the scale required. All too often this fact fails to be appreciated when government budget decisions are being made, with the result that the resources devoted to research in support of minimum wage fixing programmes are inadequate. In addition, not infrequently ministries of labour lack the staff required to design and execute the necessary research programmes and there is much doubt as to the kinds of information that should be gathered. Consequently those participating in minimum wage fixing activities in developing countries frequently have to make do with information that is only fragmentary. This adds considerably to the uncertainty surrounding minimum wage fixing, and in some instances appears to account to a large extent for the incomplete and delayed implementation of minimum wage fixing programmes.

Notes

Minimum wage fixing: An international review of practices and problems


3 ILO: Les salaires dans les pays d’Afrique francophone, op. cit., p. 11.


8 Fristacky, op. cit., p. 321.
CRITERIA FOR FIXING MINIMUM WAGES

Defining meaningful criteria to guide the fixing of rates has turned out to be one of the most troublesome aspects of the administration of minimum wage programmes. Such criteria are often seen as being of vital importance for ensuring that minimum wages meet the objectives set for them and that decision-making is not arbitrary, but principled and reasoned. Moreover they are sometimes considered as a means of narrowing the differences of view that are inevitable among those participating in the decision-making process. However, it has proved to be a notoriously difficult task to lay down criteria of general application that are nevertheless precise. In order to cover the various factors considered relevant for fixing minimum wages at different levels they tend to be couched in somewhat abstract terms. Finding ways to make these general concepts operational has not proved easy. In this chapter first the various criteria that have been specified in legislation for minimum wage fixing will be reviewed. Then the main problems connected with the use of the most generally accepted criteria and the relationship of these criteria with the roles for minimum wage fixing already described will be examined. Finally, a few comments will be made on how the criteria are applied in practice.

ILLUSTRATIONS AND CHARACTERISTICS

Despite the apparent difficulties, in many countries legal texts do specify to a greater or lesser extent the criteria that should guide the fixing of minimum wages. In some cases the relevant provisions are limited to stipulating simply that minimum wages shall be sufficient to meet basic needs without going into further detail. Thus in Costa Rica the 1949 Constitution, apart from requiring equal pay for equal work, declares that every worker is entitled to a minimum wage that will ensure his well-being and a dignified existence.¹ The only other guidance is to be found in
the minimum wage law of 1949, which provides that wage fixing is “to contribute to the well-being of the family . . . and to promote a just distribution of wealth”. In other countries the legislation defines briefly what are considered to be basic needs. Thus in Iraq the Labour Code states that wages must be sufficient to ensure for the worker a decent human standard of living satisfying his basic requirements as regards food, clothing and housing. In Brazil the only indication given for the level of the minimum wage is that it should satisfy, at any given time and in any given region, the ordinary needs of a worker for food, shelter, clothing, health care and transportation. Similarly in Argentina the only criterion laid down in legislation is that the minimum wage shall ensure for a worker without family responsibilities adequate food, proper accommodation, education, clothing, medical care, transport, recreation, holidays and insurance coverage. In Mexico the basic needs to be taken into account are spelled out in greater detail. Both the Constitution and the Federal Labour Act stipulate that the minimum wage shall be sufficient to meet the normal requirements of a head of a family of a material, social and cultural order and to meet the obligatory educational requirements of his children. The matters on which the Federal Labour Act requires studies to be undertaken by the Technical Directorate of the National Minimum Wage Board include the cost of living by family size, the economic conditions of the consumer markets and the indispensable budget required to meet the following needs of each family: “inter alia, material needs, such as housing, household effects, food, clothing and transport; social and cultural needs, such as entertainment, sports, attending educational courses, libraries and other cultural centres; and expenses in connection with children’s education”. In addition to specifying the social criterion of ensuring a minimum living wage, legal texts often make explicit the need to take into account economic constraints. Most of the formulations in this respect are quite straightforward. Thus the Fair Labor Standards Act of the United States refers to the need to correct and as rapidly as practicable to eliminate conditions detrimental to the maintenance of the minimum standard of living necessary for health, efficiency and general well-being of workers without substantially curtailing employment or earning power. In a number of French-speaking countries the only restrictive provision is that the tripartite consultative bodies concerned with minimum wage fixing shall examine the “minimum living wage” and “economic conditions”. In Japan the Minimum Wages Law simply states that “minimum wages shall be fixed with due regard for the cost of living of the workers, the wages of kindred workers and the normal capacity of industries to pay wages”. Where the legislation provides for the fixing of industry as well as general minimum wages, the criteria are often somewhat more detailed.
In Peru the decree establishing the minimum wage system states that every person who works shall be entitled to equitable and satisfactory remuneration ensuring for himself and his family an existence in conformity with human dignity.10 In addition minimum wage decisions are required to take into account the cost of living in the respective localities or regions as determined in a manner specified by regulations; the nature, manner and output of the work concerned; the general economic conditions in the region and the special conditions of the economic activity or branch concerned.11 In Honduras the Minimum Wage Act of 1971 requires minimum wages to be fixed at the highest levels which the industry may be reasonably in a position to pay, considering the economic and competitive conditions, and must not result in one zone or region having a competitive advantage over any other. Moreover, it requires that studies of the following factors be taken into account: the characteristics of each occupation, the particular conditions obtaining in each region and job, the cost of living, the relative aptitude of the workers and the systems of remuneration followed in the undertakings.12

The final example to be provided here is distinguished by the extent to which the economic considerations that should enter into minimum wage fixing have been elaborated upon. The Labor Code of the Philippines requires that the minimum wage shall be as nearly adequate as is economically feasible to maintain the minimum standards of living necessary for the health, efficiency and general well-being of the employees within the framework of the national economic and social development programme. Consideration must be given to, inter alia, the cost of living; comparable wages and other incomes in the economy; a fair return of the capital invested; and the imperatives of economic and social development.13 The supplementary rules and regulations14 oblige the Minimum Wage Commission also to take into account social services and benefits provided free of charge to the workers, as well as the possible effects of a given increase in the minimum wage on prices, money supply, employment, labour mobility and productivity, labour organisation, domestic and foreign trade and other relevant indicators of social and economic development. In addition, where what is a fair return of the capital invested cannot reasonably be determined, or where the industry concerned is not operated for profit, its capacity to pay, taking into account all the resources available to it, has to be considered.

As the examples show, criteria for fixing minimum wages specified in national legislation vary enormously, from brief statements of general principles to quite lengthy listings of factors to be taken into account. National legislation may also be completely silent on the issue of criteria. This is true of Canada, the Netherlands and the United Kingdom and many countries which have been influenced by British practice (e.g.
Bangladesh, India, Jamaica, Kenya, Sri Lanka and Tanzania). In these countries the wages boards, councils or other bodies involved in minimum wage fixing are free to adopt the criteria they consider most appropriate in the circumstances. There are two main arguments justifying this approach. First, where industry boards or councils have been conceived of as a transitional means of wage determination, to be used only until the workers and employers have become sufficiently organised, not having formalised criteria makes the decision-making more akin to collective bargaining. Second, the criteria normally used are considered not to be sufficiently precise to warrant inclusion in legislation or to serve as a meaningful guide.

At the international level there have been several efforts to clarify and summarise the various criteria to be used in determining minimum wage rates. While neither Convention No. 26 (1928) nor Convention No. 99 (1951) contains provisions dealing with criteria, Recommendation No. 30 (1928) suggests that:

For the purpose of determining the minimum rates of wages to be fixed, the wage-fixing body should in any case take account of the necessity of enabling the workers concerned to maintain a suitable standard of living. For this purpose regard should primarily be had to the rates of wages being paid for similar work in trades where the workers are adequately organised and have concluded effective collective agreements, or, if no such standard of reference is available in the circumstances, to the general level of wages prevailing in the country or in the particular locality.

Similarly Recommendation No. 89 (1951), which applies to agriculture, advocates that the wage fixing body should "take account of the necessity of enabling the workers concerned to maintain a suitable standard of living". The factors specifically enumerated for consideration are the following: the cost of living, fair and reasonable value of services rendered, wages paid for similar or comparable work under collective bargaining agreements in agriculture, and the general level of wages for work of a comparable skill in other industries in the area where the workers are sufficiently organised.

When the ILO again considered the question of minimum wages in 1969 and 1970 it was faced with the fact that they were performing a much broader role in many countries than anticipated by the existing instruments, and that, particularly in developing countries, nation-wide economic repercussions could not be ignored. Accordingly Convention No. 131 (1970) specified a number of economic factors as well as the previously used social considerations as criteria for minimum wage fixing. Article 3 reads as follows:

The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include—

(a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
Criteria

(b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

These same criteria also appear in Recommendation No. 135 (1970), although presented in a somewhat different form.

Some general characteristics of the criteria used warrant comment at this stage. To begin with, their formulation is usually such that the minimum wage fixing authorities are left broad discretion as regards their interpretation and application. Although at one time in Chile the minimum wage was defined as "a wage not less than two-thirds nor more than three-fourths of the usual or current wage paid for the same kind of work to wage-earning employees with the same qualification or of the same category in the town or region where the work is performed", such exactitude is rare. The criteria are normally quite abstract, the task of making them operational being left to the minimum wage fixing authorities. Several are usually identified, and even where legislation just refers to the need to provide a living wage, it is generally understood that this means taking into account the economic capacity and the stage of development of the country concerned. As Article 3 of Convention No. 131 (1970) illustrates, the minimum wage fixing authorities are expected to strike a balance between economic and social concerns. Where various criteria are specified, the relative importance of each is not defined. It is the minimum wage fixing authorities who must make this determination according to the role for minimum wage fixing they have in mind and the related objectives. As will be shown there is an intimate link between the objectives and criteria for minimum wage fixing and, indeed, sometimes it is not easy to distinguish between the two.

Most of the criteria formulated for fixing the relative level of minimum wages are variants of the following four basic concepts: (i) the needs of workers; (ii) comparable wages and incomes; (iii) capacity to pay; and (iv) the requirements of economic development. In the following sections consideration will be given to the ways in which each of these concepts has been interpreted and applied. The next chapter on the adjustment of rates will deal with such factors as changes in the cost of living, wage trends and productivity growth which are more relevant for updating minimum wages.

THE NEEDS OF WORKERS

In many countries the concept of a living wage has been intimately linked with that of minimum wages since the latter's inception, a living wage being proclaimed the principal objective and criterion for minimum wage fixing in many constitutional and legislative texts (e.g. in Argentina,
Brazil, Chile, Colombia, Costa Rica, Iraq, Mexico and Panama). Even where the law is silent on objectives and criteria, the notion of the needs of workers has often been an important element in national debates on minimum wage levels (e.g. in India and Indonesia). In some countries interest in the concept has been rekindled by the increased attention being given to the satisfaction of basic needs as an economic development strategy. It is not surprising, therefore, that many minimum wage fixing authorities, particularly in developing countries operating minimum wage systems of broad coverage, have initially set about their task by attempting to define the quantities of specified goods and services considered essential for meeting worker needs and pricing this “basket” in order to arrive at the required income. While the appeal of such a concrete and straightforward approach to determining minimum wage levels is considerable, many difficulties are encountered in its application. Hence, although the needs criterion perhaps comes closer than any other to the original concept of a minimum or living wage, in practice it has become the most controversial and elusive benchmark.

Part of the problem is that no one has uncovered a reasonably objective or generally accepted way of determining which needs should be included in the budget. Although food requirements are often considered to be the least problematical, serious difficulties arise even in this connection. Experts’ estimates of what are normal nutritional requirements vary, and in most parts of the world many people anyway have to survive on diets that fall well below the specified standards. Moreover the needs of individuals differ, because of differences in both their physical characteristics and their work or environment. While the calculations may allow for variations according to age and sex, it is usually considered impractical to attempt to deal with differences in weight, health, work environment or level of activity, even though they may have an important effect on requirements. An FAO/WHO study has indicated that the typical expenditure of energy per hour by men and women respectively is 140 and 100 calories for light work; 175 and 125 for moderately active work; and 300 and 225 for very active work. The same study fixes daily calorie requirements for a man of 20–39 years of age, weighing 65 kilograms, at 2,700 for light activity and at 4,000 for exceptional activity. Deciding upon diets that will meet specified requirements in terms of calories, proteins, vitamins and minerals raises further problems. These diets can be quite different depending upon whether priority is given to reducing costs rather than to ensuring variety or conformity with prevailing habits and tastes. Also it is not evident to what extent allowance should be made for the fact that it is unrealistic to expect households to make their food purchases or to cook and serve their meals in a nutritionally optimal fashion.

When it comes to non-food needs the difficulties are compounded.
Should only expenditures considered essential for subsistence or survival be taken into account or should social needs be considered as well? And if the former, how is it to be decided what are essential expenditures on clothing, housing, health and transportation? The conception of social needs, where these are taken into account, appears to be linked with human dignity. Thus a widely held view is that a family should not be obliged by poverty to live in a manner that sets it apart from other families in the same social group and precludes it from respecting the established customs of the community. But on the spectrum ranging from destitution, through penury to sufficiency in a given community, no clear guidance can be obtained from this notion of poverty on how to pinpoint the level at which social needs for such items as clothing, housing, education, and cultural and recreational pursuits are met. The difficulties involved in defining absolute standards for all or most non-food expenditures have resulted in recourse to an indirect approach in some countries. For example the actual ratio of food expenditure in total expenditure, as determined by household budget surveys covering low-income families, can be used to estimate the cost of a nutritional diet for purposes of calculating total required income. Or actual expenditure on certain non-food items, as shown by such surveys, can be used in budget estimates. However, this way of proceeding begs the question of whether observed patterns of expenditure on non-food items can legitimately be equated to what is considered to be acceptable, necessary or essential. Defining absolute standards for non-food expenditures is made more difficult by the fact that it is widely recognised that these must vary in line with national conditions (e.g. climate, social security arrangements) and especially the stage of economic development reached by the country concerned. In the United States non-food expenditures account for roughly two-thirds of estimated poverty level incomes as opposed to between a half and one-quarter of such incomes in developing countries.

Even if it is possible to arrive at some workable specification of needs, there still remains the issue of whose requirements ought to be assessed for the purposes of minimum wage fixing. Should the reference worker be a bachelor or the head of a family? If, as increasingly appears to be the practice, the latter is selected, what family composition should be assumed? Should it be a synthetic composition, considered to be representative or desirable (e.g. a man, a woman and two or three children), or should recourse be had to some statistical measure of the average or typical family? If the latter procedure is adopted, should the measure be based on all workers on only those likely to be affected by the minimum wage increase? Should the minimum wage be sufficient to enable the head of a household to provide for the entire needs of his family or should account be taken of the average number of income
earners per family? Should full-time employment be assumed or should the basis for calculation be the actual number of hours worked per year by low-wage groups? Obviously the way in which these questions are answered will have a very important influence on the income considered essential for meeting a worker’s needs. Yet there is no simple means of making the necessary choices, and practices vary enormously from one country to another. Moreover whatever the family composition and income earning pattern selected, they cannot avoid being poorly representative. If, as often happens, the required wage for an “average” family, assuming full employment, is calculated, this would be much more than sufficient for a bachelor while still being woefully inadequate for a large family with only irregular employment.

It is not surprising, therefore, that it has not generally proved possible to use budget estimates to calculate required minimum wages directly, or even as a point of departure in discussions of what the level might be. In some cases it is not possible to obtain sufficient agreement on what the budgets should contain. In France, for example, when the national minimum wage was introduced in 1950, the employers’ and workers’ members of the Collective Agreements Board were able to reach agreement only with respect to the food requirement of a bachelor working in the Paris region. Although a budget was finally established it was never directly linked to the level of the minimum wage. Similarly in the United States, although comparisons are frequently made between minimum wage levels and estimated poverty level incomes, the latter are not used directly to calculate what minimum wage rates should be. The ratio of the income of a minimum-wage worker to the poverty level income of a four-person family was 70 per cent in 1959 and had gradually risen to 84 per cent by 1978.20

In many, if not the vast majority, of developing countries the estimates of required income are so high relative to prevailing wage rates that they do not provide a very meaningful basis for decisions. Thus in Honduras an inquiry carried out by the Government in 1977 into the budget required by a family of five persons to have adequate food alone indicated the need for an income of 5.21 lempiras per day (one lempira = 0.50 US$). But several months later a decree fixed the minimum daily wage in manufacturing at three to four lempiras depending upon the zone. Similarly the first report of the East Pakistan Minimum Wage Board on the cotton textile industry recommended a minimum wage less than one-half of its estimate of the amount needed by a wage earner to provide his family with an adequate diet, which turned out to be two to over three times existing wage levels.21 In India a minimum wage of 196 Rs. per month was established for Central Government employees, based on calculations by the Third Pay Commission (1970–73) of the needs of a family consisting of three
consumption units, but the Study Group on Wages, Incomes and Prices, in a report issued in May 1978, expressed the opinion that a national minimum wage could not be based on consideration of needs alone. It suggested 100 Rs. per month, to be increased eventually to 150 Rs.

Finally there is the case of Indonesia, where calculations have shown that in 1973, if all the workers in the country had received wages just equal to the estimated “minimum physical requirements” (known as KFM), the total income needed would have exceeded the country’s Gross Domestic Product by roughly 25 per cent. Because of their high level KFM have come to be regarded as ultimate targets rather than immediate guides for fixing minimum wages.

These few cases illustrate the dilemma created by the needs criterion when fixing minimum wages. If a required budget is defined too narrowly, it will have little effect on wages actually paid and may serve as an excuse to pay wages that are unreasonably low. But if needs are interpreted too broadly in a poor economy, this may lead to wages being set at levels that throw many of those in greatest need out of work. This is not to say that attempting to estimate poverty level incomes serves no purpose. Quite the contrary. The value of such estimates in enabling policy makers to map the extent and intensity of poverty and to profile the characteristics of the poor is beyond question, and they are often viewed as constituting an important element of a basic-needs development strategy. Nevertheless it is now widely accepted that they cannot be used as the exclusive basis for minimum wage decisions.

This leads to consideration of what role absolute standards of need ought to play in minimum wage fixing. There appear to be several schools of thought. Some argue that since “needs” are a relative concept that can only be determined in a more or less arbitrary fashion, there is no point in minimum wage fixing authorities spending much time, if any, on their examination and in attempting to reconcile differences of opinion. Moreover, it is feared that such examinations might give rise to false expectations and encourage the mistaken belief that minimum wages are the principal rather than just one means of combating poverty. For those of this opinion, instead of making more or less elaborate attempts to specify “needs”, all that is really required of the minimum wage fixing authorities is a commitment to go as far as is economically feasible in raising low wages. In this regard it should be noted that in many countries (including most of those in French-speaking Africa) the minimum wage fixing authorities have abandoned attempts to maintain up-to-date minimum budgets. Instead close attention is paid to trends in the prices of basic goods and services, as revealed by consumer price index numbers, and to what often appears as the more immediate problem of preserving purchasing power.

Others maintain that if a detailed consideration of needs is to be
Minimum wage fixing: An international review of practices and problems

carried out it should not be based on an abstract notion of what is essential or desirable, but rather determined empirically in line with the existing consumption patterns of an appropriate reference group of low-income earners such as peasant farmers. This is seen as the only way to ensure that the "needs" budget remains relevant and does not produce growing inequalities between various categories of workers. This approach, which appears to be envisaged by Recommendation No. 30 (1928), involves, in essence, the definition of needs in relative as opposed to absolute terms, and is an indirect way of placing emphasis on the criterion of "comparable wages and incomes".

The third school of thought maintains that notwithstanding the difficulties involved in attempting to define absolute standards of need and the inability to use this criterion directly or exclusively in the calculation of minimum wage levels, detailed consideration of needs by minimum wage fixing authorities is still salutary. While admitting that needs, like many other concepts used in the social sciences, cannot be precisely measured, members of this third school argue that they none the less have a recognised meaning in a given community which can be approximated in various ways (by the examination of available technical indicators or standards with respect to nutrition, housing, health and education, studies of family budgets showing the level and distribution of expenditures at different income levels, the confrontation of views of trade unionists and employers, economists and sociologists). Even though the income required to cover all the needs of a worker and his family may not be immediately attainable, such calculations can serve to establish long-term targets for the minimum wage programme and perhaps more immediate goals for the more prosperous sectors. They are also seen as helping to ensure that the decision-makers never lose sight of the fact that what they are dealing with is not an economic abstraction but the source of livelihood of thousands of workers. Thus part of the onus of proof may be shifted to those claiming inability to meet required income levels. It may also become more difficult to ignore the necessity of adjusting minimum wage levels closely in line with changing consumer prices. Indeed in many countries basic needs budgets, instead of representing an absolute standard, appear to be used increasingly as a basis for calculating the changes in minimum wages required to maintain the purchasing power of low-income groups.

**COMPARABLE WAGES AND INCOMES**

Although the notion of "comparable wages and incomes" is seldom given the same prominence as other minimum wage fixing criteria specified in legislative texts, in practice it is often an important if not the
dominant consideration in decision-making. A detailed examination of all the available indicators of the wage and income levels of the workers likely to be immediately affected, as well as of other groups of workers judged to be comparable, normally represents the point of departure for the deliberations of the minimum wage fixing authorities. Where existing information on wages and income is thought to be insufficient, special surveys are frequently carried out. It is against the ascertained existing pattern of wages and incomes that the scope for bringing about modifications is subsequently assessed by taking into account other criteria such as the industry’s ability to pay and the workers’ needs.

The prominence of the comparability criterion can be explained in a number of ways. First of all this concept is closely linked with the important notion in neo-classical economic theory that one of the conditions for optimal economic efficiency is that all the factors of production receive payment equal to their opportunity cost, i.e. the highest income that could be earned elsewhere. At a more intuitive level the existing pattern of wages and incomes is generally regarded as not being completely arbitrary but rather as reflecting a balance between conflicting labour supply and demand pressures, including the productivity and income-generating capacity of various sectors. Hence the practice already described of using existing average incomes of various groups as a first approximation of the ability of the economy to satisfy the needs of workers and their families.

Then again, since the extent to which the structure and level of earnings can be modified through minimum wage regulation without having unacceptable economic repercussions is generally regarded as limited, only by means of wage and income comparisons can the scope for such modifications begin to be gauged. Thus for those who believe that minimum wages should be confined to providing “safety-net” or basic-floor protection, an examination of existing wages and incomes constitutes the natural first step for determining the level at which wages are to be considered as unduly low. Also, where minimum wages are seen as a way of protecting vulnerable workers in unorganised, low-paying industries, keeping them reasonably in line with the wages paid in other sectors is bound to be a paramount concern. Likewise “fair” wages are most often determined on the basis of what employers elsewhere are paying for similar work. Even where minimum wages are used as an instrument of macro-economic policy to bring about basic changes in wage structures and levels, wage and income comparisons are still important since they provide a basis for assessing the economic impact of the wage increases being proposed.

A more practical reason for the prominence of the concept of comparable wages and incomes is that it is less abstract and more directly measurable than the other criteria commonly used. By concentrating on
Minimum wage fixing: An international review of practices and problems

congrue statistical comparisons, the minimum wage fixing authorities can reduce the risk of being sidetracked on to barren issues.

Rather than relying on a unique benchmark for calculating the minimum wage in accordance with a predetermined formula, minimum wage fixing authorities tend to use a variety of comparisons in a flexible manner as a general guide for their decisions. The comparisons made vary greatly, depending upon the scope and nature of the minimum wages, the availability of statistics and the role selected for minimum wage regulation. Thus in Sri Lanka wages boards have often fixed minimum wages so as to avoid bringing about major changes in the level of the prevailing wages in small and medium-sized enterprises not covered by collective agreements, but have also taken into account wage patterns in other sectors considered to be comparable. Thus, at various times government pay policies in Sri Lanka have had a clearly identifiable influence on the decisions of wages boards, particularly when the economic and institutional environment has permitted some independence from the market forces of supply and demand. In Canada and the United States the “floor” minimum wage is fixed largely taking into account the level of wages prevailing in the lowest-paying industries. It is common for estimates to be made of the distribution of wages (i.e. the number of workers at various wage levels) in order to determine the number of workers to be affected, as well as their characteristics and the sectors where they are employed. In addition special surveys of low-paying industries have often been undertaken. In Japan the prefectural minimum wage councils have been closely guided in establishing industry minimum wages by the existing distribution of wages in the industry and area concerned, as may be seen from the table opposite which shows the proportion of workers directly affected by prefectural-level minimum wages fixed in 1974 for four industries. The concentration of the effects of the decisions within a rather narrow range, particularly in the retail trades and fabricated metal and machinery industries, attests to the importance given to the existing structure of wages.

Another form of wage comparison was used by the Ministry of Labour in Kenya in 1975, when undertaking a consolidation of existing wages council orders which resulted in a new general order fixing rates for 18 occupational categories. In addition to taking into account the rates paid under the existing orders, which varied widely, the Ministry analysed rates laid down in collective agreements: where the occupational minimum rates could not be based on those established by the existing orders, they were set around the level of the lowest 20 per cent of collectively agreed wages. This pragmatic rule reflected the view that this lower range of wages mainly consisted of cases where the employer had taken advantage of a weak trade union or a labour market situation unfavourable to the workers.
Table 3. Proportion of workers directly affected by minimum wage changes in individual industries and prefectures in Japan, 1975

<table>
<thead>
<tr>
<th>Percentage of workers affected</th>
<th>Food and kindred products</th>
<th></th>
<th>Textile products</th>
<th></th>
<th>Fabricated metal and machinery</th>
<th></th>
<th>Retail trades</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of cases</td>
<td>Percent distribution</td>
<td>Number of cases</td>
<td>Percent distribution</td>
<td>Number of cases</td>
<td>Percent distribution</td>
<td>Number of cases</td>
<td>Percent distribution</td>
</tr>
<tr>
<td>Below 5</td>
<td>1</td>
<td>2.4</td>
<td>—</td>
<td>—</td>
<td>4</td>
<td>10.0</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>5–10</td>
<td>3</td>
<td>7.3</td>
<td>2</td>
<td>5.7</td>
<td>7</td>
<td>17.5</td>
<td>14</td>
<td>33.3</td>
</tr>
<tr>
<td>10–15</td>
<td>5</td>
<td>12.2</td>
<td>2</td>
<td>5.7</td>
<td>14</td>
<td>35.0</td>
<td>11</td>
<td>26.2</td>
</tr>
<tr>
<td>15–20</td>
<td>8</td>
<td>19.5</td>
<td>4</td>
<td>11.4</td>
<td>7</td>
<td>17.5</td>
<td>14</td>
<td>33.3</td>
</tr>
<tr>
<td>20–25</td>
<td>8</td>
<td>19.5</td>
<td>6</td>
<td>17.1</td>
<td>3</td>
<td>7.5</td>
<td>2</td>
<td>4.8</td>
</tr>
<tr>
<td>25–30</td>
<td>1</td>
<td>2.4</td>
<td>6</td>
<td>17.1</td>
<td>2</td>
<td>5.0</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Over 30</td>
<td>15</td>
<td>36.6</td>
<td>15</td>
<td>42.9</td>
<td>3</td>
<td>7.5</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td>35</td>
<td>100.0</td>
<td>40</td>
<td>100.0</td>
<td>42</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Labour: Wagakuni no Saitei chinginsei (Minimum wages system in Japan).

Although extensive recourse is had to wage comparisons of various kinds, it is not nearly as easy to make them as might appear at first sight. As persons involved in minimum wage fixing or other forms of wage determination soon discover, the apparently simple notion of "comparable wages" encounters many problems of interpretation. Such problems substantially reduce the precision of the guidance that wage comparisons can provide. Usually the wage information available is out of date and far from complete. Inferences must be based on fragmentary data and estimates of questionable accuracy. When wages statistics from several industries or sectors are available it often proves difficult for the wage fixing authorities to reach agreement on the comparisons that should be considered the most relevant, particularly in developing countries where inter-industry wage differentials, even within the low-wage or informal sectors, can be enormous. Ideally comparisons for purposes of minimum wage fixing should focus on the lowest-paying sectors and employers, but often the only wages statistics available are broad averages that include many high-wage firms.

Even where the minimum wage fixing authorities have detailed information on the distribution of wages, it is far from clear which point in the distribution should be used as the reference for fixing the minimum wage. Thus where the role for minimum wage fixing being pursued requires minimum wages to follow rather than lead general wage movements, while at the same time raising wages that are unduly low, the minimum wage fixing authorities attempt to fix a rate somewhat below the "prevailing" or "going" wage. But the "prevailing wage" is an abstraction not always easily indentified from wage distribution statistics. Moreover it tends to be unclear whether or not a minimum wage fixed at
a given level below the "average" wage will have significant indirect effects on most wages paid.

Relying on wage comparisons to determine the "going" wage is particularly problematical when the general minimum wage to be established is intended to serve as a basic floor for the entire wage structure. For this reason development economists often advocate taking into account rural income levels as a supplementary or even exclusive basis for comparison when fixing general minimum wages. In the context of developing countries characterised by a large agricultural sector and significant rural-urban migration, a persuasive case can be made for having a minimum wage for unskilled urban workers that equals the general level of rural incomes, after making allowance for differences in the cost of living, the nature and the intensity of the work and the amenities of the two ways of life. It is argued that this is the only way of ensuring that inequality of incomes between rural and urban areas does not become intolerable, the flow of rural workers into the cities does not accelerate and progress towards the satisfaction of basic needs is made at roughly the same pace for all categories of workers. The appeal of the rural income standard has resulted in its being cited as the exclusive basis for fixing minimum wages in formal statements of wage policy in a number of countries. Thus the National Development Plan of Botswana for the period 1973–78 clearly states that the only fair and objective basis for a legal minimum wage for unskilled workers is that it should equal the average rural income of farmers, with due allowance for any differential in the over-all costs of urban living. Similarly Tanzania's Second Plan (1969–74) declared that minimum wages should be determined "by a realistic comparison of the actual living standards and efforts of the peasant farmer and his family to the effort and living standards of a rural wage earner. For those employed in urban areas an allowance will be made for the extra costs of town living."

26 While conceptually appealing, the rural income standard encounters formidable measurement obstacles. As data on rural incomes are costly to collect, the available statistics are usually meagre or based on crude estimates (e.g. calculations using estimates of total agricultural production, the number of agricultural families and the average ratio of cash to non-cash income). Moreover there are a number of well known technical problems that arise, such as determining the prices to be used in evaluating the goods and services produced and consumed on farms, differentiating between production and consumption expenditures, evaluating collective consumption goods and services deriving from a family's membership of a rural community, and discounting seasonal and annual income fluctuations. There is also the problem of selecting the types of farm units to be used in the comparison. The ILO Meeting of Experts of Minimum Wage Fixing held in Geneva in 1964 suggested that
smallholders and tenants with plots of land too small to keep them fully occupied as well as landowners having what are by local standards large properties should be excluded. But within this segment of rural households there are incomes that vary widely. Attempting to quantify the differences in living and working conditions in rural and urban areas is even more problematic. Differences in the nature of the goods and services consumed make it hard to compare price levels (e.g. housing). In addition it is not always possible to distinguish between expenditures which reflect differences in standards of living and those necessary for earning a living in urban areas (e.g. clothing and transportation costs), or to know what allowance should be made for the greater duration and intensity of urban work, the varying income earning possibilities of family members and the better access to health, recreational and educational facilities in cities and towns. It has been suggested that these would normally give rise to a wage differential of 30 to 50 per cent in favour of urban wage earners in developing countries, but this appears to be no more than an educated guess. Despite the inability to quantify exactly the margin that should exist in favour of urban workers, however, it is clear that minimum wage fixing authorities in a number of countries have paid close attention to data on rural incomes and that these have had an influence on their decisions.

In summary, although the notion of "comparable wages and incomes" is often regarded as the least problematic of all the minimum wage fixing criteria because of its greater clarity, economic rationale and degree of measurability, it too encounters problems of practical application. In general it has proved difficult to decide on minimum wage levels simply on the basis of one or more series of wages or income statistics or of direct calculations using such data. As with the other criteria, no simple rule of thumb can be followed. Instead considerable judgement must be exercised, first to determine what are the most relevant comparisons to be made and then to interpret their significance.

ABILITY TO PAY

As already stated, "ability to pay" and related concepts such as productivity or the preservation of employment, or simply "economic conditions", are often mentioned in legislative texts laying down minimum wage fixing criteria, and even when this is not so it is evident that they always have a significant influence on the decision taken. However, their exact meaning and the relative importance to be attached to them are matters of continuing controversy. The most apparent differences of view in this respect occur between representatives of employers and workers in minimum wage fixing bodies. The former
normally can be expected to place considerable stress on "economic constraints" or "incapacity to pay" when confronted with demands for increases based on the needs of workers or comparable wages that would give rise to higher labour costs. Workers' representatives, on the other hand, while not denying the relevance of economic considerations, generally remain highly sceptical about such claims. These, unless well substantiated, are likely to be seen as no more than a tactical device on the part of the employers for resisting all wage demands, regardless of the circumstances. In addition it is frequently argued that capacity to pay cannot be considered in isolation. Industries that cannot pay wages reasonably close to the general level of the country concerned tend to be viewed as having no right to exist.

Part of the problem arises because the notion of "ability to pay", while of undeniable importance, is inherently vague and can be interpreted in many ways. Increases in minimum wages can be accommodated by increases in productivity, savings on non-labour costs, decreases in profits, increases in prices, or reductions in output and employment. Ability to pay can be related to any one or all of these possible means of adjustment. Thus it has been identified with the capacity of enterprises to absorb wage increases without increases in labour costs or alternatively without increases in product prices. More frequently for minimum wage fixing purposes the crucial test has been seen as avoiding a reduction in the current level of employment or closure of the enterprise. In still other instances ability to pay has been viewed as encompassing all the possible ways in which enterprises may adjust to higher wages—which is simply an abbreviated way of saying that when fixing minimum wages account must be taken of all the economic repercussions of higher labour costs.

Unlike for the criterion of "needs of workers", it is rare for minimum wage fixing authorities to attempt to define absolute standards of "capacity to pay". In part this reflects the multidimensional character of the economic repercussions usually considered relevant. More importantly, perhaps, the capacity to pay criterion involves consideration of a hypothetical issue for which there can be no definite answer—how will the employers adjust to the higher labour costs associated with a change in minimum wage levels? Another reason is that capacity to pay is not an absolute but a relative concept. The minimum wage fixing authorities may try to avoid increases that would risk causing a significant decline in employment. But the extent of this risk and what would constitute a "significant" decline can only be judged according to the priority attached to employment promotion and by whether or not the jobs involved pay what are considered to be unacceptably low wages. For these reasons application of the ability to pay criterion is usually conceived of not as being simply a matter of straightforward calculations.
made from the financial statements of enterprises in a particular industry, for example, but rather as involving some implicit or explicit assessment of the anticipated effects on prices, profits, employment and other economic variables and of their repercussions in terms of achieving economic and social objectives.

The problem of establishing a workable definition of ability to pay is well illustrated by the difficulties associated with interpreting financial data. Leaving aside the question of the accuracy of financial statements and what are the most reliable indicators of profitability, there remains the problem of knowing to what extent reported profits reveal the scope for wages increases without significant economic repercussions. Reported profits can be regarded as the residual element arising from the difference between revenues and expenditures. Over a number of years they should reflect: (i) interest on capital invested; (ii) a return to entrepreneurs for assuming the risk of financial losses; (iii) compensation for the managerial or other work or services provided to the enterprises by their owners; and (iv) any "excess profits" associated with imperfect competition or "economic rents", to the extent that these have not been reflected in an upward revaluation of the enterprises' assets. Only in the latter case may it be possible to raise wages at the expense of profits without a substantial adverse economic effect in either the short or long run. Yet there is no reason to expect a close or obvious relationship between reported profits and "excess" profits. Complicating matters further is the fact that financial statements give no indication of the ability of enterprises to adjust to wage increases by raising prices. Firms with low reported profits may still be able to raise wages substantially without reducing employment greatly if the demand for the industry's product is not sensitive to price changes. But profitable firms might have to reduce their employment substantially if, as in many export markets, demand is highly sensitive to price changes or it is relatively easy to substitute capital equipment for workers. In summary, reported profits by themselves can be expected to give only a very rough indication of the ability of industries to pay higher wages.

In making assessments of ability to pay minimum wage fixing authorities normally consider a variety of statistical indicators, derived either from existing sources or assembled through specially organised surveys. They may include estimates of labour cost increases, summaries of financial statements and data on economic trends and structures. Thus for fixing minimum wages in individual industries in American Samoa, Puerto Rico and the Virgin Islands, the United States Department of Labor has followed a policy of preparing "economic reports" to assist the industrial committees in their deliberations. These reports, based largely on the results of special surveys, provide extensive information on each of the subjects mentioned above. With respect to labour costs
Information is provided on average straight-time hourly earnings for individual establishments, the distribution of covered workers by their earnings and the relative direct effects of possible increases in the minimum wage as indicated by the percentage of the workers affected, the increases in average earnings and the per cent increase in the wage bill. The financial data provided comprise balance sheets for individual establishments and consolidated income statements. The indicators of economic trends and structures may include the number of establishments in the industry, the number leaving and entering in a specified period, employment trends, types of operations, relationships with other companies, location of establishments, principal products, exports, sources of materials used, transportation patterns and costs, tax exemptions, the pattern of unionisation and fringe benefits. More general information provided may include unemployment and price trends, as well as economic data concerning the competing industries on the United States mainland.30

In Panama when the criterion of capacity to pay was used during the 1960s and early 1970s to determine the minimum rates applicable in a large number of individual industries, the National Minimum Wages Board applied the following procedure:

(a) selection of a random sample or all the establishments in an industry from lists prepared by the Bureau of Statistics and Census;

(b) investigation of the wages paid and the financial conditions of these enterprises, based in the first case on data directly obtained from the entrepreneurs by means of questionnaires and in the second case on enterprise tax declarations;

(c) compilation and presentation of data in the form of statistical tables analysing: (1) wages paid; (2) the average wages per hour of the industry; (3) wages as a percentage of sales; (4) the relationship between sales and taxable profits over a five-year period; (5) other economic indicators such as the ratio of taxable profits to sales or to capital; (6) the number of workers benefiting directly from the establishment of various minimum wages, the related increases in payrolls and the reduction of profits; and (7) other general characteristics of the industry such as production, exports, imports, prices of its products, tax exemptions or privileges, economic prospects and competitive conditions.31

Two other methods of gauging ability to pay have sometimes been used. In a few cases information on the extent of non-compliance with the payment of existing minimum wages has been interpreted as giving a rough indication of the ability of employers to support higher minimum wages. More frequently the minimum wage fixing authorities have
organised special studies of the effect of past decisions. Even though, as will be shown in Chapter 8 such evaluations are not easily made and do not yield precise results, their value in reducing uncertainty concerning the capacity of the economy to support higher wage levels appears to be increasingly recognised. Indeed it could be argued that one of the most effective strategies that minimum wage fixing authorities might adopt in applying the ability to pay criterion is to organise a continuing research programme to measure the economic repercussions of successive small increases in minimum wages.

One of the issues that the minimum wage fixing authorities must face is the extent to which minimum wage levels should vary with perceived differences in capacity to pay. While the extreme of having different minimum wages for individual enterprises is rarely considered feasible, it is practical to fix different rates for groups of enterprises differentiated by their size or the nature of their activities. In this regard the authorities are subject to conflicting pressures. On the one hand there is considerable support for the idea that wage rates should vary in line with such indicators of ability to pay as the ratio of labour to total costs, average labour productivity and rates of return on investment in order to enable workers to share in the prosperity of the enterprises where they work and to reduce differences between profit and wage incomes. On the other hand such differentiation, aside from making the minimum wage system more complex and difficult to administer, runs counter to the principle of equal pay for equal work. It is also argued that it may slow down the rate of employment expansion in the most dynamic sectors of the economy and concentrate the benefits of technological change, productivity growth or favourable market developments in the hands of a few. As an alternative it is proposed that uniform minimum wages should be fixed bearing in mind the capacity to pay of employers in the low-wage sectors. Employers with a greater capacity to pay would be expected to provide higher wages either through collective bargaining or their own decisions. Since such higher wages would not be imposed by law, it is considered less likely that a highly distorted wage structure would develop. Moreover excess profits could be prevented through price controls or fiscal measures that provide benefits to the community at large.

As already described in Chapter 3, the ways in which these conflicting pressures have been dealt with in individual countries have been quite diverse. However, the dominant trend is towards highly uniform minimum wage systems that avoid numerous and large inequalities based on capacity to pay. In many countries either just a single minimum wage or one that distinguishes only between urban and rural areas is fixed. Just a few developing countries still use the size of the establishment, as measured either by the number of employees or capitalisation, as a basis for exemptions or reduced minimum wage
levels. Where there are industry minimum wage systems, greater uniformity is often mentioned as a goal (e.g. Costa Rica and Kenya) or the differences between the industry rates fixed have become comparatively narrow. Thus in Panama in the early 1970s the differences between the almost 200 minimum wage orders for individual industries were reduced to less than 30 per cent in all but five cases. Similarly in the United Kingdom there has been a tendency for the rates fixed independently by the different wages councils to converge. As of 1 December 1978 the minimum rates fixed by the 41 wages councils for time-rated adult workers in the lowest paid categories were, with only three exceptions, all in the range of £33.00–£42.50 per week.

When ability to pay is assessed at the national rather than the industry or enterprise level, the issues that have to be dealt with are similar to those associated with the requirements of economic development, the criterion to be considered in the next section.

THE REQUIREMENTS OF ECONOMIC DEVELOPMENT

This criterion is actually a very broad concept that covers all the repercussions that increases in minimum wages may have throughout the economy. Its relevance derives from the widely recognised need for minimum wage fixing authorities to take into account the possible effect of their decisions on such national objectives as economic growth and stability, as well as on aggregate employment and unemployment.

In practice the extent to which it influences wage decisions varies, depending for the most part upon the scope of the minimum wage system. The greater the number of workers legally covered, and the greater the influence on wages actually paid, the greater the need for the minimum wage fixing authorities to be concerned about the impact on economic development goals. Where the role of minimum wage fixing is confined to the protection of vulnerable workers, the fixing of “fair” wages for a limited number of industries or the establishment of a basic floor, it is essentially the wage structure which is the target of policy. In these cases the general level of wages, though serving as a basic reference for the minimum wage decisions, is not substantially affected by them but is left to be determined essentially through the operation of market forces, collective bargaining and incomes policies. It is thus unnecessary for the minimum wage fixing authorities to try to deal with the complex issues associated with the possible effects of higher general levels of wages; if they were to attempt to do so they would only “muddy the waters”. But where minimum wage fixing has been conceived of as an instrument of macro-economic policy, to be used to control rather than just to follow general wage movements, the minimum wage authorities
cannot afford to ignore the economy-wide effects of their decisions; indeed, such effects are bound to be the paramount concern.

Often, however, the relative importance to be attached to the criterion of the requirements of economic development is not immediately apparent. In many countries the extent to which minimum wages are confined in their effects to certain categories of workers or sectors, as opposed to directly or indirectly influencing most wages paid, is a matter of doubt. The dividing line between general minimum wages that just establish a basic floor and those that tend to raise the general wage level is seldom clear. Similarly, while the minimum wages fixed for an individual industry may not have a significant influence on wages in general, this may not be the case for a series of such decisions considered as a whole. Hence it is quite common for minimum wage fixing authorities to gather as much information as practicable on the direct and indirect influence of minimum wage rates on wages actually paid in order to judge the extent to which their decisions could affect the entire economy.

In developing countries allowing for the requirements of economic development necessarily involves consideration of a series of complex, inter-related issues that go to the heart of national wage policy debates. First there is the potential effect of changes in the general level of real wages on economic growth. If wages are increased at the expense of profits, it is feared that savings and investment will fall, hampering growth. But lower profits need not necessarily mean lower investment; they may simply mean reductions in conspicuous consumption, in imports and in the transfer of wealth abroad. Also where the constraint on growth is not the limited availability of capital but lack of demand, higher wages may encourage expanded economic activity by increasing the domestic market. And when wages are extremely low, raising them may promote growth through improvements in labour productivity. Second there is the impact of higher wages on employment. Apart from possibly lowering the rate of employment-creating investment, higher wages may make it unprofitable for employers to hire low-productivity workers, reduce the demand for labour-intensive goods and encourage the adoption of capital-intensive production techniques. Offsetting this in whole or in part may be the tendency for higher wages, over a certain range, to improve labour productivity and increase the demand for labour-intensive, nationally produced goods. Third, unduly high wages may be a cause of open urban unemployment. The prospect of finding a high-paying job in the formal sector has often been identified as an important determinant of excessive migration from rural to urban areas. But factors other than expected income are believed by many also to have an important influence on migration decisions, and it remains unclear to what extent a government policy of restraint would be effective in
It may be that employers in the modern sector of developing countries voluntarily pay higher wages than necessary for recruitment purposes in order to have a stable, highly motivated and high-quality labour force and to avoid industrial conflict.\textsuperscript{35} Fourth, generalised preferential increases for low-paid workers may worsen the allocation of labour. Reduced skill differentials may adversely affect the incentive of workers to undertake training and shift to more demanding jobs. However, efforts to compress the wage structure need not have such effects if that structure initially reflected not relative labour scarcities but traditional wage relativities and the limited availability of training opportunities. Finally attempts to modify the basic structure and general level of wages may affect the stability of prices and the balance of payments. On the one hand there are those who believe that such attempts are largely self-defeating and bound to aggravate inflation, because of the rigidity of wage and income relativities and the ability of employers to adjust to higher labour costs by increasing prices. Others maintain that income distribution can be modified significantly through wage policies without unacceptable inflationary effects and that minimum wages, to the extent that they act as a reference point for other wage decisions, can be used to moderate wage and price trends. It is not possible here to undertake a substantive discussion of these basic issues of national wage policy.\textsuperscript{36} The following passage is limited instead to giving some indication of how the general criterion of the requirements of economic development is dealt with by the minimum wage fixing authorities.

Because the criterion involves fundamental and complex questions of national wage policy, it has generally proved difficult to achieve any significant measure of agreement on its application. Traditionally, employers' and workers' representatives have held widely divergent views on the related issues, which are difficult to reconcile either through investigation or negotiations. Even among independent experts differences of opinion remain disturbingly wide. As a consequence, where minimum wages are of such broad scope that the requirements of economic development must be given considerable weight, it has often been difficult to reach decisions based on a broad consensus. Although there are some notable exceptions, decision-making in these circumstances is frequently essentially controlled by, or greatly influenced by the views of, the national economic authorities. Either the locus of effective decision-making is centralised in the highest levels of government or the minimum wage fixing bodies rely heavily upon official declarations of government wage policy, economic analyses submitted to them by the government, or the views of government members representing the main economic departments or agencies. While usually the representatives of workers and employers are still offered an opportunity to participate in
the decisions, this participation in many instances is less meaningful than when the role of minimum wage fixing is more limited.

The application of the criterion of the requirements of economic development necessarily involves consideration of the state of the national economy as well as the nature of the development process. Such analyses vary in form and in their level of sophistication. In a few cases the possible impact of alternative wage policies has been assessed with the assistance of econometric models of the national economy. More frequently the analyses are less formalised, being based on the findings of available studies and an examination of a variety of statistical series considered likely to shed light on the issues at hand. However, because of the difficulty of interpreting such data and more generally of dealing with basic issues of national wage policy in a substantive manner, the minimum wage fixing authorities are in the end often forced to rely on a limited number of crude indicators. Trends in real average wages, total national income and wage employment at the national or regional level, as well as at the level of important sectors, are examined together in order to identify possible inter-relationships and departures from historical patterns. Trends in national income, broken down by sector, by category of expenditure (private consumption, government services and capital formation) and by category of income (compensation of employees, income from unincorporated enterprises and income from property) may also serve as a basic reference. The relationship between minimum wages and wages actually paid, both as regards their level and movement over time, is another useful indicator. The number of workers being paid below the existing level of minimum wages is sometimes interpreted as reflecting not only defective enforcement but also the ability of the economy to absorb still higher minimum rates. Similarly if it is found that wages actually paid have risen independently of minimum wages or other institutional forces, this is sometimes interpreted as indicating that there is scope for upward minimum wage adjustments. Finally, in a number of countries particular attention has been paid to relative trends in incomes in the formal and informal sectors in urban and rural areas and to corresponding indicators, if available, of employment growth rates and labour market slack. Where this information suggests growing disparities between rural and urban incomes, slow growth in wage employment and higher levels of urban unemployment or under-employment, this has often been used as a justification for a policy of restraint in the fixing of minimum wages.

Unlike in the case of the other criteria described in this chapter, the notion of the requirements of economic development does not itself suggest a particular way in which the most appropriate level for the minimum wage might be calculated. At most what is provided is just a rough indication of whether general increases of a particular size are
likely to be absorbed without adverse economic repercussions or whether wage restraint would be more prudent. Hence this criterion usually serves as a background against which the more specific criteria for fixing or adjusting minimum wages can be considered. Nevertheless it still has had an important influence in countries where minimum wages have obvious effects on the general level of wages. Indeed in some countries shifts in government views on basic wage policy issues have had abrupt and disruptive effects on minimum wage programmes. Instead of being reflected in more moderation in the size of periodic adjustments, the adoption of a policy of wage restraint has sometimes resulted in minimum wage fixing being suspended for extended periods. Eventually the “catch-up” adjustments required have had to be large and hence have been more difficult to accommodate.

METHODS OF APPLICATION

What emerges most clearly from this review of the criteria widely used for fixing minimum wages is that they all encounter serious problems of practical application that reduce the guidance they provide to those who must decide on specific rates. While the criterion of comparable wages and incomes is less problematic than the others, especially where the role of the minimum wage system is limited to the improvement of existing wage structures, it too leaves broad scope for the exercise of judgement. Nowhere has it proved possible to reduce minimum wage fixing to a mechanical process of applying precise predetermined rules to readily available data.

Moreover it is increasingly recognised that devoting much time to attempting to define such rules is likely to be fruitless. Instead, minimum wage fixing authorities normally approach their task pragmatically, attempting, as their deliberations proceed, to reconcile diverging arguments about the interpretation of specific criteria and their relative importance. By way of example mention may be made of the May 1970 decision of the Minimum Wage Council of the Japanese prefecture of Kanagawa with respect to the food industry. During the Council’s discussions the workers’ representatives proposed a daily rate of 1,050 yen, based on trade union estimates of the cost of living of a worker plus the anticipated annual increase in wages. The employers’ representatives proposed 850 yen, which was equivalent to the existing minimum wage increased by the rate of inflation. On the basis of the official estimate of the cost of living of an unmarried worker of 18 years of age, converted into an estimate for a worker of 15 years of age and adjusted to allow for inflation and social security contributions, the independent members calculated a required rate of 934 yen. They next compared this figure with the average starting rate for 15 year-old workers in the industry and
region (948 yen for boys and 925 yen for girls) and in addition reviewed the financial situation of 63 enterprises. On the basis of their findings the independent members then proposed the figure of 940 yen, which was finally accepted by the other parties.38

The factors considered by the wage fixing authorities are normally much more diverse than this example suggests. This is apparent from an analysis of the arguments presented to the National Minimum Wage Board of Costa Rica in 1962 and 1972, the results of which are presented in table 4. In addition to the ten main arguments listed in the table, other issues raised included the failure to pay minimum wages, declines in production, productivity increases, the substitution of capital for labour, exchange rate fluctuations, risks of bankruptcy, differences between rural and urban areas, differences between economic sectors, the effects on the balance of payments, the risk of the minimum wage becoming the maximum wage, minimum wages below subsistence level, the need for fairer income distribution and the need to vary minimum wages according to qualifications. It is also apparent from the analysis that the arguments presented will vary with experience gained. The authors of the study noted that the arguments presented in 1972 were much more specific, down to earth and better substantiated than a decade earlier, when they were mainly concerned with broad questions of justice and paternalism.39

It is rare for minimum wage fixing authorities to attempt to deal with the various arguments separately or systematically in terms of a predetermined set of criteria. Instead, as with other public policy decision-making, minimum wage fixing is most often viewed as being essentially a matter of striking a balance between social gains and economic costs. Gains in the form of greater equality in wages for equal work and increases in income for the poor are weighed in a rough and ready fashion against costs in the form of, for example, increased unemployment or higher prices. The criteria specified in legislation normally serve only as an abbreviated checklist of some of the elements which should enter into the decision where the balance might be struck.

With this approach, and given the uncertainties involved in assessing the costs and benefits of alternatives, it is not surprising that minimum wage fixing authorities rarely attempt to indicate precisely how they decided on specific rates. Usually the decisions are presented with no substantive explanations. At most a number of factors which had an important bearing on them may be listed.

Because the application of criteria cannot be reduced to the consideration of a series of narrow technical issues and inevitably involves delicate questions of judgement, "acceptability" is usually seen as an important additional requisite of the decisions taken. As already described, it is common for the minimum wage fixing authorities, in
Table 4. Main arguments invoked during the deliberations of the National Minimum Wage Board of Costa Rica in 1962 and 1972

<table>
<thead>
<tr>
<th>Argument</th>
<th>Employers</th>
<th>Workers</th>
<th>Government</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rise in cost of living</td>
<td>— 6 3 9 2 1 5 16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rise in production costs</td>
<td>9 9 — — — 1 9 10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition in Central American region</td>
<td>5 6 — — 2 3 7 9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price control</td>
<td>3 7 — — 1 — 4 7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflationary effect of wage increases</td>
<td>3 6 — 2 — 4 3 12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problems facing small enterprises</td>
<td>1 6 — — — — 1 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wage increases cause unemployment</td>
<td>4 3 — — — 1 4 4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of new taxes</td>
<td>2 2 1 5 — — — 3 7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of social charges</td>
<td>1 5 1 — — 1 2 6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of information</td>
<td>1 3 — 4 1 3 2 10</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


In order to enhance the legitimacy of their decisions, to provide all the interested parties with a full opportunity to express their views on social priorities and possible economic repercussions. Even when total agreement cannot be achieved it is expected that the ultimate decisions will duly reflect an attempt to accommodate the respective positions of the social partners. To a greater or lesser extent the decision-making generally takes the form of bargaining among the various interest groups represented. In the context of industry-level systems, where the acceptability of the decisions normally is a paramount concern, the application of criteria is typically carried out through a well structured negotiation process that seeks to align the positions of the employers and workers immediately involved. And even where minimum wages are used as an instrument of macro-economic policy a large measure of bargaining is still involved. Although in this case the highest economic authorities in the country are usually given a major voice in determining what are “the requirements of economic development”, an effort is generally made to reach common understandings or indeed formal agreements whenever this appears to be a practical possibility.

Notes
1 Article 57 (LS 1949 – CR 3).
2 Section 1 (LS 1949 – CR 4).
3 Section 57b (LS 1970 – Iraq 1).
5 Section 116 (LS 1976 – Arg. 1).
Criteria

6 Section 562 (LS 1969 – Mex. 1).
7 Section 2 (LS 1938 – U.S.A. 1).
9 Section 3 (LS 1959 – Jap. 1).
10 Section 1 (LS 1965 – Per. 1B)
11 Section 24 (LS 1965 – Per. 1A).
12 Sections 20 – 21 (LS 1971 – Hon. 1).
13 Section 121 (LS 1974 – Phi. 1).
14 Book III. Rule V. Section 4.
15 Section 44 (LS 1931 – Chile 1).
16 Kilograms or “large” calories.
19 Franklin, op. cit., p. 284.
27 ILO: Minimum wage fixing and economic development, op. cit., p. 158.
34 For summaries of the research and conflicting views see Michael P. Todaro: Internal migration in developing countries: A review of theory, evidence, methodology and research priority (Geneva, ILO, second impression, 1980); and Peter Peek and Guy Standing: “Rural-urban
Minimum wage fixing: An international review of practices and problems


39 Lom and Lizano, op. cit., p. 98.
Minimum wages are distinguished from other labour standards by the rapidity with which they can become obsolete. Standards concerning the minimum age for employment, weekly rest periods, hours of work, holidays, maternity leave and termination of employment can be expected to remain valid for a number of years. But minimum wages must be regularly adjusted in line with labour market trends if they are to maintain their relevance. Failure to do so when prevailing wages, incomes and prices are rising is tantamount to assenting to the continued erosion of the protection being afforded. Thus, with the possible exception of those opposed to any form of minimum wage fixing at all, there is a broad consensus on the need to undertake periodic revisions of the rates fixed.

Where opinions tend to differ is on the way in which these periodic revisions should be made. Four policy issues must be faced. How frequently should adjustments be made? What measures are required to ensure that adjustments are in fact made when they should be? To what extent should minimum wage adjustments be automatically determined through indexation? What special considerations or criteria can be applied to determine the size of the adjustments? With respect to each of these issues the following sections present what appear to have been the most important influences on policy decisions and indications of practices followed.

THE FREQUENCY OF ADJUSTMENTS

Determining the most appropriate frequency for minimum wage adjustments is normally seen as a matter of achieving an acceptable compromise between the needs for stability and change. On the one hand relatively infrequent adjustments have the advantage of reducing the administrative costs incurred by employers in altering their payrolls and
of enabling them to know their future labour costs. Also, less material and human resources are absorbed by the task of reviewing existing rates and reaching agreement on the changes to be made, which may be particularly important when the highest economic and political authorities, such as the President or legislature, are extensively involved in the decision-making process. Another advantage is that when there are comparatively stable minimum wage rates both workers and employers are bound to be better informed about them, and hence they are likely to be more effectively enforced. It is sometimes argued, as well, that infrequent minimum wage changes reduce the risk of inflationary pressures associated with a wage-price spiral.

On the other hand the most compelling reason for frequent adjustments is that these are required to ensure that minimum wages continue to meet their basic objective. If minimum wages are intended to provide “safety-net” protection or ensure a decent standard of living, the degree to which they achieve their objective declines as the general level of wages and prices rises. The shorter the interval between adjustments, the shorter the period of time during which the rates fixed depart significantly from the most appropriate level, and the less marked the erosion of minimum wage protection caused by inflation. Comparatively frequent adjustments also avoid the disruptive effect of large changes in labour costs. A given change in minimum rates is often seen as being more easily accommodated by employers when made through a series of small adjustments than when made all at once. Moreover, if traditional wage differentials tend to re-emerge quite quickly after they have been compressed, a policy of frequent minimum wage adjustments may be the only means of maintaining an improvement in the relative position of the lowest paid.1

The actual frequency of adjustments varies greatly among countries. In a number of cases adjustments have recently been made twice or more in one year (e.g. Argentina, Australia, Belgium, Brazil, Chile, France, Luxembourg, the Netherlands and Uruguay). In many other countries adjustments are made once a year (e.g. Costa Rica, Ecuador, Iran, Japan, Mexico, Peru, Portugal, Spain, Turkey and the United Kingdom). In yet others they are made approximately every two or three years (e.g. in most of the jurisdictions of Canada). In a large number of developing countries adjustments are made very irregularly, at intervals of several years.

As is to be expected, inflation rates influence the frequency of adjustments. Thus among African countries, which for the most part have had comparatively low inflation rates, minimum wages have normally been left unchanged for a number of years, whereas amongst the Latin American countries that have traditionally experienced double-digit inflation rates, minimum wages are changed every year if
not more often. With the worsening of inflationary conditions in many parts of the world during the 1970s the frequency of adjustments has increased in many countries. In Costa Rica and Mexico the acceleration of inflation has caused an official shift in policy resulting in annual instead of biennial revisions. Since 1979 Brazil has switched from long-practised annual to bi-annual adjustments, and some experts have advocated even more frequent changes.²

The machinery for minimum wage fixing also has a considerable influence in this respect. Where the main responsibility for minimum wage fixing has been kept by the legislature or the highest political authorities, often there are infrequent changes. But where such responsibility has been delegated to a specialised permanent board, there are normally more regular adjustments. It is also clear that changes in minimum rates are considerably more frequent where these are determined at least partly through automatic indexation rules.

Where the machinery makes frequent changes difficult, provision is sometimes made for staged increases over several years. Thus in the United States, where adjustments are made by legislation adopted after lengthy hearings and debates in the Congress, the 1974 and 1977 laws provided for a schedule of progressive increases covering three- and four-year periods respectively. Similarly in the Philippines a 1978 Presidential Decree made provision for three separate increases in minimum wages to be introduced over a period of approximately two years. While provision for staged increases may overcome some of the problems created by infrequent decisions, this inevitably constitutes a second-best solution, as the levels have to be fixed on the basis of uncertain forecasts of national economic trends.

Even when account is taken of varying rates of inflation and forms of minimum wage fixing machinery, the frequency of adjustments appears to vary remarkably between countries. This variation is due in part to differences in the priority given to the goal of protecting minimum wages from erosion through inflation. But of even greater significance is the lack of any policy in some countries regarding the frequency of minimum wage adjustments. Reflecting weaknesses in public administration or doubts about the importance of minimum wage fixing as an instrument of national economic and social policy, minimum rates are simply left unchanged until political pressure for their revision has accumulated to the point where it can no longer be resisted. Often the consequences are most unfortunate. With only spasmodic adjustments the decline in the real value of minimum wages is sometimes dramatic and the size of the increases required to return them to realistic levels so great that they cannot avoid being disruptive.
THE TIMELINESS OF ADJUSTMENTS

Because what may be considered as the optimum frequency for adjustments will vary with economic conditions, in many countries their timing is left to the discretion of the minimum wage fixing authorities. Such discretion also allows the authorities to make the precise timing of adjustments coincide with the most opportune economic conditions. When this approach is followed, the relevant legislation usually does not include any specific provisions governing adjustments. Thus in Jamaica the permanent Minimum Wage Advisory Commission is simply required to keep under review all the minimum wages fixed by the Minister and to make recommendations for revisions as necessary. But there are no time-limits for these reviews, nor are there any criteria for judging when revisions are needed.

This approach does not guarantee, however, that decisions will always be taken when required. The adjustment of minimum wage rates can be a highly controversial matter on which employers and workers are likely to have widely divergent views, with the result that the responsible authorities may tend to postpone taking decisions for as long as possible. And this propensity may be accentuated where those immediately concerned—the low paid and unorganised—have no effective representation to defend their interests. In a number of developing countries this tendency to procrastinate has delayed minimum wage adjustments to such an extent that the achievement of the programme’s objectives has often been seriously compromised.

To help to overcome this problem it is common for minimum wage legislation and administrative practice to provide for special measures to ensure that timely adjustments are actually made. In line with the Minimum Wage-Fixing Recommendation, No. 30 (1928), in a number of countries where tripartite wage boards play an important role the employers’ and workers’ members have been given the right to convene meetings inter alia to revise minimum wages. This is the practice under the wages council system of the United Kingdom and in a number of countries influenced by the British approach. Elsewhere (e.g. Costa Rica, Japan and Panama) workers and employers have the right to petition the minimum wage fixing board for a review of the relevant minimum wages.

It is also relatively common for legislative provisions to fix in some measure the timing of minimum wage adjustments. Thus the Indian Minimum Wages Act of 1948 requires the appropriate government to review minimum rates at least once every five years and to revise them as required. In Bangladesh and Pakistan reviews are required to be carried out not earlier than one year and not later than three years after the date of effective application of the existing rates. The Labour Codes of
Ecuador and Panama specify that adjustments of minimum rates should take place at least every two years. In both Costa Rica and Mexico annual adjustments are now legally required.

Countries that utilise indexation to determine the size of increases inevitably must fix the timing of the adjustments. When indexation for adjusting all award wages, including minimum wages was introduced in Australia in 1975, the adjustments were made quarterly to begin with, but subsequently the interval was extended to six months. The indexing formula used in the Netherlands also requires adjustments every six months. In other countries using this system the timing of adjustments is related to movements of a given size (often around 2 per cent) in a specified index (e.g. Belgium, France, Gabon and Luxembourg). In addition a number of countries (e.g. France, Luxembourg and the Netherlands) make provision for supplementary reviews at specified times. Spanish legislation stipulates that adjustments shall be made every April and revised after six months if the national cost of living index has risen by at least 5 per cent.

In some countries the regular review of minimum wages on a specified date, although not legally required, has become a firmly established administrative practice. Thus in Brazil, from 1969 to 1979, minimum wages were adjusted every year on 1 May even though this had not been prescribed by law. Japan has also adopted the practice of regular annual revision.

There is no good reason why minimum wages should be adjusted at less frequent intervals when the timing is left to the discretion of the minimum wage fixing authorities rather than governed by clearly established rules. In Canada, for example, adjustments are made reasonably regularly despite the absence of timing rules. Moreover, in other countries where there are such rules, these are not always respected (e.g. Bangladesh, Ecuador, India and Panama), and where this is so there is usually little that can be done to force the minimum wage fixing authorities to take the required action. None the less it seems clear that the basic intention of legislative provisions on timing is to ensure more frequent changes than otherwise would be the case and for the most part this seems to be their effect in practice. Thus even after differences in rates of inflation are taken into account most Latin American countries appear to have a much more timely pattern of adjustments than is typical of the majority of African countries.

Another advantage of a fixed timing rule is that it can do away with a major cause of argument. Where no timetable for adjustments has been fixed, this question can be a matter of continuing dispute between representatives of workers and employers and the minimum wage fixing authority. With fixed dates established in advance, attention can focus squarely on the basic issue of the size of the adjustments.
Finally it should be noted that while a fixed timing rule inevitably implies some rigidity, the minimum wage fixing authorities still have the option of periodically modifying the rules in line with changing economic conditions, as happened in a number of countries with the acceleration of inflation during the 1970s.

INDEXATION

Once the interval at which adjustments are to be made has been fixed, it must be decided whether the minimum wage fixing authorities should be left complete freedom on each revision date to determine the size of the adjustments or whether this should be done automatically on the basis of changes in a statistical series, such as an index of consumer prices or average wage levels. The basic argument in favour of the latter approach is that, where inflation rates traditionally are high, indexation may represent the only practical means of ensuring that adjustments are frequent enough to prevent serious erosion of the purchasing power of minimum wages. Where a basic objective is to reduce poverty by providing safety-net protection for the lowest paid, there is normally a broad consensus that the lowest paid should have their wages adjusted closely in line with price and wage movements. Indexation constitutes a simple, direct means of ensuring that this will in fact be done on a continuing and timely basis. And as it is to be expected that real wages will be maintained and gradually increased as development proceeds, indexation rules can be made consistent with the projected evolution of prices and incomes. Moreover indexation reduces the scope for disputes over the size of adjustments. With a major part of the increases being predetermined, attention can focus on the possibilities for improving the real value of minimum wages or changing their relative position in the wage structure.

Yet there are many circumstances where the lack of flexibility associated with indexation may be considered unacceptable. If minimum wage regulation is used as an instrument of macro-economic policy rather than simply as a means of providing safety-net protection, the government will wish to retain as much control as possible over both the size and timing of minimum wage changes. Again, if minimum wages have a significant effect on average wage levels and hence prices, it may be feared that indexation will create an inflationary spiral, or worsen an existing one, by shortening the time lag between price and wage changes. Even when minimum wage regulation is conceived of simply as providing safety-net protection, indexation may still appear inappropriate if real wages cannot be maintained owing to recurring highly adverse economic conditions caused by capricious weather, natural disasters, drops in export earnings or marked cyclical instability. To attempt to insulate
Adjustments

minimum wage earners from the sacrifices demanded by periodic
declines in national income may be thought neither practical nor wise.
Finally indexation will seem unattractive where considerable doubt and
controversy remains about the relative level at which minimum wages
should be maintained in the national wage structure in the long run.

On the fundamental question whether indexation fuels inflation or,
by reducing the uncertainties of wage fixing, eases it no consensus has
emerged, either among economists or the social partners. Internationally, practices range from total rejection to virtually total
reliance on indexation as a wage determination method. For the
purposes of the present study, it may simply be noted that where
indexation is commonly used for adjusting collective agreement rates or
rates fixed by other means, it is more likely but by no means certain also
to have gained acceptance for adjusting minimum wages.

The indexation formulas for adjusting minimum rates tend to be
patterned on those used for other wage determination purposes, as in
Luxembourg, where the systems used for minimum wages and for other
wages and salaries are identical. When the increase or decrease in the
arithmetic average of the consumer price index of the past six months
exceeds a specified amount (2.5 per cent since May 1972), the minimum
wage is changed in the same proportion. Moreover to ensure that
minimum wage earners participate in economic growth, provision is
made for additional increases in line with trends in general economic
conditions and incomes. Every two years the Government is required to
submit a report on the scope for such additional increases to the
Chamber of Deputies.

In Australia minimum wages are also linked to price movements, but
the adjustments are not automatic. The Australian Arbitration and
Conciliation Commission since 1975 has reviewed periodically (initially
every quarter, now every six months, as already mentioned) all federal
award wages and salaries, including general minimum wages, to
determine how they are to be adjusted. In general the Commission has
followed the policy of making the adjustments in line with the most
recent changes in the cost of living as long as it is not persuaded to do
otherwise by those opposing the adjustments.

In France indexation has been used to adjust minimum wages since
1952. Originally the link was exclusively with changes in consumer
prices. Since 1970 changes in both consumer prices and wage levels have
been taken into account. Adjustments proportionate to the increase in
prices are made each month that the national consumer price index
increases by at least 2 per cent over the level reached at the time of the
previous change. Additional adjustments are made every 1 July by the
Government on the advice of the Collective Agreements Board. Also
the Government can, in between these annual adjustments, increase the
minimum wage by an amount greater than that which would have resulted from indexation based on prices. These two forms of additional adjustments together must ensure that the growth in the purchasing power of the minimum wage is not less than half the increase in the purchasing power of average hourly wages as recorded by the Ministry of Labour's quarterly survey of wages. To ensure the effectiveness of the policy of increasing low wages and to avoid destabilising automatic adjustments, collective agreement rates are prohibited from being linked to minimum wage changes.

The Dutch approach is unique in that indexation is based essentially on wage rather than price movements. The minimum wage is adjusted twice a year in line with changes in an official index of negotiated basic pay rates. Also since 1973 the Minister of Social Affairs has had the power to introduce special "structural" increases in the minimum wage if it is considered that collective agreements have given disproportionate increases to workers in lower grades. Such "structural" increases can only be made once every three years following consultations between the Minister and the Social and Economic Council, the country's main tripartite advisory body.

Indexing based on wage movements has been given serious consideration as a possible reform of the United States minimum wage system. An Administration proposal in 1977, not finally adopted by the Congress, would have required annual adjustment to maintain the minimum wage at half the average manufacturing wage (straight-time hourly earnings of production and non-supervisory workers in manufacturing). Such an indexing system is one of the issues to be investigated by the Minimum Wage Study Commission established by the 1977 minimum wage legislation. In Canada the sole jurisdiction which appears to have relied upon indexation is Quebec, where periodic adjustments have been linked at various times to either wage rate or consumer price indices.

Although the use of indexation in developing countries is comparatively rare, some examples can be found. In Gabon this approach has been used since 1967. To begin with proportionate changes in the national minimum wage were made each time that the consumer price index for workers increased by 4 per cent or more in two consecutive surveys but in 1974 the threshold was reduced to 2 per cent. In Tunisia the Social Pact for the period 1977–81 provides for the preservation of purchasing power through automatic increases in remuneration whenever prices increase by 5 per cent, with a minimum period between adjustments of six months, and at least one revision per year taking into account cost of living and productivity changes. In India the Minimum Wage Act of 1948 enables the respective governments to fix minimum wages comprising a basic wage and a dearness or cost of living allowance.
linked to indices of consumer prices. A number of states have included provision for a dearness allowance in their minimum wage orders. The formulas used vary but usually call for a lump-sum increase for each point rise in a specified index. However, the adjustments, which are made every three or six months, normally do not fully offset increases in the cost of living. In Sri Lanka similar minimum wages orders have also been issued for certain trades under the Wages Boards Ordinance. At various times in Chile and in Papua New Guinea minimum and other wages have been indexed on consumer price changes, according to different formulas providing for either partial or complete protection against inflation.

The comparatively rare use of indexation for adjusting minimum wages in developing countries is probably accounted for to a large extent by the fact that this system is not widely used for determining other wages. Moreover, because in many developing countries there have been recurring periods of declining real wages and because minimum wages have been used from time to time as an instrument of macro-economic policy, the loss of flexibility associated with indexation might be difficult to accept. It should also be kept in mind that indexation implies a basic commitment to regular adjustment of minimum wages. From the prevailing pattern of adjustments in a number of developing countries, it is evident that such a commitment does not always exist.

THE BASES FOR UPDATING MINIMUM WAGES

Ideally all the criteria used to establish the original level of minimum wages should be taken into account during their periodic revision. But it is generally not practical to deal with all the complex issues thus raised on the occasion of each adjustment. Accordingly, to provide a basis for interim adjustments between major reviews minimum wage fixing authorities tend to rely upon simplified updating criteria, of which the two most commonly used are consumer price changes and real wage and income trends. With indexation their use is of course automatic, but even in the absence of indexation cost of living changes and real wage and income trends often have a predominating influence on minimum wage adjustment decisions. These two criteria are distinguished from the others by their dynamic rather than static character. Criteria such as the needs of workers and their families, capacity to pay and comparable wage and income levels are essentially ways of determining the most appropriate relative position for minimum wages in the wage and income hierarchy. Once fixed at this level the two dynamic criteria are a simplified means of ensuring that they remain at it with the passage of time.
Consumer price trends

Of the two updating criteria the least problematic is changes in consumer prices. In many countries a broad consensus exists that on grounds of equity high priority should be given to protecting minimum wage earners and the lowest paid against losses in purchasing power caused by inflation. Moreover consumer price indices, usually being easily understood by and readily available to all those participating in minimum wage fixing, provide the simplest and most concrete basis for rationalising adjustment decisions. Adjustments based on consumer price movements are also consistent with the expected long-run evolution of the labour market, which normally can be counted on to ensure that real wages are maintained and eventually grow as economic development proceeds.

However, difficulties arise because the available measures of cost of living changes are often questioned on various grounds. Because consumer price indices are multipurpose, and rarely constructed exclusively for minimum wage fixing, the characteristics of the population group used as a reference for determining the weight of individual items in the index rarely correspond closely to those of the persons most immediately affected by minimum wage changes. Not infrequently it is argued that the differences in the expenditure patterns of the two groups are sufficiently important to require modification of the indices before they can be used for updating minimum wages. Similarly it is often contended that weights used in the construction of the indices are based on household income and expenditure surveys that are so old that they fail to reflect the current consumption patterns of the low paid. A host of other more technical criticisms are often made, such as unreliable procedures for gathering price information, the inclusion of goods not generally available at controlled prices and unsatisfactory methods of dealing with seasonal price fluctuations. Sometimes there is simply a lack of trust that the government will report price movements accurately. To obtain greater acceptance of the validity of consumer price indices, in some countries representatives of employers and workers have been associated with their development and production. In a few instances (e.g. Colombia and Mexico) tripartite national minimum wage fixing bodies have been given responsibility by legislation for the preparation of suitable consumer price indices.

An even more difficult issue is to decide under what conditions it may be necessary to envisage departures from the principle of maintaining the purchasing power of the lowest paid. During periods of economic crisis, arising from wars, natural disasters, major declines in export earnings or increases in import prices, it may not be possible to avoid having at least a part of the burden of adjustment fall on minimum wage earners. Or if, for
example, an economy is subject to clearly diagnosed cost-push inflationary pressures—where rising prices entail higher minimum wages, which in turn, through their effects on costs and purchasing power, push prices up further—those responsible for economic policy may wish to see minimum wages temporarily lag behind price increases as one means of bringing the situation back under control. Whether the “cost-push” inflationary environment justifying such an attitude actually exists is always bound to be a matter of controversy. In this regard it should be noted that the ILO Meeting of Experts on Minimum Wage Fixing in 1967 concluded that:

the danger of inflation should not in itself be regarded as a sufficient justification for allowing a deterioration of any magnitude (say, more than 10 per cent) in the purchasing power of a national minimum wage, and . . . governments should control inflationary pressures by other methods rather than by reducing the already very low standard of living of those in need of the protection afforded by a national minimum wage.  

Undoubtedly the most controversial rationale for allowing minimum wages to fall behind price changes is the pursuit of economic growth through wage restraint. This implies an acceleration of private and public investment achieved through the reduction of private consumption. Inevitably this raises the questions of whether holding wages back will necessarily result in the hoped for expansion of productive investment, whether wage restraint should be so stringent that it implies an absolute decline in the living standards of the current generation of wage earners, whether shifts towards investment expenditures should be financed through inflation or more directly through fiscal measures and whether it should be minimum wage earners rather than other groups who should have their consumption expenditures reduced. On all these basic wage policy issues opinions remain sharply divided. Understandably attempts at reducing the real value of minimum wages in order to accelerate growth have generally encountered bitter resistance.

The importance attributed to maintaining the purchasing power of minimum wage earners can roughly be gauged by comparing the size of minimum wage adjustments with consumer price trends. Such comparisons covering the period 1966–77 for a large number of countries for which the required data could be obtained are reported in Appendix 1. For the developed market economies the comparisons show that adjustments have been made frequently and have been sufficient to avoid significant declines in purchasing power. In fact over the long term minimum wage adjustments have outpaced price increases by a considerable margin. The major exception to this pattern is the United States, where the national minimum wage was left unchanged between 1968 and 1974. The pattern for developing countries is much more complex and varied. Changes in the real value of minimum wages have been considerably more volatile than in developed market economies. Moreover there are many instances where the real value of minimum
wages has undergone a sharp decline. Whatever the reasons for this—economic imperatives, the correction of unduly high minimum rates or simply poorly functioning adjustment machinery—it is evident that the preservation of purchasing power has been far from absolutely guaranteed. None the less for a significant proportion of the developing countries covered by the comparisons minimum wages appear to have been adjusted roughly in line with inflation rates over the long term. Although the approximation to price movements is not as consistent or close as in developed market economies, the influence of this updating criteria can still be discerned. The direct evidence available on the way in which decisions on minimum wage changes are made in developing countries also reflects the importance attached to cost of living trends, though these do not constitute the exclusive basis for the decisions or impose an immutable lower limit.

Real wage and income trends

Despite their major importance changes in consumer prices cannot be taken as the sole basis for updating minimum wages over extended periods of time. With sustained economic growth this would imply that the incomes of minimum wage earners would fall further and further behind those of other groups, depriving of their share in the fruits of economic development. Accordingly it is generally accepted that the purchasing power of minimum wages should be increased from time to time.

This was the basic reason for the 1970 reform of the minimum wage system in France. Despite increases in the national minimum wage in line with price movements and occasional increases in its purchasing power during the 1950s and 1960s, its level relative to average wages declined. Fewer and fewer workers were being affected. The 1970 change of approach to adjustments of the minimum wage, symbolised by the change in its name from SMIG (inter-occupational guaranteed minimum wage) to SMIC (inter-occupational minimum growth wage), was intended “to transform completely the static notion of ensuring for the most disadvantaged a subsistence minimum into a dynamic approach affording them effectively guaranteed and regularly growing participation in the fruits of economic progress”. In addition to indexation based on consumer prices provision was made for an annual review of the purchasing power of the minimum wage and for guaranteed increases equal to at least one-half the improvement in real average wages. As already described, regular supplementary reviews of minimum wages have also been provided for in other countries using indexation (e.g. Luxembourg and the Netherlands).

The issues associated with determining the size of these periodic increases in the real value or purchasing power of minimum wages are
quite distinct in developed and developing countries. In the former long-term trends in national labour productivity (measured in various ways) are often used as a basis for calculating what improvements in average real wages are feasible. This approach, even though it glosses over many complex underlying relationships, has considerable intuitive appeal. Given certain assumptions, such as product price flexibility, it means that all groups of income earners could obtain the same increases without accelerating inflation. At the same time each group’s share of the national income would remain fairly stable. This is the long-term historical pattern observed or thought to exist in a number of developed countries after allowances are made for cyclical fluctuations and structural changes in the economy. And it is for this and other reasons that it is widely believed that inevitably market forces confine real wage gains approximately to the increase in national labour productivity.

In most developed market economies an indirect rather than direct link between minimum wage adjustments and productivity growth has been established. Minimum wages are tied to money wage trends, which in turn are expected to reflect, at least in the long run, changes in the cost of living plus the gradual improvement in the productive capacity of the economy. Making such an indirect link has a number of advantages. Statistics of wage trends, in addition to being available on a more current basis, are not subject to nearly the same conceptual difficulties as are measures of national productivity. Also, reliance on wage movements avoids the problem of trying to separate cyclical from trend labour productivity changes. Moreover an indirect link with wage rate movements is more likely to ensure continuing sensitivity of minimum wages to changes in labour market conditions. Linking minimum to average wages does not encounter problems of circularity since, as has been described, minimum wages in these countries fulfil a “safety-net” function and do not generally have a major impact on the over-all level of prevailing wages.

The “equal sharing” principle inherent in the national labour productivity standard implies that there are no major structural imbalances and that therefore it is reasonable to distribute the increase in income created by economic growth in approximately the same manner as the existing income is distributed. In the case of developing economies no such assumptions can be made. On the one hand the vast inequalities in the distribution of income that are typical of many developing countries generate pressure for increases in minimum wages faster than productivity growth to bring about improvements in the relative position of the low wage workers. This need may appear particularly compelling where minimum wage earners are among the lowest income groups of the country. On the other hand working in the diametrically opposite direction is the concern with accelerating the pace of economic growth.
Traditionally this has been viewed as requiring wage restraint in order that a significant part of the increase in national income may be channelled towards investment rather than current consumption. Moreover, given the marked duality characteristic of most developing economies, whether or not all groups of workers should share equally in the increase in income is questionable. It is often argued that priority should be given to expanding the employment and income-earning opportunities of those in the traditional, low-productivity sectors rather than to raising the wages of those already fortunate enough to have found employment in the higher income sectors.

In this respect the “labour surplus” development models of W. Arthur Lewis and Fei and Ranis have had a considerable influence on the thinking of development planners. These models see the main development problems as rooted in severe structural imbalances, and particularly in the need to transform the low productivity traditional agricultural and trading economy. One of the their main contentions is that real wages in the modern sector should be tied to real wages or incomes in rural areas, remaining constant or increasing only slowly until surplus labour has been absorbed through transfers from the traditional to the modern sector. Although urban wages would exceed rural wages, both would increase at the same rate. In the early stages of development this rate would of necessity be less than the rate of growth of national productivity (and certainly less than the growth of productivity in the modern sector alone). The failure of modern sector wages to adhere to this pattern has in a number of countries been identified as one of the main reasons for the increase in urban unemployment. This in turn has constituted a popular reason for maintaining the growth of real wages below that of productivity.

The traditional justifications for wage restraint have, however, come under increasingly critical review as it has been found that the process of growth does not necessarily go hand in hand with the reduction of poverty. The economic grounds for maintaining income inequalities have been considerably weakened by evidence that the relationship between income levels, savings and investment is not nearly as neat or strong as conventionally assumed. It is becoming more widely accepted that greater equality in the distribution of income might well be compatible with higher rates of economic growth as higher consumption expenditures increase domestic demand and stimulate production. In any case it is questionable whether in normal circumstances wage restraint should be carried to the point where no increase at all in real wages is envisaged for the foreseeable future. A policy of no growth in real wages will inevitably be viewed as unjust by workers and their representatives unless accompanied by an efficient fiscal system ensuring that any wage restraint is matched by similar restraint in the growth of
Adjustments

unproductive consumption expenditures by higher income groups or profits for foreign investors, as well as by effective measures to promote the economic growth in aid of which wage restraint is being sought. As these conditions are difficult to meet completely, wage restraint is likely to be more palatable, and people may be more willing to face the sacrifices and undertake the effort needed to ensure continuing progress, if at least some improvement in living standards among wage earners can be counted on. The Declaration of Principles and Programme of Action adopted by the Tripartite World Conference on Employment, Income Distribution and Social Progress and the International Division of Labour (Geneva, 4–17 June, 1976) states that wage policies not only should ensure minimum levels of living but should also be such that the real wages of workers and the real incomes of self-employed producers are protected and progressively increased.

Some indication of the extent to which national productivity has been taken into account in various countries can be obtained from the calculations presented in Appendix 1. For this purpose it is important to focus on trends in real minimum wages and their relationship with increases in average wages and national productivity as measured by real GDP per head. In the developed market economies real minimum wages generally increased substantially over the period examined (1966–77), roughly to the same extent as average wage levels but to a considerably greater extent in France, reflecting the attempt there to upgrade the position of the lowest paid.

The situation is much more diverse in the developing countries, where, as already discussed, in most cases minimum wages failed to keep up with price increases, or just barely did so during the relevant period. For those countries where the purchasing power of minimum wages has improved, the increases have usually fallen short of, or at least not significantly exceeded, those of wages in general or of the rate of growth of national productivity. Thus real minimum wages increased in only three of the ten countries examined in Latin America, whereas national productivity rose in all of them. Mexico is an important exception to the general pattern. The real value of minimum wages there has increased substantially, in excess of the growth of both national productivity and of average industrial wages, but to a lesser extent than the increase in agricultural wages. There are also a few exceptions in Asia and Africa.

Considered as a whole, however, the available statistical evidence suggests that in most developing countries minimum wage adjustments substantially below the level of growth of national productivity have become the established pattern. In fact wage restraint appears to have been carried to the point where the main issue is the preservation of rather than an improvement in the real value of wages. This contrasts sharply with the wage growth patterns observed in the 1950s and the early 1960s.11
Notes

1 See for example Aykroyd, op. cit., pp. 37–43.
2 A. F. Cesarino Júnior: Correção e aumento de salários (São Paulo, Edições LTr., 1980), p. 64.
3 Paragraph III reads in part: “Provision should be made for the review of the minimum rates of wages fixed by the wage fixing bodies when this is desired by the workers or employers who are members of such bodies.”
4 For example section 16–4 of Law No. 137 of 1959 of Japan reads as follows: “Those representing the whole or part of workers or employers may ... make an application to the Minister of Labour or the Chief of the Prefectural Labour Standards Office to the effect that minimum wages ... applicable to the said workers or employers shall be decided or ... shall be revised or abolished ...”.
5 For a description of various indexation practices see ILO: L’indexation des salaires dans les pays industrialisés à économie de marché (Geneva, 1978).
6 idem: Minimum wage fixing and economic development, op. cit., p. 162, para. 83.
10 For a review of the literature on this issue see Todaro, op. cit., Ch. 5.
Wherever minimum wages are actively used their enforcement constitutes a major challenge to labour ministries. Because of economic pressures, poor knowledge of the law or limited resources for inspection, some, many or even most workers in certain categories will not receive the wages to which they are entitled. This basic fact cannot be ignored by administrators of minimum wage programmes. A realistic assessment of the likely pattern of compliance is essential in order to decide the level of resources that must be devoted to enforcement activities to maintain the minimum wage programme's credibility and the deployment of them needed to achieve maximum effect. Such an assessment also has a bearing on the scope and characteristics of the minimum wage system likely to prove best suited to national conditions and the levels at which rates should be fixed.

This chapter begins with a description of the ways in which the extent of compliance has been assessed in various countries and the results of some of these inquiries. This is followed by a brief review of some of the measures taken or proposed to increase the effectiveness of minimum wage enforcement. Finally there is a discussion of the problems posed by the impossibility of obtaining complete compliance and their implications for the administration of minimum wage programmes.

MEASURING THE EXTENT OF COMPLIANCE

From their knowledge of the prevailing level of wages, the routine reports of labour inspectors and the personal experience of workers' and employers' representatives, minimum wage fixing authorities inevitably obtain a general impression of the extent of compliance with the rates that have been fixed. But such an impression cannot be defended with much confidence and "hard" data are usually non-existent or
fragmentary. As with other forms of illegal behaviour, the extent of non-compliance with minimum wages is extremely difficult to assess accurately and the appreciations of those most immediately concerned can normally be expected to diverge. For the purposes of policy formulation minimum wage fixing authorities are thus frequently forced to carry out special investigations.

Such investigations can take the form of a detailed analysis of the results of enforcement activities. A study of this type for the United Kingdom reached the conclusion that the extent of non-compliance with the minimum rates fixed by wages councils had increased during the 1970s and that violations detected by the inspectorate accounted for only a small proportion of the actual level of non-compliance. In the United Kingdom the wages inspectorate attempts to investigate all complaints of non-compliance and to carry out each year routine inspections of 7.5 per cent of all establishments covered. The results for the west of Scotland and Great Britain are presented in table 5. It was argued that the increase in the detected level of non-compliance to be observed in this table, especially during the period 1973–76, was due not to improvements in detection but to a rise in the actual extent of non-compliance. Neither the frequency of routine inspections nor complaints-based inspections had increased. In addition a detailed analysis of the pattern of inspections, violations and arrears payments in individual wages council trades did not suggest that the inspectorate’s activities had become increasingly specialised or efficient over the period (e.g. through a higher proportion of routine inspections being concentrated on the trades with the poorest record of compliance).

With respect to the general level of compliance, the results of saturation or “blitz” inspections conducted throughout the country in the autumn of 1976 have been especially telling. This exercise involved five or six inspectors visiting each of 23 medium-sized towns for one or two weeks and carrying out a series of concentrated inspections, largely in the retail and catering trades. The results showed that 27 per cent of the establishments were infringing the regulations and that 14 per cent of the workers were being underpaid an average amount of £45.90 per head. The infraction rates detected in certain trades and areas were considerably above those normally revealed by routine inspections.¹

While a close scrutiny of the results of enforcement activities can sometimes yield useful insights, often the inferences that can be drawn are quite limited. Inspections in most countries cover only a small fraction of the total number of establishments subject to minimum wages and it is unrealistic to suppose that the number of complaints registered comes at all close to the number of violations. To obtain a clearer picture of the pattern of compliance it is normally necessary to analyse the results of wage or income surveys.
Table 5. Extent of compliance with wages council rates in the west of Scotland and Great Britain, 1969–76
(Percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>Proportion of inspected establishments found to have infringed the regulations</th>
<th>Proportion of workers whose wages were examined that received arrears payments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>West of Scotland</td>
<td>Great Britain</td>
</tr>
<tr>
<td>1969</td>
<td>14.6</td>
<td>16.8</td>
</tr>
<tr>
<td>1970</td>
<td>17.4</td>
<td>15.0</td>
</tr>
<tr>
<td>1971</td>
<td>16.8</td>
<td>14.9</td>
</tr>
<tr>
<td>1972</td>
<td></td>
<td>18.7</td>
</tr>
<tr>
<td>1973</td>
<td>26.1</td>
<td>21.6</td>
</tr>
<tr>
<td>1974</td>
<td>23.5</td>
<td>22.0</td>
</tr>
<tr>
<td>1975</td>
<td>26.2</td>
<td>29.0</td>
</tr>
<tr>
<td>1976</td>
<td>31.5</td>
<td>35.4</td>
</tr>
</tbody>
</table>


In the United States the pattern of compliance has been investigated through the Current Population Survey, which queries workers concerning their straight-time hourly wage. Consistent with an earlier investigation carried out by the Department of Labor, a study by Ashenfelter and Smith found that for the occupations and industries completely covered by the Fair Labor Standards Act, 0.8 per cent of all the workers surveyed reported earning less than the minimum wage in 1973. In 1975, shortly after a minimum wage increase, this ratio rose to 1.5 per cent. The authors argued, however, that the figures were misleading because most workers surveyed anyway earned more than the level set for the minimum wage. By confining themselves to workers who would have earned below the minimum wage if the wages for their occupations and industries had not been made subject to the minimum wages regulations they found that the proportion of compliance was 64 per cent in 1973 and only somewhat lower in 1975. Using data collected through a mail survey of employers, the comparable compliance figure was estimated to be 77 per cent.

In other countries the absence of relevant wages statistics has made it necessary to conduct special surveys. The results of such a survey carried out in the Netherlands in 1976, covering 5,688 enterprises with over 100,000 employees, showed that 0.8 per cent of all the employees received wages below the minimum level and that on average their wages were 9.5 per cent below the minimum. A survey of compliance made by staff of the Labour Department in the state of Punjab in India in 1975 was based on a random sample of 317 non-agricultural establishments. An attempt was made to cover at least three small, medium and large-sized...
establishments in each of 26 non-agricultural industries. In certain of the smaller establishments the necessary records were found to be inadequate or not to be maintained at all, so that reliance had to be placed on oral information given by the employers and workers concerned. Out of the 6,084 workers covered, 25 per cent were found to be getting the prescribed occupational minimum wages, while 69.6 per cent were getting more and 5.4 per cent were getting less. However, only a small proportion of the workers entitled to receive increases in wages automatically linked to the consumer price index were actually receiving them.

Other surveys have given startlingly different results. For example a survey made in 1972 by means of informal interviews with agricultural labourers and landlords in two rural villages in the state of West Bengal found that, even during the peak periods of the year, agricultural labourers earned substantially less than the prescribed minimum wages and worked 11–13½ hours rather than the prescribed 8 hours. In the off-season wages were found to fall short of the minimum wages by more than 50 per cent.6

Another, usually less exact, approach involves analysing the results of household income and expenditure surveys. Thus a study based essentially on the Household Inquiry of June-July 1974 in Colombia made estimates of compliance in the four major urban centres of the country on the assumption that all the wage and salary earners with incomes between the highest and lowest minimum rates in force (rates varied by industry, size of establishment and region) were earning the minimum wage, while those with reported incomes below the lowest minimum wage were assumed to be earning less than the legal lower limit. For every worker who has considered to be earning just the minimum wage, there were found to be 1.51 workers who earned less. Approximately 9.5 per cent of the workforce in urban areas during the period 1970–74 was estimated to have earned less than the minimum wage.7

A recent study of household surveys and population censuses for 13 Latin American countries8 gives an indication of the extent to which minimum wages for non-agricultural workers are adhered to in the region taken as a whole. Low-income workers were considered to be all those with incomes below the general minimum wage applicable to non-agricultural workers. The number was estimated conservatively by counting all those in the income classes below the one corresponding to the lowest adult general minimum wage in force in the country. On this basis it was found that more than 25 per cent of the non-agricultural workforce in Latin America earned low incomes around 1970. Although this way of counting the low-income workers clearly implied an overestimate of the degree of non-compliance with the general non-
Compliance

agricultural minimum wage, even when allowance was made for the fact that some workers received wages in kind, that lower minimum wages are applicable to domestic servants, youths and apprentices and that some low-income workers (less than 10 per cent) worked short hours, it was reckoned that non-compliance affected not less than 9 per cent of all non-agricultural wage and salary earners in Latin America and in all probability significantly more than that.

For the purpose of policy formulation a knowledge of the pattern as well as of the general level of compliance is of basic importance. The general expectation is that the lower the level of the existing or "market" wage relative to the minimum wage, the greater the responsiveness of employment to changes in wage levels, the smaller the penalties for violations and the smaller the probability of being caught, the greater will be the extent of non-compliance. This is borne out by the fact that labour administrators consistently report that non-compliance increases in areas of high unemployment or underemployment, in low-wage labour-intensive industries, in smaller establishments, in enterprises where the workers are unorganised and illiterate, in activities where immigrants are employed, in sectors where the rate of entry and exit of enterprises is high and employment relationships are casual and in rural areas or remote urban centres. While the level of non-compliance associated with these partly inter-related characteristics varies from country to country and according to the role of the minimum wage system in wage determination, their general importance as determinants of the effectiveness of minimum wages is well recognised.

For certain categories of workers some of the conditions limiting the effectiveness of enforcement combine to make compliance especially problematic. Thus with respect to homeworkers a recent investigation of the toy manufacturing industry in the United Kingdom found that, out of the 178 homeworkers interviewed 82 per cent appeared to be earning below the statutory minimum. Only 30 of them had heard of the wages council for the industry and just four knew anything about its functions. Part of the problem appeared to stem from confusion regarding the coverage of the wages council orders. Many employers considered homeworkers to be self-employed and thus not subject to statutory minimum wages. But in fact minimum terms and conditions fixed by a wages council apply to all workers in the industry concerned, irrespective of whether they are employees or self-employed. Another difficulty arises for homeworkers because most of them are paid piece rates and it is practically impossible to control the time spent on the job. Even though, as in the United Kingdom, it may be stipulated that piece rates should generate a minimum level of earnings per hour for the "ordinary" homeworker working at an "ordinary" pace, this or equivalent formulations create an obvious problem for employers and workers to know when the
legal requirements are being met.

As for domestic servants, in addition to the difficulty of controlling the number of hours they actually work, in developing countries the alleged or real existence of family ties often obscures the extent of the employer's responsibility. More generally the special relationship of dependence that often exists between domestic servants and their employers seriously reduces the likelihood that complaints against low wages will be made. The same applies even in developed market economies where these workers have benefited from favourable labour market trends. In the United States a survey of domestic service employees in November 1974 found that 30 per cent earned less than the applicable minimum wage.\(^\text{12}\)

It is widely accepted that the pressures that generate compliance with minimum wage laws are also particularly tenuous in what has come to be known as the informal sector of developing countries, that is the sector generally characterised by ease of entry, reliance on indigenous resources, family ownership of enterprises, small scale undertakings, labour-intensive and adapted technologies and unregulated competitive markets. For Latin America it has been estimated that 80 per cent of the urban workers earning incomes below the legal minimum wage belong to the informal sector. There is also a close relationship in this region between the size of establishment and the incidence of low wages. Thus inquiries have shown that in both Mexico and Panama the average wage of persons in industrial establishments employing up to five persons was lower than each country's lowest minimum wage, while in Asunción and San Salvador the percentage of manual workers receiving incomes less than the minimum wage was somewhat more than 30 in undertakings employing more than five persons but as much as 60 in those employing up to five persons.\(^\text{13}\)

By common accord, the enforcement of minimum wages in developing countries encounters its most serious obstacles in traditional agriculture, outside the larger plantations and modernised farms. The lack of enforcement arrangements that could begin to cover the innumerable, small and scattered places of employment, the weakness of workers' organisations, the transient character of most work relationships, widespread illiteracy, the non-existence of record keeping, the prevalence of extended family, or in some cases near-feudal, relationships with employers, reliance on traditional piece-work or task payment systems, the prevalence of the system of payment in kind and, perhaps most important, the ready availability, at least at certain seasons of the year, of persons who desperately need to find work no matter how poorly paid—all these obstacles combine to make compliance with legally prescribed labour standards of any kind highly problematic. Many studies of developing countries have documented the existence of
prevailing wage levels that fall well below the existing legal minimum rates, and it appears to be widely accepted that the general level of agricultural wages will rise to the minimum wage level or above only when pushed by labour supply and demand pressures.

In the context of traditional agriculture the relevant issue is not so much the degree of non-compliance with minimum wages as whether establishing a legal wage standard for this sector can have any detectable influence on the wages actually paid. Few studies have been devoted to this problem, concerning which it is difficult, methodologically, to accumulate firm evidence. Qualitative assessments by labour administrators and students of rural development tend to vary. Thus one often comes across statements such as: "It is well known that minimum wage legislation has little impact on actual wages in an undeveloped economy, especially in the unorganised rural sector. Such legislation rarely is anything more than an expression of interest of the government." On the other hand there are those who would be ready to ascribe at least some influence to minimum wages in raising the level of some wages in traditional agriculture over what they would otherwise have been, especially where the minimum wage has acted as a target for the activities of rural workers' organisations.

IMPROVING COMPLIANCE

Under the conditions of generalised labour surplus found in most developing countries, attempting to achieve a satisfactory level of compliance inevitably constitutes an uphill struggle. This section briefly outlines the commonly reported obstacles to effective enforcement and some of the proposals or actual changes made in efforts to bring about improvements. The intention is not to discuss all the administrative and technical issues associated with minimum wage enforcement programmes but simply to identify the possible general direction for reforms that might be envisaged bearing in mind national conditions and problems.

The allocation of manpower and financial resources

In almost all developing countries and in some developed countries as well the enforcement of minimum wages is hampered, often severely, by a shortage of trained labour inspectors and by financial constraints on the operations of the inspectorate. This is widely recognised as being the most substantial obstacle to the effective implementation of minimum wages. Making matters worse, imbalances between the material and human resources available restrict the day-to-day activities of the inspectorates in a number of ways. Thus in developing countries there is
often a lack of adequate transportation available to inspectors; this constitutes a particularly acute problem with respect to inspection in rural areas and other places where public transport services are poor. Where the inspectorate in principle does have access to vehicles, they are not always available to the staff actually carrying out the inspections, and the fuel allowances are not always adequate.

General financial restrictions have indirect consequences as well. The most obvious and damaging of these are the high turnover and low morale of staff reported in some countries, caused by poor pay and promotional prospects. The lowest grade inspectors are frequently assigned responsibility for wage payment enforcement. Promotion often takes them out of the field of wages inspection and sometimes of inspection activities altogether. The low pay and status of the inspectors also conditions their effectiveness in dealing with employers in efforts to bring about voluntary compliance.

Adding to the problem of inadequate inspection resources is the tendency to deploy labour inspectors on work in other branches when the workload there rises or to assign to inspectors extra duties which interfere with their primary function of overseeing the application of labour legislation. Where, as in many French-speaking developing countries and in Latin America, an extensive range of responsibilities has traditionally been assigned to labour inspectors, their task becomes much more arduous. Not only must they administer a complex set of acts, regulations and ordinances with a diverse technical content, but also they are confronted with the problem of allocating their time among competing duties, often with little guidance on the priority to be given to them. Not infrequently it is the basic inspection work that suffers. Thus as long ago as 1957 the ILO Committee of Experts on the Application of Conventions and Recommendations was prompted to observe:

> If the inspectorate is seriously understaffed or if its members are burdened with duties which are liable to impede their main responsibilities, e.g. if called upon to settle labour disputes, they will find it difficult to perform their primary duties adequately or at all.\(^\text{18}\)

Despite a substantial strengthening of the labour inspectorates in many countries over the past 20 years the problem persists.\(^\text{19}\)

Resolving the problems just described is essentially a matter of establishing a suitable priority for the wage inspection function as one of the competing claims on government resources, and applying administrative practices which ensure that this priority is adhered to. Those administering minimum wage programmes generally have the task of providing convincing evidence of the limits of self-enforcement and the consequent need to allocate public funds for enforcement activities that are reasonably in line with the scope of the minimum wage programme. In several countries a major upgrading of the inspectorate has followed
Compliance

widespread publicity being given to weaknesses of administration or statistics revealing the extent of non-compliance. Another method used to ensure a suitable allocation of resources to inspection has been to fix targets for the routine inspection of establishments.

Labour inspection strategies

Where, as in many countries, a significant expansion of the labour inspectorate seems a remote possibility, the most important consideration is to maximise the use of the limited resources available. One way is through careful programming of inspections so as to have them concentrate on the establishments in greatest need of inspection rather than on those most convenient to inspect. It is often suggested that routine inspections should focus on non-unionised establishments, new establishments where employers may not be aware of their obligations, individual firms with a bad inspection record and those industries that research studies or the examination of inspection records suggest are especially infringement prone. Also to combat the widespread abuse of employees signing for more wages than they actually receive, it has been suggested that inspectors should attempt to schedule a portion of their visits to coincide with the actual payment of wages. To aid inspection programming employers in Japan and the United Kingdom are required to complete a questionnaire the replies to which provide an indication of the extent of their compliance with minimum standards for wages and conditions of employment. There is an inspection follow-up for employers who do not respond and for those whose replies suggest a failure to understand the legal requirements or that they are committing infringements, as well as for a sample of the employers who submit satisfactory returns.

Whatever the approach followed, the effective programming of inspections requires a thorough knowledge of all the establishments covered by the minimum wage laws and a practical means of keeping this knowledge up to date in a usable form. Hence the importance of finding timely ways of identifying new employers and those that go out of business, particularly in sectors where such changes are frequent and experience shows that abuses are likely to occur.

Measures to ensure that labour inspectors economise on their time and that their activities are directed to the most urgent problems are also useful. One way is through specialisation. In some countries, notably in Latin America, separate labour inspection units have been created for agriculture. Also in the United Kingdom, following revelations as regards the payment of minimum wages to homeworkers, a special homeworking unit consisting of 18 inspectors was set up in 1978. It has also proved to be sound practice for the inspectorate to avoid, whenever possible, getting tied up in time-
Minimum wage fixing: An international review of practices and problems

consuming investigation and litigation by attempting to deal with violations in ways other than through the initiation of prosecutions. Thus in the United States the inspectorate generally takes a flexible approach to investigation, doing what is essential to identify and resolve violation situations without necessarily following all the predetermined procedural steps. In 1972 the inspectorate began using conciliation techniques in informal meetings with employers in cases where a complaint had been made by just one employee or a small group of employees. Another means of increasing the efficiency of the inspectorate is through the saturation or "blitz" campaigns already mentioned, in which a number of inspectors move into a given area carrying out extensive inspections in a range of low-paying industries over a period of one to two weeks. Not only is the usual travel time of the inspectors reduced but also the publicity associated with such campaigns can generate greater awareness of minimum wages. The "blitz" inspections carried out in the United Kingdom since 1976 have resulted in a marked increase in the number of complaints, which in general are more efficient than routine inspections as a means of detecting underpayments.

Making the enforcement system more efficient by encouraging complaints is largely a matter of ensuring that workers are fully aware of the minimum wages to which they are entitled and of how to contact the labour inspectorate in order to recover underpayments. Providing such information is also essential for "self-enforcement", as it is commonly believed that a significant proportion of all violations occur because of a lack of awareness by employers and workers of their rights and responsibilities, rather than a deliberate intention to flout the law. Information campaigns directed at promoting self-enforcement are likely to be especially cost-effective where, as in most developing countries, trade union organisation and the inspection programme together cover only a limited proportion of the establishments subject to minimum wage laws.

Many ways of disseminating information on minimum wage programmes have been used. In the case of general minimum wages there appears to be increasing reliance on the popular press, radio and television. Other ways include the distribution of simplified brochures or fact sheets on the minimum wage system and speeches or lectures given by Ministry of Labour staff to meetings of employers or workers. In one country (the Niger) information on minimum wages has been incorporated in its literacy campaign. In the case of industry minimum wage systems it is common for the employers to be required by legislation to post notices indicating the applicable minimum wages and other conditions of employment. But the effectiveness of this system could be improved if such notices, in the language or languages appropriate to the workplace,
Compliance

were regularly distributed to all the establishments covered and the requirement to post them more strictly enforced. It is also widely recognised that compliance would be facilitated by having less complex industry orders that avoid the use of formal legal language. Indeed it has even been suggested in the United Kingdom that simplification of the wages council orders might well do more to prevent underpayments than a doubling of the inspection force.\textsuperscript{21}

Reforms in legal administration

It is a common complaint that the legal arrangements for the recovery of underpayments and the imposition of penalties hamper enforcement efforts. The fines prescribed in legislation have sometimes lost their deterrent value through inflation or the reluctance of the courts to impose them for what are regarded as minor violations. In addition congestion in the regular court system and abuse of the possibilities for appeal can result in lengthy delays in the recovery of underpayments, which may not be compensated by interest penalties on the wages owing. In some instances the main responsibility for initiating prosecutions in the courts rests with the labour inspectors, who are not always adequately trained for this task. Also the nature of the required record keeping, the burden of proof before the courts and loosely worded legal provisions sometimes make successful prosecutions difficult (e.g. where the inspectorate must provide evidence on worker productivity to prove non-compliance. Nor are those who make complaints always fully protected against victimisation by means of legal guarantees of their anonymity.

What are viewed as practical ways for reforming the legal administration aspect of enforcement programmes varies a great deal with the specific problems encountered in individual countries and national legal practices and traditions. In some instances the reforms required to be undertaken are quite straightforward, involving no more than the prescription of adequate penalties, consistent prosecution of employers who deliberately or repeatedly break the law, giving wide publicity to convictions, restricting the right of appeal, shifting the onus of proof to the employer when claims of underpayment are made, removal of the requirement that there be employee authorisation for the recovery of underpayments and the introduction of guarantees of anonymity for those making complaints, both at the inspection and prosecution stages. In other instances more fundamental changes are proposed such as removal from the courts of the authority to decide claims of underpayment. Thus when the new Labor Code of the Philippines was introduced in 1974\textsuperscript{22} dissatisfaction with delays was one of the principal reasons for transferring the authority to settle disputes over the
non-payment of minimum wages from the regular court system to the National Labor Relations Commission. Under the new procedure labour arbitrators have exclusive jurisdiction, in the first instance, to decide all claims involving violations of labour standard laws. Appeals may be made to the National Labor Relations Commission and eventually to the Secretary of Labor and the President, but not the courts. Also in India labour commissioners or similarly ranked government officials are included among the persons who may be designated as the competent authority to hear and decide claims arising out of payment of less than minimum rates. A similar transfer of authority has been made in some Canadian jurisdictions. In the province of Nova Scotia a Labour Standards Tribunal has recently been established to decide upon disputes on all matters coming under the Labour Standards Code, including the payment of minimum wages. The decisions of the Tribunal are final except on questions of law or jurisdiction, in which case an appeal may be made to the courts. In Ontario like authority is vested in the Director of Employment Standards. He may issue a certificate of non-compliance accompanied by an order to pay and enforce the order through the courts instead of having to prosecute and obtain an order for payment from a judge. In other countries (e.g. Ecuador) authority to recover underpayments and to impose fines has been given to the labour inspectors or to other Ministry of Labour personnel.

Another fundamental type of reform involves the application of special controls and record-keeping requirements for types of workers in respect of whom enforcement is particularly difficult. In Ecuador the Labour Code requires employers using homeworkers to post a notice indicating the applicable minimum wage rates in places where materials are given out to workers and where the articles produced by the workers are delivered. In addition the employers are obliged to keep a register indicating the names and addresses of all homeworkers, a description of the work given out and the remuneration to be received. A copy of the entries in the register must be sent to the Government. Moreover the employer must give homeworkers a handbook in which the particulars of the work to be done and the agreed prices are registered.

An even more elaborate system of control has been introduced for homeworkers in the United States. The Wage-Hour Administrator has authority to regulate home work to the extent that this is necessary to safeguard the minimum wage standards of the Fair Labor Standards Act. Employers wishing to employ homeworkers in industries where regulations have been issued must apply for a certificate and abide by the stipulated record-keeping rules. The latter require for each lot of work information on the distribution of the work, the applicable piece rates and the hours worked on it. In addition the employer must supply to each homeworking employee a separate handbook provided by the
Compliance

Government, which must be retained. Entries are made in it each time a lot of work is given out. Similar record-keeping requirements exist in the Federal Republic of Germany, where every six months employers must submit to the Land labour authority lists of homeworkers and on request furnish copies of these lists to the appropriate trade union and employers' organisations.

Supplementary means of enforcement

To overcome the severe handicap of limited labour inspection resources, attempts have been made to involve others in the task of ensuring compliance with labour standards. In some states in India, to achieve better compliance in agriculture, the status of labour inspector has been given to a wide range of government officials active in rural areas, such as village development officers, revenue officers, welfare officers and soil conservation officers. More frequently special efforts have been made to solicit the support of workers' and employers' organisations. Employers' organisations can be encouraged to educate their members regarding the implementation of labour standards and to supply them with relevant up-to-date information. Also they may help identify those non-member employers who gain an unfair competitive advantage by violating labour standards. Similarly workers' organisations can be encouraged to inform their members of their rights, to apply pressure on employers to comply with labour laws, to provide assurances to workers that they will be protected if complaints are made and to inform the inspectorate of the sectors and enterprises where they should concentrate their activities. In some countries special efforts have been made to inform the workers' representatives in individual enterprises of the applicable minimum wage laws and to make them, in effect, assistants to the labour inspectors. In this regard it is of interest to note that the Labour Inspection (Agriculture) Convention, 1969 (No. 129), provides that: “So far as it is compatible with national laws or regulations or with national practice, Members may include in their system of labour inspection in agriculture officials or representatives of occupational organisations, whose activities would supplement those of the public inspection staff.” Also the Labour Administration Convention, 1978 (No. 150), states that “A Member which ratifies this Convention, may, in accordance with national laws or regulations, or national practice, delegate or entrust certain activities of labour administration to non-governmental organisations, particularly employers' and workers' organisations, or—where appropriate—to employers' and workers' representatives.”

In some instances in Asia an indirect approach to ensuring compliance has been adopted. In several jurisdictions in India (e.g. Mahar-
ashtra and Orissa) public workers’ projects have been launched in rural areas where wage levels have fallen well below the minimum rates, in an effort to raise wages by providing alternative job opportunities.23

The implications of incomplete compliance

Even if the resources directed to labour inspection were substantially increased and all conceivable reforms of the enforcement system were undertaken, it would be unrealistic to suppose that close to complete compliance with the payment of minimum wages would be achieved in most developing countries. As long as minimum wages are not permitted to fall far below the general level of wages actually paid, the scarcity of jobs and desperately low family incomes are bound to produce significant levels of non-compliance, especially among the most vulnerable categories of workers. Regrettable though it may be, those involved in the designing or administration of minimum wage systems must adapt their decision-making to this reality.

To begin with, when decisions on coverage are being taken there is the basic dilemma that those who are most in need of minimum wage protection are precisely the groups of workers for whom enforcement is most difficult. If they are excluded because a reasonable degree of compliance cannot be ensured, then many low-wage workers will be unprotected and there will be a risk of aggravating inequalities of income among categories of wage earners. But if protection is extended to them, the fact that reasonable compliance cannot be ensured may engender cynicism, disrespect for the law and dissatisfaction with unequal treatment. As the discussions in Chapters 1, 2 and 3 have shown, many developing countries have opted for minimum wage systems of very broad coverage, the implication being that the dilemma has been resolved most often by accepting that there will be a significant level of non-compliance. Wage earners working in agriculture, in small shops and service trades and as domestic servants are often covered by the minimum wage laws, even though it is known that enforcement with respect to these categories is highly problematic.

The reasons for this choice are undoubtedly complex. Part of the explanation may be that by force of circumstances many developing countries have to live with the fact that for the time being some of their labour laws, including minimum wage laws, will be only partially applied. As a result minimum wage rates sometimes tend to be regarded more as targets to be achieved progressively as administrative and economic imperatives permit, than as immutable lower limits to wages to be immediately universally applied. Another explanation is that the categories of workers for whom enforcement problems exist represent in many of these countries such an important part of the labour force that
to exclude them from minimum wage protection would vitiate much of
the rationale for such legislation. Moreover, even if non-compliance for
these categories of workers is relatively extensive, this does not mean that
minimum wages have no effect. The process of fixing a widely known
wage standard, by altering workers' and employers' expectations, may
still raise many wages above the level at which they would otherwise have
been set. In the absence of practical alternatives for influencing the
remuneration of various categories of poorly paid, vulnerable workers, a
partially applied minimum wage law may seem preferable to taking no
action at all.

Be this as it may, the fact that the coverage of minimum wage
provisions has been extended to many marginal activities poses another
kind of dilemma for the labour inspectorate. To put it bluntly the labour
inspectorate must decide if it should follow a policy of strictly enforcing
the law in all circumstances regardless of the economic consequences, or
of only enforcing the law when the consequences are considered likely to
be acceptable. Ideally, of course, minimum wages would be fixed at
"realistic" levels and strictly enforced. This avoids placing the inspector
in a position where he has to decide whether an employer's claims of
inability to pay are genuine or not—a decision for which he rarely has the
training or necessary information. It also avoids giving a discretionary
authority to inspectors, who may as a result be subject to improper
influences. Hence many would argue that the labour inspector should
enforce the law rigidly for all covered employers and not let speculation
about the consequences influence his actions. This is in fact the approach
followed or proclaimed in most countries. But it is evident that in a
number of developing countries such a strict policy is not always feasible,
especially where doubt exists about the objectives being served by the
minimum wage programme (e.g. high rates fixed for political reasons)
and it is clear that many livelihoods may be at stake. If for certain
categories of workers the labour standards obviously do not appear to be
"realistic" and the over-riding objective of government policy is em-
ployment promotion, the pressures on the inspectorate to use some dis-
cretion may be irresistible, either in the selection of sectors and regions for
inspection, or during inspections when it is evident that the enforcement
of minimum wages would without question jeopardise employment. 24

The limited resources that can be devoted to enforcement also have
implications for the basic design of minimum wage systems. Although
highly variegated minimum wage structures have the advantage of being
able to reflect the large differences, typical of many developing countries,
in prevailing wages among various regions, industries and workers with
varying skill levels, their complexity inevitably makes the inspectorate's
task of verification of compliance much more difficult and time
consuming. It must be asked whether national policy objectives are
better served by inspectors attempting to determine, for a limited number of enterprises, whether there is compliance with the applicable industrial and occupational rates for various semi-skilled or skilled workers or, for a wider range of enterprises, whether all workers receive at least a basic minimum.

Another justification for simplicity in minimum wage rate structures derives from the limited extent to which enterprises in many developing countries can be made subject to regular inspection, and hence from the need to rely as much as possible on self-enforcement. The latter presumes widespread knowledge of the applicable rates, which is much more likely when simple systems of general minimum wages, instead of complex industry/occupational rates, are in force and given publicity.

Finally the substantial incomplete compliance typical of many developing countries also has implications for the levels at which minimum wages should be set. On the one hand the economic costs of increases in minimum wages will not be nearly as high as they would be if compliance were complete. Non-compliance is likely to be concentrated among the smaller, low-wage employers, that is, precisely those with a limited capacity to raise wages without employment reductions. On the other hand the benefits of minimum wage increases in the form of increases in the wages of the low paid will also be mitigated by non-compliance, as it is among the lowest paid categories of workers that enforcement is most difficult. The more that minimum wages are raised above prevailing wage levels, the greater the level of non-compliance is likely to be and the more problematic the effects on the low paid. Hence if attempts are made to help the poorly paid by raising the minimum wage well above the existing level of wages, there is the risk that an important gap will emerge between the incomes of those workers who succeed in obtaining the minimum wage and those who do not.

Notes


4 Information supplied by the Government of the Netherlands to the ILO.

5 “Report on the survey regarding implementation of minimum wages vis-à-vis their linkage with consumer price index numbers”, Chandigarh, Punjab (mimeographed; n.d.).
Compliance


EVALUATING THE ECONOMIC IMPACT OF MINIMUM WAGES

THE NEED

Much of the controversy surrounding the efficacy of minimum wage fixing stems from uncertainty concerning the economic and social implications of this form of government intervention in the labour market. At one extreme there are those who remain convinced that any attempt to raise wages by government fiat over levels that employers would normally be willing to pay is bound to lead to unacceptable declines in employment. At the other extreme there are those for whom references to the possible economic implications of minimum wage fixing are no more than a thinly disguised attempt to deny workers the decent standard of living to which they are entitled. Most participants in minimum wage fixing, however, approach their task in a more pragmatic fashion. They believe that some scope for raising low wages exists but they also appreciate the dangers of going too far. The problem is essentially viewed as one of striking a balance between the social gains to be made, mainly in the form of improvements in the relative wage position of the lowest paid and any costs these might entail in the form of reduced employment, slower growth or increased inflation. Unfortunately the application of the usual minimum wage fixing criteria, even when supported by substantial information and technical expertise, still leaves room for wide divergences of opinion about where this point of balance lies. Consequently minimum wage fixing has remained a highly problematic process. In many instances a reduction of the uncertainty associated with it would seem to require much greater and more systematic efforts to evaluate the impact of past decisions. Minimum wage fixing can be expected to fulfil an appropriate and generally accepted role as an instrument of national wage policy only when its costs and benefits in a specific national context have been reasonably clearly specified.

This is not to suggest that such evaluations are easily made or capable of indicating precisely the effects of minimum wage changes. Being varied and complex, the possible repercussions are difficult to analyse. It
is important to know the effects that minimum wage changes have had on wages actually paid, labour costs, prices and profits, employment, unemployment, savings and investment and economic growth, as well as on the relative income position of those who have benefited from and those who have been hurt by the induced changes. But on many of these aspects there may simply be no relevant data, or the statistics that must be relied upon are far from ideally suited to the required analysis.

Even when substantial information is available it is still not easy to isolate the impact of minimum wage changes from other influences on the economic variables that must be considered. Since these other influences can rarely be assumed to remain constant, it must be determined to what extent the observed changes are attributable to minimum wage adjustments as opposed to other causes. If employment in an industry is found to have risen following a minimum wage change, this does not necessarily mean that there has been no adverse employment effect, as it is quite conceivable that had there been no wage change, employment might have increased even more substantially. The analysis is made more complicated by the fact that all the effects of minimum wage changes are not likely to be immediate. But with the passage of time the delayed effects become more difficult to separate from more general economic trends. In addition, where it is a question of considering the effects on inflation or economic growth, the processes of which are not well understood, attributing all or part of observed changes to minimum wage adjustments becomes exceedingly precarious.

Adding further to the difficulties of evaluation is the fact that the impact of minimum wage changes can only be assessed in a specific context. It will vary enormously depending on the legal coverage of the rates fixed, their level relative to prevailing rates, the effectiveness of their enforcement, the characteristics of the affected labour markets and economic conditions. Hence it is possible to draw conclusions only to a limited degree on the basis of what has occurred previously or in other industries or countries. Evaluations must take into account the particular characteristics and circumstances of each case.

Despite the serious difficulties they encounter there would appear to be little doubt, however, that systematic and continuing evaluations should be an integral part of well conceived minimum wage programmes. This is particularly the case where the minimum wage system is of broad scope and the consequences of a major error of policy are wide-ranging. Even though the evaluations may have to be confined to some rather than extending to all, of the issues involved, and may only yield highly tentative and qualified conclusions, their value in ruling out extreme assertions and in reducing to a tolerable level the uncertainty surrounding minimum wage fixing should not be underestimated. Only when this
happens can those responsible for minimum wage fixing be expected to be able to strike a reasonable balance between the costs and benefits involved.

THE ISSUES TO BE CONSIDERED

Although the issues that may profitably be the subject of evaluation are diverse and not easily categorised, four general areas calling for attention can be identified. First of all there is the question of how far minimum wage adjustments have affected wages actually paid and hence labour costs. Secondly consideration must be given to how increases in labour costs have been accommodated and, in particular, the extent to which they have affected employment. Thirdly there is the problem of identifying who has been affected by the changes, i.e. assessing their income distribution implications. Finally there is the need to consider whether minimum wage changes have had a significant impact on economic growth, inflation or other macro-economic parameters. With respect to each of these general areas of attention there are a number of separate issues that should be examined. In what follows some of the more important of these are briefly described.¹

The impact on wages paid

The effects that minimum wages have had on wages actually paid are usually far from obvious. They depend in part on the coverage and type of minimum rates fixed. Where these rates are limited to certain industries or are subject to extensive exclusions, and where an entire occupational wage structure is established rather than just a single minimum rate, determining how many workers may have had their wages affected is not easy. The actual impact of minimum wages will also depend greatly on their level relative to the previously existing pattern of wages. To estimate the additional costs of raising wages which originally were below the minimum wage requires detailed information on the distribution of wages, that is, the number of employees receiving various rates. This kind of information is much less readily available than data on average wage rates or earnings. Moreover, in addition to the direct effects of the minimum wages created by new legal requirements there are also bound to be indirect effects on wages above minimum rates. Estimates of labour cost increases must consider how far and how quickly above-minimum rates are affected by pressures to re-establish previously existing wage differentials. Finally, as discussed in Chapter 7, it is generally not reasonable to assume that the enforcement of
minimum rates will be completely effective or that the level of compliance will be unrelated to the level of the minimum wage fixed. Compliance can be expected to vary directly with the size of penalties and the probability of infractions being detected, as well as inversely with the size of the difference between the minimum wage and the previous average wage level.

The adjustment to higher wages

When it comes to how higher labour costs have been accommodated, usually the question of paramount concern is whether or not there has been a reduction in employment. Traditional economic theory would suggest that unless special circumstances apply, an increase in the minimum wage that leads to a significant rise in wages in an industry would have the effect of reducing employment. Either some workers currently employed would find themselves without jobs or there would be a reduction in the rate of employment growth. In textbook discussions these negative effects are generally seen as arising in one or more of the following ways: (1) employers’ efforts to economise on the use of labour; (2) the substitution of capital equipment or high quality labour for the less productive workers; (3) decreased demand for products and services as a result of their higher prices; (4) business failures; and (5) the discouragement of new enterprises from entering the industry because of lower profits.

While all these are possible forms of accommodation of higher labour costs, what matters for minimum wage fixing is not that they may occur but rather their over-all magnitude. The risk of some reduction in employment is often viewed as an acceptable price to pay for bringing wages up to more acceptable levels. On this critical matter traditional economic theory by itself gives very little guidance. It does however indicate a number of points that have to be kept in mind when attempts are made to quantify the employment effects of minimum wage changes. First of all there is the need to ensure that such quantification takes account of all rather than just some of the means by which higher labour costs may be accommodated. If, for example, an evaluation is confined to the experience of firms existing in an industry after a minimum wage change, this automatically excludes enterprises which may have gone out of business or failed to enter an industry because of the higher labour costs. Secondly it is important to pay attention to both short-run and long-run adaptation. While efforts to economise on the use of labour may be expected to occur shortly after minimum wage changes, it may take some time before capital equipment can be substituted for labour.

Another somewhat paradoxical implication of traditional economic
theory is that all increases in minimum wages need not necessarily result in employment reduction. If actual experience upsets the assumptions on which the usual conclusion of a reduction in employment is based, then the predictions deriving from economic theory are not as clear-cut. For example the assumption that "all other things are equal" implies that it is not all but only those minimum wage changes that are greater than general wages and price movements which would be expected to be associated with declines in employment. The usual assumption that productivity is independent of wage levels may also not be completely tenable, particularly for the lowest paid categories of wage earners in developing countries. As exceptionally low wages are raised, there may be increases in productivity either because of induced management improvements or because of greater labour efficiency due to a decrease in wasteful labour turnover and industrial disputes and to improvements in workers' morale and nutrition resulting, in turn, in an increase in the workers' willingness and capacity to work and a reduction in the incidence of debilitating diseases, time off due to illness and accidents caused by fatigue. If higher wages, at least over a certain range, are accompanied by significant improvements in labour productivity, it is conceivable that labour costs could decrease rather than increase and to such an extent that employment would not fall. If there would also be no need to expect a decline in employment as a result of minimum wage increases, at least within a specified range, if some wages previously had been maintained at exceptionally low levels because of weaknesses in the bargaining position of individual workers. Such weaknesses may be due to poor information about alternative employment prospects, an unwillingness amongst employers to compete for labour through wage adjustments, the pressure on workers to remain continuously employed regardless of the wages paid, and the existence of other barriers to job mobility. Another complicating factor is the need to take into account the effect of wage increases on total employment and not just in individual industries. Thus it has been argued that an increase in wages in a capital-intensive sector might in certain circumstances actually increase total employment. The induced shift in output towards the labour-intensive sectors and the consequent expansion of employment there might more than offset the reduction of employment in the capital-intensive sector.

Income distribution effects

Evaluation of the impact of minimum wages must not only deal with the nature and extent of the changes made to accommodate higher labour costs but also identify who is affected by them. Account must be taken of the fact that in some countries low wage earners (i.e. those most
likely either to benefit from or to be harmed by minimum wage changes) may not be among the lowest income categories. Those earning wage incomes may generally be much better off than those forced to eke out a living through marginal forms of self-employment. Also many low wage earners may be secondary income earners (youths, females) in wage earning families that may not be among the poorest.

The income distribution implications of minimum wages also depend on how those wage earners who lose their jobs or find their employment prospects adversely affected adopt to the situation. If they are more or less readily absorbed in sectors not covered by the legislation, the adverse effects are less severe than if they join the pool of unemployed workers or drop out of the labour force entirely. It is also important to know whether the adverse effects of minimum wage changes are mitigated through formal or informal income maintenance arrangements and whether they are concentrated on certain categories of workers or more widely dispersed as a result of rapid job turnover among low wage groups. There may, as well, be a need to consider the temporal dimension of income distribution effects if it is true, as is sometimes claimed, that in the absence of suitable lower minimum wages for young workers, their opportunities for acquiring on-the-job training are adversely affected.

Assessing the income distribution effects of minimum wage changes also requires taking account of the extent to which wage gains are made at the expense of other categories of workers and the owners of capital. This rarely is a simple matter. To illustrate the range of possibilities, two extreme cases may be cited. In the first, and unfortunate, instance minimum wages may have the effect, because of poor enforcement, limited coverage and the fixing of high rates, of increasing the earnings of a comparatively small group of already highly paid urban workers, with the result that the gap between their incomes and the low incomes of the mass of rural labourers and the self-employed in both urban and rural areas widens. Moreover, if employers are able to maintain profit margins, the prices of goods and services produced in urban areas will rise, tilting the terms of trade against those in rural areas. To compound the difficulties, the high wages enjoyed by a few may lead to excessive rural-urban migration. On the other hand minimum wages may be mainly used to benefit directly those at the lowest end of the wage and income hierarchy, offsetting their unduly weak bargaining position on the labour market. Differences of income amongst wage earners are narrowed while those between wage earners and other workers remain unchanged or at least are not significantly increased. In addition the wage increases are accommodated by a reduction in inordinately high profit levels or increases in the prices of goods and services mainly consumed by high income groups or foreigners. In most cases such changes would be judged to be an improvement in the distribution of income.
Macro-economic effects

Where the role of minimum wage fixing is limited to protecting vulnerable workers, ensuring “fair” wages or establishing a basic floor for the wage structure, it is usual in evaluations to consider that the economy-wide effects on inflation and economic growth are so small that they can safely be ignored; but that cannot be done if it is evident that minimum wages have a significant influence on the general level of prevailing wages.

To determine the effects on inflation it is usual to start by considering the impact that minimum wage changes may have had on the total wage bill. In some institutional contexts this may be done simply by adding up all the wage adjustments whose timing appears to have been related to a minimum wage change. However, this implicitly assumes that without the latter they would not have occurred. This may clearly be unrealistic where minimum wage changes are used as a guide by employers and trade unions in their wage decisions. If minimum wages perform this function they may appear to be contributing to inflation by increasing the wage bill when in fact, in their absence, employers by themselves or in negotiations with trade unions might have agreed to even larger increases. Thus when minimum wages do act to some extent as a guide for other wage decisions isolating their inflationary effect (if any) becomes exceedingly complex.

With respect to economic growth the critical issue is likely to be whether minimum wage changes have resulted in significantly lower returns to capital, an excessively compressed occupational wage structure or income distribution pattern, reduced government funds for non-wage expenditures and a deterioration in the balance of payments leading in turn to a reduction in the national rate of saving and investment. However, allowance must be made for the possibility that if there were unemployed resources due to a deficiency in aggregate demand, higher wages may have stimulated consumption expenditures and eventually employment and growth. In developing countries this could well be the case if those receiving higher incomes do not channel their savings into productive national investment or have consumption patterns biased towards imported and capital-intensive goods whose production provides few employment opportunities. In these circumstances a shift in the distribution of income towards low income groups may result in a more labour-intensive pattern of aggregate demand, and hence more jobs. It has also been argued that under certain conditions minimum wages could contribute to economic growth by inducing a more rapid switch of labour and capital resources from low wage industries to more productive uses.
METHODS OF EVALUATION

The issues that can be covered by evaluations as well as the methods of analysis that can be used are generally severely limited by the information ready to hand and the resources that can be devoted to statistics collection. Three complementary rather than mutually exclusive approaches can be distinguished. The most straightforward and undoubtedly the most widely used method simply involves the marshalling and analysis of the available indicators of labour market and economic trends. Another method relies upon special surveys. The third approach involves the use of formalised economic models and statistical estimation techniques. In the following sections of this chapter each of these approaches will be described and examples given of their use. The intent is not to assess the findings of the various evaluations that have been made—this would be neither practical nor particularly useful at the international level. The illustrations provided are simply meant to serve as a guide for the design of evaluation studies adapted to the circumstances of individual countries.

General inquiries
The term "general inquiry" is used here to cover the methods of evaluation that involve the drawing of direct inferences on the effects of minimum wages from whatever relevant quantitative and qualitative data can be assembled. No special analytical techniques or formalised economic models are used. The calculations and comparisons made are straightforward, and the information used takes various forms depending on what statistics are readily available and what is appropriate in the light of the characteristics of the minimum wage system being considered.

A number of comparisons are commonly made. Adjustments in minimum wages are related to trends in consumer prices to determine the evolution of the purchasing power of minimum wage earners. Another common calculation is to determine the ratio between minimum wages and average wage levels. Variations in this ratio over time can be interpreted as indicating the extent to which pressure has been applied to the lower end of the wages structure. A similar form of analysis involves comparison of the trends in wages in low and high paying industries to determine to what extent minimum wages might be compressing inter-industry wage differentials. In addition to wage comparisons, as a rule the main statistical series on employment, production, profits and output prices are examined to determine whether the timing of any departure from basic trends can be related to minimum wage adjustments.

From household income and expenditure surveys, as well as surveys
Evaluating the economic impact

of earnings, calculations are frequently made of the number of workers who have had their wages increased and the total increase in the wage bill caused by minimum wage adjustments. Because the dates of the surveys do not usually correspond to the dates of the minimum wage adjustments, the data on those earning low wages have to be updated through estimation procedures. These estimates may be based on the assumption that the relevant distributions change at the same relative rate or by the same absolute amount as average wages or some other indicator of general wage movement. Usually calculations of impact are limited to quantifying the direct effects of minimum wages, i.e. the changes required to raise wages to the legal minimum level and the number of workers so affected. However, in some instances indirect effects are also estimated under varying assumptions concerning how minimum wages may have affected wages above the minimum level (e.g. wage differentials for workers up to a specified income level are maintained or there are linearly decreasing indirect effects for all workers up to a specified income level).  

In making evaluations it is normal to take account of a wide range of quantitative and qualitative information rather than to rely on just one or a few indicators of impact, which might be misleading. For example if the ratio of minimum wages to average wage levels was observed to have been increasing over a given period, this could be interpreted in more than one way. If the original minimum wage level was low or if wages actually paid were not clustered about the minimum wage level because of poor enforcement or the importance of other forms of wage determination, it is not certain that it would be correct to interpret the narrowing of the ratio as an indication of significant upward pressure on wages and labour costs, particularly if over the same period there was no evidence of a decline in employment and production or in profit margins. But if the narrowing of the ratio of minimum wages to average wages was found to be accompanied by an increase in average wage levels and a decline in production and profits not explainable by changing product market trends, then the likelihood that the minimum wage increase had caused labour cost inflation pressures would be greater. And the case for this interpretation would be strengthened if there was evidence that actual wages were clustered about or clearly linked to the minimum wage level.  

A good example of the use of a variety of labour market and economic indicators is to be found in the attempt by D. P. Chesworth, former Chairman of the Wages Councils for the sugar industry in Mauritius, to assess the effect of the introduction of statutory minimum wages in that industry in July and August of 1963.  

This change in wage determination practice was of great national significance, as the economy of Mauritius depends almost entirely on sugar. First an attempt was
made to isolate the effect of the statutory wage increases of 25 per cent for agricultural workers and about 30 per cent for non-agricultural workers on the wage bills of millers’ estates. Although there was 5 per cent less cane cut and loaded in 1964 than in 1962, it was found that the wage bill for the six-month period including the harvest increased by 23 per cent. This was largely attributed to the Wages Regulation Orders taking effect in 1963. The only available information on earnings was limited to those of monthly employed artisans on millers’ estates over the period 1961–65. These data confirmed the existence of large wage increases in 1963 but not in the other years. Despite the existence of unemployment, before the minimum wage increase there were labour shortages in the sugar industry. Following the coming into force of the Wages Regulation Orders complaints of shortages ceased and there was a decrease in absenteeism and a slight increase in employment, especially of young persons. More specifically with respect to employment there was an increase in man-days worked by daily paid workers in 1964 and 1965 but a slight falling off in 1966. Statistics on the quantity of cane cut and loaded during the period 1963–66 were found not to be closely related to, and much more variable than, man-days of employment for daily paid workers in the second half of the year. However, taking into account the size of the crop it was considered likely that in both 1965 and 1966 some economies in the use of labour had been made. As for labour productivity, measured by the average tonnage of cane cut and loaded per man-day, this was found to have fluctuated substantially for weather and other reasons. However, it was noted that after the implementation of the statutory minimum wage it tended to increase, reaching in 1966 a level almost equal to that of the peak year of 1959. Since in the second half of 1966 there was a reduction in man-days of employment while the wage bill remained fairly constant, it was considered reasonable to suppose that both the output per man and the average wages of those engaged in cutting and loading increased. As for the financial position of the industry, this was found to have declined sharply after 1963, principally owing to an unexpected sharp fall in the world price for sugar, which coincided with the rise in production expenses caused mainly by the higher wage and salary bill.

In a recent evaluation study concerning Costa Rica the main emphasis was placed on the possible effects of minimum wages on general wage trends. It was concluded that despite the broad coverage of the country’s minimum wage system and the comparatively frequent adjustment of various industry rates, there was little evidence that minimum wages were the main determinant of changes in the general level of wages. An analysis of wage trends between 1967 and 1976 indicated that wages continued to rise even in years when there had not been changes in minimum wages. In fact wage increases were found to be
about as large in years with minimum wage adjustments as in those without, and they tended to be higher than the corresponding minimum wage adjustments. This was observed both globally and for specific sectors and time periods. When monthly statistics were examined wage increases were found to be continuous throughout the year and not bunched around the dates of minimum wage changes. Moreover in order to test whether the policy of applying larger proportionate increases to the lowest minimum wage rates was having an effect on the wage structure, the change in dispersion, over a four-year period, in the inter-industry distribution of average earnings was analysed. The fact that the actual structure of wages was compressed only slightly as compared with the narrowing of wage differentials among minimum wage rates was taken as additional evidence of the limited impact of minimum wages and the dominant role of inflation in determining wages actually paid. This conclusion was also supported by qualitative information such as reports of the existence of labour shortages for certain categories of workers and the use of minimum wages only as a hiring wage by many formal sector enterprises. Generally it was believed that many firms did not have to adjust their wages as soon as there were minimum wage changes but could spread out their increases in line with their own personnel policy considerations and general economic conditions. Thus the influence of minimum wages was considered likely to be delayed rather than immediate and of greater importance in periods of contraction than in periods of expansion.

In some instances ad hoc surveys carried out for other purposes can provide exceptional opportunities for evaluating minimum wage effects. Thus when research into the possible effects of minimum wages on youth unemployment was being undertaken by the United States Department of Labor use was made of a longitudinal study originally intended to yield information on the broader issue of the long-run labour market adjustment of young workers. As part of this study a representative sample of slightly more than 5,000 male youths of 14-24 years of age were interviewed for the first time in October and November 1966—i.e. shortly before the 1967 minimum wage increase went into effect—and for the second time about nine months later. This permitted a comparison to be made between those earning below the new minimum rates and those already earning that much. Information was analysed regarding their labour force participation and unemployment rates during the survey weeks of 1966 and 1967, as well as regarding their layoffs and average duration of periods of unemployment or absence from the labour force. Additional data collected enabled the youths to be classified by age, colour, educational attainment, industry, occupation, extent of labour market knowledge and unemployment level in the local area and region. In general no tendency could be discerned for those youths who had been
earning less than the minimum wage to have less favourable employment experience than those whose wages had already been above the minimum. Even when the analysis focused on those subgroups who might on a priori grounds have been expected to be most vulnerable to the impact of the minimum wage, only a small number of them showed any evidence of adversity. It was concluded that if the minimum wage increase did create youth unemployment, the effect was not a pronounced one. However since the data were confined to youths who had some work experience, they indicated nothing about those entering the labour market for the first time.9

Another example of an ad hoc survey providing an exceptional opportunity for evaluating minimum wage effects is the 1971 Tanzanian survey of national urban mobility and income, which was carried out in selected urban centres by means of stratified random sampling of households.10 From the information collected on incomes it was possible to analyse the extent to which minimum wages were effectively observed at the time of the survey and the impact which the minimum wage increases in June 1972 were likely to have on the wage bill and the distribution of income.

It was estimated that somewhere between 6 and 8 per cent of the regular workers earned less than the legal minimum wage in Dar es Salaam, between 12 and 16 per cent in Tanga and between 7 and 9 per cent in the five other towns covered by the survey. As expected, below minimum wages were found to be most prevalent in domestic service, in service industries in general and in commerce, as well as among the unskilled and service occupations and those requiring a low level of education.

The minimum wage adjustment of July 1972 established a uniform minimum wage for all the main urban centres and involved increases of between 33 and 41 per cent for Dar es Salaam and Tanga and of 59 and 66 per cent for the other towns. About 40 per cent of all wage earners in Dar es Salaam and 50 per cent of those in other areas were found to be earning below the new minimum wage. On the assumption that only those earning below the new minimum wage would have their earnings affected, i.e. that there would be only direct and not indirect effects, it was calculated that the wage bill would be increased by 5 per cent in Dar es Salaam and 8 per cent in the other urban centres. To the extent that non-compliance would occur this increase would be smaller. However, it was argued that in fact this problem would be greater than reported above because there was evidence in the survey results that non-compliance increased with the difference between prevailing wages and the minimum wage level. Another consideration noted was that to the extent that wages above the minimum were adjusted to restore old differentials the impact of minimum wages on the wage bill would in fact be larger than
indicated. But it was thought that these indirect effects might be held to a minimum by the existence of an incomes policy.

On the assumptions of perfect enforcement and no indirect effects, it was calculated that despite the large size of the minimum wage increases the over-all impact on the distribution of income would be limited. The top 20 per cent of wage earners would have their share of the total wage bill reduced from 52 to 49 per cent in Dar es Salaam and from 53 to 49 per cent in the other six towns covered. At the same time it was estimated that the proportion of the wage bill going to the lowest quintile would rise from 7 to 11 per cent in Dar es Salaam and the six towns. However, on the assumption that the wage differentials among those in the lowest wage groups would be maintained, the calculated effect on over-all income inequality was found to be noticeably more pronounced.

As a final illustration of this general approach to evaluation mention may be made of a recent study of the minimum wage programme in Colombia, which also focused on income distribution implications. In particular an attempt was made to determine the extent to which minimum wages could be used to meet the National Development Plan’s objective of improving the living conditions of the poorest 50 per cent of the population.

Although minimum wages in real terms over the period 1950 to 1974 were generally found to have increased, the process was erratic with large increases being followed by periods, sometimes long and sometimes short, of gradual and continuous decline. To determine the regional pattern of the real minimum wage gains, calculations were made for various cities of the portion of the cost of a basic needs budget for workers which could be covered by the minimum wages in force in 1954 and 1974. Over this period this ratio increased in the various cities, reflecting the growth in the real value of the minimum wage. Moreover, even though the absolute differences widened, inequality in purchasing power among cities, as measured by standard deviations, was found to have decreased in relative terms. Thus while minimum wages were apparently benefiting some cities more than others the differences were decreasing in relative importance over time.

The effect of minimum wages on higher wage rates was found to have been very limited. A statistical analysis revealed that the influence of changes in minimum wages on average wages was slight and became apparent only after a long time. Also, on the basis of income data from an urban household survey it was estimated that only 14 per cent of workers had earnings around the minimum wage level while about 20 per cent earned less. Non-compliance was observed to be concentrated in the service, commercial, restaurant and hotel sectors, where there is a high proportion of small employers and independent workers. This pattern was confirmed by information on average remuneration by size of firm
and the ratio of remuneration to variable and total costs of production, which indicated that minimum wages mainly affected small enterprises whose ability to pay might be presumed to be weak. There was also some evidence to suggest that the degree of non-compliance varied directly with the level of the minimum wage in real terms. This, in addition to data indicating that employment levels were relatively sensitive to minimum wage adjustments, led the authors of the report to conclude that under the prevailing conditions in Colombia, there were only limited possibilities for improving the position of the poorest 50 per cent of the population by means of minimum wage fixing and that a better distribution of income would be achieved if priority were given to better enforcement rather than higher minimum rates.

The major advantage of the general inquiry approach to evaluations is its practicality. Since reliance is placed on information that is more or less readily available, and the analysis carried out is fairly straightforward, the evaluations can be made quickly and at a relatively low cost. Even though it may be possible to interpret the data in different ways, the bases of the evaluations are bound to be easily understood by those responsible for minimum wage decision-making. While precise estimates may not always be forthcoming a rough indication of the order of magnitude of the impact of minimum wages can sometimes be obtained. Evaluations carried out in this way would appear to constitute an essential starting-point for further work.

At the same time the limitations of this approach must be kept in mind. If one relies essentially on the statistics that are already available, it may be impossible to draw meaningful inferences about many of the effects of minimum wage fixing, some of which may be of critical importance. For example, without detailed information on the distribution of wages and incomes in general it may be hard to gauge with any confidence who is likely to benefit from or be harmed by minimum wage changes. Yet such statistics are not normally gathered and published as part of regular government labour statistics programmes. In addition, isolating the effects of minimum wage changes from other economic influences is generally difficult on the basis of a cursory examination of statistical series, particularly where the minimum wage adjustments have been moderate and gradual relative to basic economic trends. Under these conditions, to obtain an acceptable degree of precision in the estimates of the effects of minimum wages on employment and other economic variables the evaluations have to be carried out in a more rigorous analytical framework.

**Special surveys**

To obtain more precise estimates of the impact of minimum wage changes, administrators of minimum wage programmes are sometimes
Evaluating the economic impact

obliged to carry out special surveys. These may take a variety of forms. Many are designed to provide data on the distribution of wages before and/or after minimum wage adjustments to determine the extent of compliance with the legislation and its influence on wages actually paid. Others are directed to finding out how the firms most affected have adjusted to the higher labour costs. Information is gathered on changes in employment, prices, profit margins or other variables, and employers are asked to describe what adjustments they have made to the higher minimum wages. Yet other surveys are aimed at determining the income and demographic characteristics, as well as the labour market experience, of the low-wage workers considered most likely to be affected.

In general special surveys do not follow a standardised pattern. Their design tends to reflect the points of greatest uncertainty and critical concern associated with individual minimum wage systems, as well as the resources available for their execution. In this section illustrations will be given of the variety of special surveys that have been made and of the analyses undertaken on the basis of the information gathered.

Although it would appear that special evaluation surveys are not common in developing countries, some examples of their use do exist. Thus the Minimum Wage Commission of the Philippines organised a survey to evaluate the effects of the new minimum wage introduced in August 1972 on the desiccated coconut and coconut oil milling industries. All firms were covered through separate questionnaires for the employers and the workers, the technical staff of the Commission providing on the spot assistance in their completion. Information was gathered on various economic indicators for the period from 1970 to the first half of 1973, including the volume and value of production, labour costs, profits and fluctuations in product prices. The survey indicated that employment in the desiccated coconut part of the industry had been subject to a declining trend before and after the minimum wage change. But, since the decrease in employment was smaller after than before the introduction of the minimum wage, it was concluded that the minimum wage itself had had a minimal negative influence. This interpretation was supported by the fact that only one firm identified the minimum wage increase as the cause of the reduction in employment. As for the coconut oil milling part of the industry, employment was found to be substantially higher in 1972 and marginally so in 1973. The introduction of the minimum wage did, however, have an important effect on the wages actually paid. All the firms covered by the survey reported that those earning above the minimum wage were granted increases, either voluntarily or as a result of collective bargaining.12

A similar survey, but broader in scope, was carried out in Panama in order to evaluate the minimum wage increases made in February 1962.13 A questionnaire distributed to 47 enterprises employing 2,440 worker used
as reference periods the second week in September in 1960, 1961 and 1962. Information was gathered to indicate the extent of the increase in wages following the minimum wage increase, the number of workers directly benefiting from minimum wages, changes in additional benefits received by workers, fluctuations in the number of workers and hours worked, the number of workers hired after the minimum wage increase, the number of workers ceasing their employment after this increase and the reasons for their leaving. In addition a financial analysis based on taxation returns was undertaken to determine the impact on profits, sales, costs and product prices. In general the results showed substantial increases in wages actually paid and a large number of workers who benefited directly but no detectable influence on the financial health of the industries concerned or on employment. In fact the number of workers employed and their hours of work were both found to have increased.

Among industrialised countries special evaluative surveys often form an important part of minimum wage programmes. In the United Kingdom such surveys are usually carried out when the Advisory Conciliation and Arbitration Service is requested to report on the development of voluntary collective bargaining machinery in a wages council industry and on whether statutory protection continues to be necessary. Thus this service recently carried out a postal survey of the 421 establishments appearing on the lists of the Toy Manufacturing Wages Council. The survey was supplemented by visits to 30 firms during which detailed interviews were held with proprietors and managers, employees and, where appropriate, employees' representatives. Information was gathered on the structure and employment patterns of the industry (size of firms, organisational structures, regional location, principal products, sales turnover), the existence of negotiations with trade unions and various benefit practices (overtime pay, paid annual leave, holidays, sickness benefits, pension schemes, meals, etc.). In addition detailed data were collected on average hourly rates of pay broken down by sex, age, job classification and payment method. In interpreting the results with regard to pay it was assumed, as in the case of previous reports on wages council industries, that covered workers could be considered "vulnerable", i.e. still in need of protection, if they were paid an hourly rate less than 10 per cent above the minimum rate. On this basis it was found that only about 15 per cent of the factory workers could be regarded as vulnerable, most of them receiving wages well above the minimum levels. However, there was some evidence of indirect minimum wage effects, as a large number of firms reported that they had given increases in wages equivalent to the increases in the statutory minimum rates even though they were not required to do so. Interviews were also conducted with 178 homeworkers to determine the type of the work they did, their reasons for undertaking home work, their attitude to trade
Evaluating the economic impact

union representation and more general information on their circumstances. The inquiry revealed widespread ignorance amongst them about the wages council system and the existence of legally enforceable minimum rates.

A number of special evaluative surveys have been carried out by the various jurisdictions in Canada responsible for minimum wage fixing. Some of these have been designed to assess the economic effects of minimum wage fixing in selected low-wage industries, while others have been aimed at clarifying income distribution effects by determining the characteristics of low-paid workers and the numbers affected by minimum wage changes. With regard to the economic impact surveys the approaches have varied. For example two surveys were undertaken in Ontario to find out the short- and long-run effects on five low-wage manufacturing industries of a 30 cent per hour increase in the minimum wage which came into force in January 1969. They were designed to permit analysis based on three points in time: November 1968, shortly before the minimum wage revision; January 1969, shortly after the increase; and January 1970, roughly a year after the increase. The surveys involved visits to 219 establishments for the collection of both quantitative and qualitative information. Employers' records were examined to determine standard and actual hours of work, gross earnings, bonuses and commissions and initial overtime rates, as well as the sex and broad occupational classification of all non-supervisory workers. Information was collected on the characteristics of employees who left or were hired during the two-month period spanning the minimum wage change. Employers were also asked about the adjustments that had been made to offset the increases in labour costs. The possibilities covered included systems of payment (time rates, piece rates), work periods, job classification, personnel policies, organisation of the flow of work, degree of mechanisation, product lines and product prices. In another study done on behalf of the Manitoba Department of Labour to determine the impact of the October 1972 increase in the minimum wage, data were collected from firm records and through personal interviews with employers. A total of 415 firms in 23 low-wage industries were selected by means of stratified clustered sampling. The survey covered three pay periods running from four months before the increase until almost five months after the increase became effective. Information was gathered on the general characteristics of the firm and on the adjustments undertaken and their relation to the minimum wage increase, as well as on each employee in the firm (e.g. age, sex, education, employment status, wages, hours). In British Columbia a postal survey was used to gauge the impact of the increase in the minimum wage of December 1972. It was undertaken after an interval of six months and based on a sample of 1,029 firms in 17 selected low-wage industries.
The information collected in these and similar surveys has been used to analyse a number of aspects of economic impact. With regard to employment, while the possibility is not excluded that some longer-term repercussions may have gone undetected, perhaps in the form of a reduced rate of employment creation or a failure to refill jobs left vacant by attrition, the results have been interpreted as indicating that minimum wage increases in recent years in Canada have had little immediately observable over-all effect. However, some reduction was noted for certain categories of employees (notably older workers, students and teenagers) and for a few sectors of activity such as tourism and some manufacturing industries exposed to external competition. Reduced employment, where it occurred, usually took the form of fewer hours of work rather than outright dismissals.

As for internal wage structures, the indirect effects on wage costs were estimated in two of the studies to average approximately 60 per cent of the direct effects. Although there was an initial compression of wage differentials, the previous wage structures tended to be restored relatively quickly. It was concluded that a policy of fairly frequent revisions was necessary to prevent deterioration in the relative income position of low-wage earners. In general it proved difficult to identify offsetting employer adjustments, such as internal organisational or production changes designed to reduce costs or improve efficiency, that could clearly be attributed to the rise in labour costs associated with minimum wage changes. For the most part this type of adjustment appeared to be less frequently introduced than either price increases (the most popular offsetting measure) or profit reductions. However, there was little evidence that minimum wage increases had had any significant economy-wide inflationary effects. The survey results were also interpreted as indicating that low-wage firms generally have the ability to pay, or otherwise adjust to, minimum wage increases. There was little evidence of disproportionately large adverse effects on employment or hours worked in small establishments following minimum wage revisions or of increased firm mortality or of a shift in forms of ownership. Moreover most of the impact studies were viewed as suggesting that employers have some latitude to adjust profit margins in response to minimum wage changes.

To determine the possible impact of minimum wages on poverty some Canadian jurisdictions have undertaken special surveys to ascertain the employment and personal characteristics of the low paid (defined as workers earning up to a specified amount above the minimum wage). These studies, carried out among employed workers or, alternatively, those registered at employment offices, have shown that in Canada a high proportion of low-wage earners are young (over 50 per cent are under 25) and comparatively few are older workers (less than 10
per cent are over 55). Women were found to hold a disproportionately large number of the low-wage jobs. While most of the low paid had only one source of income, only a small percentage of low-wage earners were responsible for the support of a sizeable family. One study suggested that for the minority of low-wage earners with dependants a second job was probably a necessity. Information on the duration of jobs has also been analysed to shed light on the implications of unemployment which might be caused by minimum wages. It was found that a large majority of persons worked full time and regularly and that slightly more women than men worked part time at the minimum wage. A particularly significant finding was that the majority of low-wage workers had relatively high rates of turnover, suggesting that individual losses of income resulting from jobs eliminated by the application of minimum wages would be marginal, as any adverse employment effects would be spread among a larger group of persons than those initially discharged.

The use of special surveys to evaluate various aspects of minimum wage impact has been much more extensive in the United States than anywhere else. Section 4 (d) of the Fair Labor Standards Act requires the Secretary of Labor to remit in January of each year a report to the Congress which includes an evaluation and appraisal of the minimum wages established under the Act taking into account changes in the cost of living and in productivity and the level of wages in manufacturing, the ability of employers to absorb wage increases and such other factors as he may deem pertinent. Moreover, after adjustments to the minimum wage have been made the Congress itself has often requested studies to measure their effect. To a large extent the Department of Labor has relied upon special surveys for this purpose.

Thus the research aimed at evaluating the impact of the 1950 increase in the minimum wage to 75 cents an hour consisted mainly of special surveys covering selected low-paying industries and enterprises, and similar studies were carried out to evaluate the 1956 increase to $1.00 per hour. One of these covered 12 traditionally low-paying industries which had employed in certain regions, or more generally, a substantial proportion of workers earning less than the new minimum wage. Three payroll periods were examined: August 1955, when the amended Act was passed; February 1956, just before the effective date of the new minimum; and April 1956, shortly after that date. The research design also called for another survey of the same establishments approximately a year later to determine the longer-run effects. The information gathered was analysed to determine changes in the distribution of non-supervisory workers by average hourly earnings, in occupational, geographic, and industry differentials, in practices with regard to supplementary benefits and in employment. To permit fuller exploration of the causes of the changes in employment, employers who reported
Minimum wage fixing: An international review of practices and problems

discharges during the first quarter of 1956 were asked to give the reasons for such action. In analysing the results the researchers used a “degree of impact index” which expressed the percentage increase in a plant’s average hourly earnings that would occur if the earnings of all employees receiving below the minimum wage were raised to the minimum. The working hypothesis was that enterprises with a high degree of impact would show the largest relative employment declines. Another study involved a survey of ten selected low-wage communities to compare the effects of the higher minimum on covered and non-covered industries. Personal visits were used to gather employment and payroll data for three periods: February 1956, the month immediately preceding the effective date of the new minimum; April 1956, shortly after the change; and April 1957, more than a year after the change. Inferences were drawn by comparing between the covered and non-covered industries the changes in average pay levels, earnings distribution, industrial and occupational wage differentials, and employment. An analysis was also made of scheduled weekly hours, measures taken to adjust to the minimum wage and reasons given by employers for discharges.

A similar survey was carried out for six cities where the proportion of workers earning less than the new minimum wage was thought to be substantial for both covered and non-covered firms in various industries. In this case four payroll periods were examined during a 40-month time-span. Another study compared changes in 110 covered and 26 non-covered firms in 15 Oklahoma industries, using the third quarter of 1955 as the base period and making comparisons one year later.

During the 1960s many of the evaluations in the United States focused on groups of workers in trade, services and agriculture who were covered by minimum wages for the first time. The 1961 amendments to the Fair Labor Standards Act extended protection to over 2 million workers in larger retail trade establishments. The applicable rates were scheduled to increase in stages from September 1961 to September 1965. A programme of surveys, covering the period running from three months before the effective date in 1961 to nine months after the final increase, was designed to record the observable changes in wages, hours of work and employment. The surveys were nation-wide in scope and designed to yield separate tabulations by area, region and line of business for the covered and non-covered segments of the industry. Many of the inferences concerning the impact of the successive adjustment of the minimum wages levels were based on comparison of the trends in employment and the distribution of wages between the covered and uncovered segments of the industry as well as between areas and sectors where a large impact was expected because of the prevalence of low wages and the high-wage sectors and regions. A similar approach was
used to analyse the impact of extending minimum wage protection to farm workers.\textsuperscript{25}

Special surveys have also been organised to help determine the effects of minimum wages on specific categories of workers. In 1970 the Department of Labor undertook a major investigation of possible links between minimum wages and the problem of youth unemployment. Part of the investigation involved a survey of ten metropolitan areas, using postal questionnaires with telephone follow-ups for a sample of 8,000 establishments, in order to determine whether employers had made adjustments in their hiring practices in response to the minimum wage change. Information was gathered on the lowest age and education qualification for a beginning job and, if these had been changed after the 1967 increase in the minimum wage, on the reasons for the changes. The survey also inquired into the number of teenagers employed and whether this was different from the number employed in 1966, the attitude of employers with respect to teenagers as employees compared with other workers in similar jobs, the relative importance of various factors in influencing employers' decisions to hire teenagers, and the lowest wage rates currently paid to teenage employees. Distinctions were made between full- and part-time work, office and non-office jobs and male and female workers. Another survey made in June 1969 aimed at ascertaining whether the experience of employment service officials in 23 selected areas indicated that past increases in the coverage and level of minimum wages had affected teenage employment. Information was gathered on the changes in the total number of job openings for teenagers following the 1967 minimum wage adjustments and on the number which subsequently specified a different minimum age level, on what the officials believed to be the cause of these changes, on the reasons most frequently given by employers for not wanting to hire teenagers, on the main reasons why officials had difficulty in placing teenagers, on what the officials believed would be the effect of lowering minimum wages for teenagers on their employment and on whether the officials believed that such a move would have adverse effects on the employment of other groups of workers.\textsuperscript{26}

The results of the surveys described above and others carried out in the United States are too varied and complex to be described in detail here. However, those responsible for them consider them generally to have shown that minimum wage changes have had no observable or only comparatively mild effects on employment and on wages above the minimum. Thus the United States Department of Labor has declared:

\ldots There is clearly no evidence in the 28 years of experience of unemployment resulting from statutory minimum wage increases. The strong—and only—indication from the record is that reasonable increases in the minimum rate have no retarding effect on an expanding economy and do not result in larger unemployment than there would have been in the absence of such increases.\textsuperscript{27}
Similar general assessments have been made by government representa-
tives on other occasions. A number of non-governmental economists, 
however, examining the same survey results have not been convinced. 
Many problems of interpretation have been identified which they believe 
make such categorical statements unwarranted. Indeed it has been 
argued that some of the data from the surveys, when properly analysed, 
suggest opposite conclusions.

Problems of interpretation arise mainly because of the difficulty of 
designing surveys which permit comparisons to be made that reflect 
exclusively and totally all minimum wage effects. Rarely will it be 
sufficient to gauge minimum wage effects simply by comparing situations 
before and after adjustment dates. Account must be taken of what would 
have happened in the absence of any minimum wage change, something 
which is seldom self-evident or directly measurable through surveys. The 
problem is particularly acute for the longer-run effects. If the surveys are 
limited to periods relatively close to the dates of the adjustments, the 
observed changes can often be ascribed with some confidence to the new 
minimum wage levels. But full adaptation to the new level of labour costs 
is unlikely to have occurred. However, if the surveys are delayed for a 
considerable time, it often becomes much less easy to know whether the 
observed changes reflect the impact of minimum wages rather than other 
influences such as changing product demand. Nor is it always possible to 
allow for all the possible effects through surveys. Thus they may indicate, 
at least roughly, to what extent the firms covered have adjusted to the 
new minimum wages by changes in employment levels but they cannot 
indicate the extent to which firms may have been prevented from entering 
the industry as a result of the higher labour costs. It is also difficult to 
judge the reliability of the responses given by employers when they are 
asked to explain the adjustments they have made to higher minimum 
wages. With minimum wage changes being only one of many factors 
entering into complex business decisions, it is not certain that their 
influence can be accurately identified by necessarily brief responses to 
survey questions. In summary, surveys can only be expected to provide 
partial evidence about minimum wage effects and to be sensitive to the 
more overt, immediate and large-scale forms of adjustment.

Econometric analysis

To separate more rigorously the influence of minimum wages from 
other factors affecting the economic magnitudes being considered, 
evaluations sometimes resort to the application of econometric tech-
niques. Essentially this implies the use of quantitative methods of 
statistical analysis in the estimation and testing of economic models. 
Econometric techniques are often used in an effort to isolate and
quantify the effects of a single factor or variable in a context where it is known that there are many factors influencing the changes being observed. Through multiple regression analysis estimates can be made of the separate contribution of each of a number of variables to changes in the variable being analysed. Moreover indications can be obtained of the reliability of the estimated contribution of each of the “explanatory” variables as well as of the extent to which the latter account for or “explain” variations in the variable being considered. Thus by using econometrics in impact evaluations explicit and formal recognition can be given to the fact that minimum wages constitute only one of many influences on economic trends and that there exist alternative ways and time patterns for adjustments by employers. Where the changes have been comparatively small and there is reason to believe that employer adjustments to them are likely to be spread over some time, this approach may constitute the only feasible means of disentangling the impact of minimum wages from other influences on the labour market.

While potentially the application of econometric techniques permits a more sophisticated and precise analysis than the use of less formalised approaches, this method is none the less subject to important limitations. Perhaps the most basic is that the analyses must be built upon prior assumptions about underlying economic relationships. The interpretation of the statistical findings only has meaning within the context of these assumed relationships. When the assumptions are false or represent an oversimplification of reality, the results of the analysis are cast in doubt. In this regard it must be kept in mind that regression analysis by itself does not permit the ascription of causal relationships. It only provides a measure of the degree of co-variation between and among variables. The significance of the measured relationships must still be interpreted. This is rarely a straightforward matter and often there are many uncertainties leaving scope for a divergence of views. Moreover the actual application of econometric techniques can give rise to a host of technical problems. There may, for example, be doubt whether the conceptual definition of a variable has been given an appropriate empirical form (i.e. whether the data selected for use adequately represent the economic concept being considered), or whether the specific estimating techniques applied are the most appropriate for the problem at hand. Finally there is the simple fact that the quantity and quality of the data used in econometric studies often impose severe limits on the significance that can be attributed to the results obtained. Where just a few basic time series of highly aggregated data are available the conclusions that can be drawn are bound to be limited, no matter how sophisticated the statistical analysis used. Because of these difficulties the results of individual econometric investigations generally can not be viewed as conclusive. In this area, as with other forms of research,
knowledge grows through a progression of studies, each building on and trying to improve upon earlier attempts.

Among developing countries there are few studies that have made use of econometric techniques to evaluate minimum wage effects, and those that have tend to stress the preliminary and tentative nature of the evaluations made.\textsuperscript{31} This appears to be mainly due to a lack in many developing countries of statistical data of the range and quality required to make this form of research worthwhile and the preoccupation of labour economists with other issues.\textsuperscript{32}

In the absence of direct evidence, inferences concerning the effects of minimum wages have sometimes been drawn from econometric estimates of the relationship between average wage levels and employment. However, apart from the technical limitations of such estimates,\textsuperscript{33} it is questionable whether in most circumstances minimum wage adjustments can be equated to changes in average wage levels. In many countries there is no simple and direct relationship between the two. Moreover, estimated equations indicating the relationship between average wages and employment involve a range of historical experience covering changes going far beyond what is usually attempted through minimum wage fixing, and hence they are not likely to be a reliable means of predicting the effects of the latter.

There is also only limited use of econometric techniques to evaluate minimum wage impact in most developed countries. A notable exception is the United States, where over the past 20 years a large number of studies of this type have been carried out, mainly by academic economists. Although the economic models used and the results obtained are too diverse and complex to be comprehensively reviewed here, some indication will be given of the basic analytical approaches that have been followed.

A number of the studies have focused on the adjustment of employment to higher minimum wages in specified low-wage industries. One by Zucker, for example, was based on a model which assumed that both wages and employment in low-wage industries are subject to seasonal, cyclical, trend and minimum wage influences. The cyclical influences on employment and wages in the low-wage industries were taken into account by assuming that they were coincident with and proportional to cyclical changes in a group of high-wage industries. Once the cyclical, seasonal and trend influences had been allowed for in the multiple regression equations, estimates could be made of the responsiveness of total production worker employment and man-hours worked to minimum wage changes and the time lags involved.\textsuperscript{34}

Other investigations have involved more detailed examination of individual industries. Thus O’Herlihy developed a model consisting of five basic equations determining employment, man-hours, average
earnings, wholesale prices and output for each of them. These variables were related to minimum wage adjustments as well as to national and industry-specific indicators of economic changes. The five equations were applied to monthly and annual data for five low-wage manufacturing industries. Other authors have relied upon more straightforward “reduced-form” single equation models. Gardner estimated the effect of the extension of minimum wages to certain categories of agricultural workers in 1966 by means of a regression equation relating alternatively measures of farm wages and the number of hired farm labourers to variables representing prices paid by farmers for material inputs, the price of land, agricultural product prices, the wages of manufacturing workers, a time trend as well as minimum wages in agriculture and non-agricultural industries. A study of the same issue by Lianos relied upon a similar form of regression analysis but which differed in the specification of the “control” variables.

Other studies have focused on national rather than industrial labour markets. The most popular approach has been to attempt to isolate the effect of minimum wages on fluctuations over time in aggregate employment or unemployment after making allowance for cyclical and secular influences as well as labour supply changes. Thus Gramlich regressed national civilian non-farm employment on indicators of the level of economic activity (e.g. civilian non-farm real output or an index of unemployment), a time trend variable, a supply constraint variable (for teenagers, an index of participation in the armed forces and for adult females, an indicator of the number of young children), as well as variables reflecting the coverage and the level in real terms of the minimum wage. The regression equations were run separately on data for full- and part-time employed male adults, female adults and teenagers. Using a somewhat different analytical approach Kosters and Welch examined how cyclical changes in total employment were distributed among demographic groups and the extent to which minimum wages had altered this distribution for various age-colour-sex classes. Mincer focused on the effects of minimum wages on national unemployment and how these differ from the effects on total employment. His model sought to explain the unemployment associated with workers “waiting” for higher-paid jobs in the sectors covered by minimum wages as well as reactions to minimum wages in the form of movements of workers between covered and uncovered sectors and into and out of the economically active population. Regressions were run for ten age-sex-colour demographic groups relating alternatively ratios of employment and labour force participation to the unemployment rate of adult males (a proxy for business cycle changes), the fraction of the demographic group in the armed forces, a time trend variable and a measure of the relative level of the minimum wage and its coverage. The
unemployment effects of minimum wages were estimated by calculating the difference between the labour force and employment effects. Whereas most of these studies have relied on quarterly and annual time series data, in some cases the analysis has been cross-sectional, with regression equations being run which in effect make comparisons between states, metropolitan areas or local labour markets.

The issue that has received most attention in recent econometric research on minimum wages in the United States is their impact on the teenage labour market. The reason for this is the growth in teenage unemployment during the 1960s and 1970s and the belief that, in view of the relatively low productivity and wages of young workers and the absence of a general lower minimum wage for teenagers, the adverse effects are likely to be most marked for this category of workers. Most of the studies of this problem have been directed to explaining changes in the national employment or unemployment rates of teenagers (either all or various age-sex-colour groups). The adult unemployment rate has often been used to allow for cyclical influences on general labour market conditions. To take account of labour supply changes the analyses have sometimes included one or more additional variables such as the ratio of teenagers in the armed forces, the number of youths in manpower programmes, school enrolment ratios and the relative importance of agricultural and non-agricultural employment. As for the minimum wage variables, the more sophisticated of the studies use measures that reflect the level of the rates fixed relative to average wages or prices as well as the proportion of workers legally protected. Allowance is also made for time lags in the effects of minimum wage changes on employment or unemployment.

While an impressive quantity of econometric research into minimum wages has been carried out in the United States, the results have not been easy to interpret. For example when it was being debated during the mid-1970s whether a lower minimum wage for teenagers should be introduced, the most sophisticated and thorough of the empirical studies available at the time had contradictory findings. Some indicated that teenage employment had been adversely affected by previous minimum wage changes, whereas others found no substantial evidence of this. The various studies differed in the variables, data and time periods analysed, but a detailed examination of why the results were conflicting revealed that the crucial difference had been the inclusion or omission of a variable reflecting the rapid growth in the teenage population during the 1960s and 1970s. When this had not been taken into account the regressions tended to indicate that minimum wages did have a significant effect in raising teenage unemployment; when it had been included in the analysis, the minimum wage no longer appeared to have a significant impact. Attitudes towards whether the teenage population growth
variable should have been included or omitted are governed to a large extent by whether it is believed that wages would be flexible downwards in the absence of minimum wages. If so, then it appears incorrect to include this variable, since the theoretical prediction is that the labour market would adjust to the increase in the number of teenagers without creating additional unemployment. However, if it is felt that wages even in the absence of minimum wages would be relatively inflexible or sticky, then the teenage population growth variable must be included to take account of its effect on teenage unemployment.44

The problems of interpretation have been further complicated by the fact that at least one subsequent research study, using a different set of data and allowing for teenage population growth, uncovered significant negative employment effects for teenagers.45 It also appears that studies focusing on employment behaviour patterns and labour force participation rather than on unemployment have tended to show more significant unemployment effects.

Even if it is accepted that the weight of the econometric evidence for the United States now indicates that past minimum wage changes adversely affected teenage employment opportunities—which would appear to be the opinion of the majority of academic labour economists in the country—the policy implications of this research are still not completely self-evident. To begin with the extent of the adverse effects on employment, as shown by the different studies, varies substantially, making it hard to arrive at a best estimate that could be used to balance reasonably accurately the losses in job opportunities associated with minimum wage changes against the monetary gains for those who remain in employment. There is also the difficulty of deciding to what extent job opportunities for youths might legitimately be sacrificed in return for higher wages for adults. Furthermore employment effects on their own do not necessarily indicate precisely who benefits from and who is hurt by minimum wage changes. Hence it is difficult to make an informed assessment of whether there has been an improvement or a deterioration in the distribution of income.

In the United States more detailed investigations into the income distribution implications of minimum wages have recently been carried out through simulation experiments using a new source of statistical data that indicate for individual workers both their wage rates and family incomes. A study by Kelly simulated the effect of a hypothetical increase in the minimum wage on the degree of poverty in the United States as indicated by three alternative poverty standards. The calculations assumed that there were only direct effects of minimum wages on the incomes of those with wages less than the stipulated amount (i.e. no change in wages for those not covered by or earning above the minimum) and no reduction in hours worked or employment associated with
changes in wage rates. Changes in government transfer payments were also ignored. The poverty reduction effects were described by the author as "amazingly small". One of the explanations suggested was that many of the working poor may work an insufficient number of hours for changes in their wage rates to move them out of poverty. Even if the minimum wage is raised considerably the earnings of more than one worker may be required to move the family out of poverty, particularly in the case of larger families. Another explanation was that a large number of those directly affected by the minimum wage in the United States are not in poor families and thus no reduction in poverty results from increasing their wages. A study by Gramlich using a similar data base explored further the link between low wages and low family incomes. It showed that for adults a not perfect but fairly strong correlation existed. About 23 per cent of the low-wage workers were found to be in poverty and 75 per cent of them were in families with incomes below the median. However, for teenagers the pattern was quite different with only 7 per cent of the low-wage earners being found to be in poverty income families. These results are particularly interesting in view of the author's finding that it was adults, especially females, who appeared to be made better off by minimum wages, while the welfare effects for teenagers were questionable, with many being forced into part-time jobs.

The redistributive effects of minimum wage changes have also been linked with other characteristics of low-wage earners. King has argued that the high labour turnover typical of the groups of workers usually affected by minimum wages should be taken into account. The greater the labour turnover, the more is the "average" experience representative of the experience of each worker and the less meaningful are attempts to distinguish between those who benefit from and those who are harmed by the legislation. In accordance with this view, if the percentage increase in wages caused by legislation exceeds the percentage decline in employment, minimum wage laws will benefit members of the target group. In terms of policy formulation a lot, however, still depends on the definition of the target group. King found that a small increase in the minimum wage would improve the over-all welfare of both male and female workers. But the effects within smaller component groups were found to be diverse. Non-White teenagers of both sexes were found to be significantly harmed by an increase in the minimum wage.

It has also been argued in the United States that account should be taken of the longer-run distributional effects of minimum wages. Thus a recent study attempted to demonstrate empirically that minimum wages inhibit labour mobility and consequently the labour market's dynamic efficiency. But for those who believe that "dual" labour markets create important structural problems another interpretation of these findings would be that the reduced mobility is likely to generate more stable
Evaluating the economic impact

employment relationships in the so-called secondary labour markets and associated benefits in the form of steadier incomes, reduced turnover, higher productivity and increased training.\textsuperscript{50} It has also been argued that minimum wage laws make it too expensive for firms to provide low productivity young workers with on-the-job training and thus increase the probability that those who start with low skills will become part of the permanent poor.\textsuperscript{51}

Where minimum wages have been or might be used to raise the general level of wages, another aspect of the income distribution effects that needs to be considered is intersectoral changes. As part of the ILO's World Employment Programme work of this kind has been carried out for a few developing countries for which large-scale economy-wide models have been built. For example BACHUE-Philippines, like the other economic models in this series, provides a laboratory for exploring the direct and indirect impact of economic and demographic policies on the processes of development. It has been used to trace the effects of regular annual 4 per cent minimum wage increases over the period 1976–2000 for unskilled labour in the modern sector in urban areas.\textsuperscript{52} Even though such an increase goes beyond what is normally attempted through minimum wage regulation, considering the possible effects can still be an illuminating exercise. Thus the simulation experiment revealed that average unskilled wages would be raised by 11 per cent in 1985 and 23 per cent in the year 2000 over the level they would have otherwise attained. The increased wages in the modern urban sector would generate a decline in employment in this sector of 6 per cent in the year 2000, whereas traditional sector employment would rise to absorb those formerly employed in the modern sector. The model further predicted that the rise in traditional sector employment would be likely to generate a decline in wages in this sector of some 11 per cent, thus increasing the wage differential for unskilled labour. An interesting side effect that was found was that there would be a decline in educated unemployment associated with a fall in the wage differential in favour of educated workers. Another unexpected side effect was that net rural to urban migration would fall, largely because of the increase in wage inequality for the unskilled. It was found that the over-all effect on the distribution of income would be limited. The increase in wage inequality for the unskilled would be offset by the decrease in wage inequality for the skilled and by the slight decline in unemployment. However, the composition of poverty would shift towards the uneducated in the urban traditional sector. Finally it was shown that an alternative policy of annual 4 per cent increases in rural modern sector minimum wages would have more clearly inegalitarian effects, largely because traditional agriculture would be forced to absorb more labour and food prices would be lower. Rural poverty would increase while urban poverty would decline.\textsuperscript{53}
The intersectoral effects of large changes in minimum wages have also been explored in a disaggregated macro-economic model of the Colombian economy, which determined endogenously all wages, prices and the distribution of income among groups of households. On the assumption that all urban and rural manual workers had their real wages increased by 10 per cent as a result of a minimum wage increase, the model predicted important reductions in output and employment. Although the associated income redistribution was found to increase the labour intensity of the economy, through a shift in the structure of final demand towards agricultural products, this effect was not strong enough to offset the reduction of employment associated with higher labour costs. None the less the degree of income inequality was reduced and the position of the poorest households improved by the minimum wage change. In other words aggregate demand for manual workers proved to be rather inelastic with the unemployment effects not being strong enough to offset the direct gains of the workers' households. On the assumption that the minimum wage benefited mainly the lowest-paid manual workers (i.e. that wage differentials amongst manual workers were somewhat flexible) the employment and output losses were moderated considerably, while the gain in income equality remained substantial.

The author of this study pointed out, however, that the income equalising effects of minimum wages depended critically on some of the assumptions underlying the simulation experiment. Thus the assumption that household heads would be given priority as regards employment opportunities over household secondary members resulted in the loss of employment opportunities generated by the minimum wage increase being relatively evenly distributed among households. The fact that unemployment rates for household heads are low suggests that this may be a reasonable assumption for developing countries in the long run, but in the short run it is possible that some households might be driven into extreme poverty as a result of a rapid minimum wage increase. Another critical assumption was that there would be completely effective enforcement of the minimum wage increase for all manual workers. But if enforcement were assumed to be less effective for lower-paid manual workers, the income equalising effects of a minimum wage increase would be attenuated. In the extreme case of assuming imposition of a minimum wage only on the large and medium-sized firms, the model indicated a substantial worsening in the distribution of income.

CONCLUDING REMARKS

This chapter has been essentially confined to providing illustrations of various approaches to the evaluation of minimum wage effects. As
already mentioned, no attempt has been made to summarise systematically and interpret all the findings of the studies that have been carried out. Such an attempt at the international level would neither be practical nor particularly useful, as evaluations are only meaningful in the context of a specific minimum wage programme and national economy. Moreover interpreting the results of many of the studies raises technical issues that could not be considered in detail here.

None the less it should perhaps be pointed out that even in the United States, where evaluations of all forms have been carried out much more extensively than elsewhere, it has not been possible to reach broad agreement on the conclusions which can be drawn. There are those who argue for example that the available evidence does not show that minimum wages have significantly reduced employment opportunities. Others, relying perhaps more heavily on the results of the econometric analysis of time series data rather than special surveys have come to the opposite conclusion. In other cases the conclusions reached have been much less categoric. The fact remains that despite the considerable quantity of research undertaken, the results are not easily interpreted and important gaps in information remain. In testimony before the Congressional Subcommittee on Labor Standards, the Assistant Secretary of Labor for Policy, Evaluation and Research made the following comment:

Research in the field of minimum wages and the experience of past changes in the Fair Labor Standards Act still leaves us with considerable uncertainty regarding the impact of higher minimum wages not only on the economy as a whole but on specific groups of workers and on specific industries. In part, this is because policy research has not been successful to date in separating out the effects of higher legal minimum wages from the effects of the many other exogenous forces acting simultaneously on the economy.

This observed inconclusiveness should not, however, give cause for despair or for questioning the fundamental importance of evaluations as a basic element of minimum wage programmes. Past experience testifies to the important contribution evaluations can make to clarifying issues and improving understanding of the probable range of economic adjustments that are made to minimum wage changes. While it would be unrealistic to expect them to resolve all the controversial issues associated with minimum wage fixing, at least they may serve to refute the more extreme assertions and enable some common understanding to be reached on the possible significance or approximate magnitude of some aspects of minimum wage impact. In short, while minimum wage impact evaluations can not be expected to provide definitive answers or resolve all issues, much can be learned through their execution. With uncertainties reduced to tolerable limits, the basis for a more meaningful debate on the costs and benefits of alternative minimum wage proposals can be laid. In a number of countries doubts about the economic repercussions now appear to constitute the main obstacle to more regular and effective administration of minimum wage programmes. Only
through the commitment of the necessary resources for systematic evaluation can it be hoped that these doubts will be alleviated and an appropriate role for minimum wage regulation defined.

Notes

1 For a more detailed discussion of some of the questions of economic analysis raised by minimum wage impact evaluations, see ILO: Minimum wage fixing and economic development, op. cit., Ch. II: “Consequences of minimum wage fixing”.


5 Watanabe, op. cit., p. 358.


8 Programa Regional del Empleo para América Latina y el Caribe, Oficina Internacional del Trabajo: Política de salarios, precios y margenes de ganancia en períodos de restricción externa y aceleración inflacionaria: La experiencia reciente de Costa Rica (Santiago, Documento de trabajo PREALC/114), May 1977, pp. 63–94.


11 Unidad de Programación Global, División de Precios y Salarios, Departamento Nacional de Planeacion: “Bases para una politica de salario minimo dentro de los lineamientos del plan de desarrollo”, in Revista de Planeación y Desarrollo (Bogotá), July-Dec. 1975.


13 Informe al Gobierno de Panamá sobre una misión en materia de administración y aplicación de la reglamentación de salarios mínimos, op. cit., pp. 24–41.

14 For a convenient summary of these studies see Aykroyd, op. cit.


16 P. S. Dhruvarajan: A study of the effects of the 10c increase in the Manitoba minimum wage effective October 1st, 1972, Manitoba Department of Labour, July 1974.


18 Aykroyd, op. cit., passim.

19 H. S. Kantor: “Economic effects of the minimum wage”, in Monthly Labor Review
Evaluating the economic impact


23 P. A. Brinker: “The $1.00 minimum wage impact on 15 Oklahoma industries”, ibid., Sep. 1957.


31 See for example Santiago Tobón: “Efectos de una modificación del salario mínimo, sobre los salarios de categorías superiores y sobre el nivel de empleo”, in Revista de Planeación y Desarrollo (Bogotá), July-Dec. 1975; Gerry Rodgers, Mike Hopkins and Rene Wery: Population, employment and inequality, BACHUE-Philippines (Farnborough, Saxon House on behalf of the ILO, 1978); François Bourguignon: “General equilibrium analysis of the Colombian income distribution: Applications to rural development, wage and income policies” (Geneva, ILO, 1978; mimeographed World Employment Programme research working paper; restricted); Reynolds and Gregory, op. cit.; and Dudley Jackson: “Relationships between minimum wages and actual wages in selected countries”, Appendix I in ILO: Minimum wage fixing and economic development, op. cit.


Minimum wage fixing: An international review of practices and problems


42 Two studies that have used cross-sectional data are Edward Kalachek: “Determinants of teenage employment”, in Journal of Human Resources (Madison, Wisconsin), Winter 1969, pp. 3-21; and Finis Welch and James Cunningham: “Effects of minimum wages on the level and age composition of youth unemployment”, in Review of Economics and Statistics (Cambridge, Massachusetts), Feb. 1978.


50 BACHUE-Philippines consists of about 250 behavioural equations and identities. For more information on the model and the results of various policy simulations, see Rodgers, Hopkins and Wéry, op. cit. BACHUE models for Kenya, Brazil and Yugoslavia are still under construction. See ILO World Employment Programme: Research in retrospect and prospect (Geneva, 1979), pp. 48-50.


56 See Bourguignon, op. cit.


58 See Bourguignon, op. cit.
Table 1. Nominal and real minimum wages* (1970 prices) by country, 1966–77

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia (New South Wales) (dollars/week)</td>
<td>MW</td>
<td>37.25</td>
<td>38.25</td>
<td>39.60</td>
<td>43.10</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Canada (Ontario) (dollars/hour)</td>
<td>MW</td>
<td>1.00</td>
<td>.</td>
<td>.</td>
<td>1.30</td>
<td>1.50</td>
<td>1.65</td>
<td>.</td>
<td>.</td>
<td>1.80</td>
<td>2.25</td>
<td>2.40</td>
</tr>
<tr>
<td>France (francs/hour)</td>
<td>MW</td>
<td>2.10</td>
<td>2.15</td>
<td>3.08</td>
<td>3.27</td>
<td>3.50</td>
<td>3.94</td>
<td>4.55</td>
<td>5.43</td>
<td>6.75</td>
<td>7.71</td>
<td>8.94</td>
</tr>
<tr>
<td>Japan (yen/day)</td>
<td>MW</td>
<td>1450</td>
<td>1794</td>
<td>2063</td>
<td>2260</td>
<td>2478</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>The Netherlands (guilders/week)</td>
<td>MW</td>
<td>145.8</td>
<td>157.8</td>
<td>177.9</td>
<td>198.6</td>
<td>227.4</td>
<td>248.4</td>
<td>310.2</td>
<td>346.2</td>
<td>364.2</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Portugal (escudos/month)</td>
<td>MW</td>
<td>152.2</td>
<td>157.5</td>
<td>165.3</td>
<td>171.2</td>
<td>181.6</td>
<td>200.1</td>
<td>205.0</td>
<td>210.3</td>
<td>209.2</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Spain (pesetas/day)</td>
<td>MW</td>
<td>84</td>
<td>96</td>
<td>96</td>
<td>102</td>
<td>120</td>
<td>136</td>
<td>156</td>
<td>186</td>
<td>225</td>
<td>280</td>
<td>380</td>
</tr>
<tr>
<td>United States (dollars/hour)</td>
<td>MW</td>
<td>1.25</td>
<td>1.40</td>
<td>1.60</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>2.00</td>
<td>2.10</td>
<td>2.30</td>
</tr>
<tr>
<td>Latin America (pesos/month)</td>
<td>MW</td>
<td>158</td>
<td>.</td>
<td>200</td>
<td>220</td>
<td>317</td>
<td>446</td>
<td>842</td>
<td>1275</td>
<td>2692</td>
<td>7608</td>
<td>20125</td>
</tr>
</tbody>
</table>

* For explanations of signs and notes see page 193.
Table 1. (cont.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>81</td>
<td>43</td>
<td>188</td>
<td>189</td>
<td>191</td>
<td>180</td>
<td>171</td>
<td>210</td>
<td>255</td>
<td>298</td>
<td>355</td>
<td>481</td>
</tr>
<tr>
<td></td>
<td>126</td>
<td>54</td>
<td>193</td>
<td>196</td>
<td>197</td>
<td>199</td>
<td>220</td>
<td>264</td>
<td>306</td>
<td>351</td>
<td>451</td>
<td>599</td>
</tr>
<tr>
<td>Colombia</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>364</td>
<td>74</td>
<td>491</td>
<td>435</td>
<td>109</td>
<td>413</td>
<td>435</td>
<td>385</td>
<td>501</td>
<td>585</td>
<td>655</td>
<td>700</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>310</td>
<td>88</td>
<td>351</td>
<td>357</td>
<td>103</td>
<td>103</td>
<td>108</td>
<td>124</td>
<td>161</td>
<td>190</td>
<td>196</td>
<td>204</td>
</tr>
<tr>
<td>Ecuador</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>90</td>
<td>95</td>
<td>100</td>
<td>108</td>
<td>117</td>
<td>122</td>
<td>123</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>El Salvador</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>90</td>
<td>95</td>
<td>101</td>
<td>99</td>
<td>99</td>
<td>96</td>
<td>93</td>
<td>94</td>
<td>113</td>
<td>121</td>
<td>123</td>
<td>115</td>
</tr>
<tr>
<td>Guatemala</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>47</td>
<td>93</td>
<td>50</td>
<td>96</td>
<td>94</td>
<td>98</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>114</td>
<td>133</td>
<td>150</td>
</tr>
<tr>
<td>Mexico</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>650</td>
<td>88</td>
<td>741</td>
<td>720</td>
<td>720</td>
<td>720</td>
<td>720</td>
<td>720</td>
<td>720</td>
<td>720</td>
<td>720</td>
<td>720</td>
</tr>
<tr>
<td>Panama</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>83</td>
<td>93</td>
<td>90</td>
<td>96</td>
<td>95</td>
<td>97</td>
<td>97</td>
<td>97</td>
<td>97</td>
<td>97</td>
<td>97</td>
<td>97</td>
</tr>
<tr>
<td>Peru</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>1200</td>
<td>69</td>
<td>1749</td>
<td>1693</td>
<td>1674</td>
<td>1576</td>
<td>1860</td>
<td>1900</td>
<td>2225</td>
<td>2400</td>
<td>2850</td>
<td>3270</td>
</tr>
<tr>
<td>Uruguay</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>10.4</td>
<td>10.4</td>
<td>10.4</td>
<td>10.4</td>
<td>10.4</td>
<td>10.4</td>
<td>10.4</td>
<td>10.4</td>
<td>10.4</td>
</tr>
<tr>
<td>Africa</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
</tr>
<tr>
<td>Algeria</td>
<td>1.36</td>
<td>92</td>
<td>1.48</td>
<td>92</td>
<td>93</td>
<td>1.46</td>
<td>94</td>
<td>100</td>
<td>1.36</td>
<td>1.33</td>
<td>1.63</td>
<td>1.54</td>
</tr>
<tr>
<td></td>
<td>2.08</td>
<td>103</td>
<td>1.45</td>
<td>103</td>
<td>103</td>
<td>1.33</td>
<td>106</td>
<td>113</td>
<td>1.63</td>
<td>1.54</td>
<td>1.76</td>
<td>1.63</td>
</tr>
<tr>
<td></td>
<td>2.40</td>
<td>118</td>
<td>1.36</td>
<td>118</td>
<td>118</td>
<td>1.33</td>
<td>118</td>
<td>118</td>
<td>1.71</td>
<td>1.54</td>
<td>1.76</td>
<td>1.71</td>
</tr>
<tr>
<td></td>
<td>9.5</td>
<td>128</td>
<td>1.33</td>
<td>128</td>
<td>128</td>
<td>1.33</td>
<td>128</td>
<td>128</td>
<td>1.33</td>
<td>1.33</td>
<td>1.33</td>
<td>1.33</td>
</tr>
<tr>
<td></td>
<td>MW</td>
<td>36</td>
<td>37</td>
<td>39</td>
<td>43</td>
<td>49</td>
<td>64</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>CPI</td>
<td>91</td>
<td>94</td>
<td>96</td>
<td>97</td>
<td>100</td>
<td>104</td>
<td>110</td>
<td>117</td>
<td>137</td>
<td>158</td>
<td>173</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>40</td>
<td>38</td>
<td>39</td>
<td>38</td>
<td>39</td>
<td>38</td>
<td>35</td>
<td>37</td>
<td>36</td>
<td>31</td>
<td>37</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>MW</td>
<td>22.80</td>
<td>28.50</td>
<td>35.60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>88</td>
<td>90</td>
<td>94</td>
<td>96</td>
<td>100</td>
<td>107</td>
<td>115</td>
<td>121</td>
<td>132</td>
<td>154</td>
<td>170</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>25.9</td>
<td>25.4</td>
<td>24.2</td>
<td>23.8</td>
<td>28.5</td>
<td>26.7</td>
<td>24.9</td>
<td>23.6</td>
<td>26.9</td>
<td>23.2</td>
<td>21.0</td>
</tr>
<tr>
<td>Chad</td>
<td>MW</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td>40.4</td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>85</td>
<td>88</td>
<td>89</td>
<td>92</td>
<td>100</td>
<td>106</td>
<td>109</td>
<td>115</td>
<td>128</td>
<td>148</td>
<td>153</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>26</td>
<td>25</td>
<td>24</td>
<td>30</td>
<td>28</td>
<td>27</td>
<td>26</td>
<td>24</td>
<td>20</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Congo</td>
<td>MW</td>
<td>39.90</td>
<td>45.88</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>78</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>92</td>
<td>96</td>
<td>99</td>
<td>99</td>
<td>100</td>
<td>104</td>
<td>114</td>
<td>118</td>
<td>125</td>
<td>147</td>
<td>154</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>43</td>
<td>42</td>
<td>46</td>
<td>47</td>
<td>46</td>
<td>44</td>
<td>40</td>
<td>39</td>
<td>63</td>
<td>53</td>
<td>51</td>
</tr>
<tr>
<td>Egypt</td>
<td>MW</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>94</td>
<td>95</td>
<td>93</td>
<td>96</td>
<td>100</td>
<td>103</td>
<td>105</td>
<td>110</td>
<td>122</td>
<td>134</td>
<td>147</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>27</td>
<td>26</td>
<td>27</td>
<td>26</td>
<td>25</td>
<td>24</td>
<td>29</td>
<td>27</td>
<td>33</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>Ghana</td>
<td>MW</td>
<td>65</td>
<td>70</td>
<td>75</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>89</td>
<td>84</td>
<td>92</td>
<td>96</td>
<td>100</td>
<td>105</td>
<td>115</td>
<td>128</td>
<td>163</td>
<td>231</td>
<td>352</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>73.0</td>
<td>83.7</td>
<td>81.6</td>
<td>77.8</td>
<td>75.0</td>
<td>71.5</td>
<td>65.3</td>
<td>58.6</td>
<td>45.9</td>
<td>32.5</td>
<td>21.3</td>
</tr>
<tr>
<td>Guinea</td>
<td>MW</td>
<td>36</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>MW</td>
<td>42.40</td>
<td>46.64</td>
<td>58.30</td>
<td></td>
<td></td>
<td></td>
<td>73.0</td>
<td>92.0</td>
<td>115.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>82</td>
<td>84</td>
<td>88</td>
<td>92</td>
<td>100</td>
<td>99</td>
<td>100</td>
<td>110</td>
<td>130</td>
<td>145</td>
<td>162</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>51.8</td>
<td>50.7</td>
<td>52.9</td>
<td>50.6</td>
<td>58.3</td>
<td>58.8</td>
<td>58.6</td>
<td>66.2</td>
<td>70.9</td>
<td>63.6</td>
<td>71.0</td>
</tr>
<tr>
<td>Kenya</td>
<td>MW</td>
<td>175</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>225</td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>96</td>
<td>98</td>
<td>98</td>
<td>98</td>
<td>100</td>
<td>102</td>
<td>105</td>
<td>112</td>
<td>128</td>
<td>152</td>
<td>164</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>183</td>
<td>179</td>
<td>179</td>
<td>179</td>
<td>175</td>
<td>172</td>
<td>167</td>
<td>201</td>
<td>188</td>
<td>198</td>
<td>183</td>
</tr>
<tr>
<td>Libyan Arab Jamahiriya</td>
<td>MW</td>
<td>0.50</td>
<td></td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td>1.35</td>
<td>1.75</td>
<td>2.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>80</td>
<td>85</td>
<td>87</td>
<td>94</td>
<td>100</td>
<td>96</td>
<td>96</td>
<td>104</td>
<td>112</td>
<td>122</td>
<td>128</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>0.63</td>
<td>0.59</td>
<td>0.58</td>
<td>1.06</td>
<td>1.00</td>
<td>1.04</td>
<td>1.40</td>
<td>1.30</td>
<td>1.57</td>
<td>1.64</td>
<td>1.56</td>
</tr>
<tr>
<td>Mali</td>
<td>MW</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>40</td>
<td>70</td>
<td></td>
<td></td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mauritania</td>
<td>MW</td>
<td>35.2</td>
<td></td>
<td>41.3</td>
<td></td>
<td></td>
<td></td>
<td>44.6</td>
<td>97.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>85</td>
<td>88</td>
<td>91</td>
<td>94</td>
<td>100</td>
<td>108</td>
<td>116</td>
<td>125</td>
<td>141</td>
<td>158</td>
<td>180</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>41.6</td>
<td>40.0</td>
<td>38.7</td>
<td>44.0</td>
<td>41.3</td>
<td>38.4</td>
<td>38.3</td>
<td>35.6</td>
<td>69.6</td>
<td>62.0</td>
<td>54.2</td>
</tr>
<tr>
<td>----------</td>
<td>-----------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Morocco</td>
<td>(dirhans/hour)</td>
<td>0.85</td>
<td></td>
<td></td>
<td></td>
<td>0.96</td>
<td></td>
<td>1.15</td>
<td></td>
<td>1.27</td>
<td></td>
<td>1.40</td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>96</td>
<td>96</td>
<td>96</td>
<td>99</td>
<td>100</td>
<td>104</td>
<td>108</td>
<td>113</td>
<td>129</td>
<td>139</td>
<td>151</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>0.88</td>
<td>0.89</td>
<td>0.89</td>
<td>0.86</td>
<td>0.85</td>
<td>0.82</td>
<td>0.89</td>
<td>1.02</td>
<td>0.90</td>
<td>0.91</td>
<td>0.84</td>
</tr>
<tr>
<td>Niger</td>
<td>(CFA/hour)</td>
<td>27</td>
<td></td>
<td></td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>92</td>
<td>92</td>
<td>90</td>
<td>99</td>
<td>100</td>
<td>104</td>
<td>114</td>
<td>128</td>
<td>132</td>
<td>144</td>
<td>178</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>294</td>
<td>293</td>
<td>30.1</td>
<td>30.3</td>
<td>30.0</td>
<td>28.8</td>
<td>26.2</td>
<td>23.5</td>
<td>36.3</td>
<td>33.3</td>
<td>26.9</td>
</tr>
<tr>
<td>Rwanda</td>
<td>(francs/day)</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>60</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>95</td>
<td>96</td>
<td>97</td>
<td>98</td>
<td>100</td>
<td>101</td>
<td>104</td>
<td>113</td>
<td>149</td>
<td>193</td>
<td>207</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>34</td>
<td>33</td>
<td>33</td>
<td>32</td>
<td>32</td>
<td>31</td>
<td>28</td>
<td>40</td>
<td>31</td>
<td>29</td>
<td>25</td>
</tr>
<tr>
<td>Senegal</td>
<td>(CFA/hour)</td>
<td>44.0</td>
<td></td>
<td></td>
<td>50.6</td>
<td></td>
<td></td>
<td></td>
<td>58.19</td>
<td>107.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>94</td>
<td>94</td>
<td>94</td>
<td>98</td>
<td>100</td>
<td>104</td>
<td>110</td>
<td>123</td>
<td>144</td>
<td>188</td>
<td>193</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>46.7</td>
<td>47.0</td>
<td>53.8</td>
<td>51.7</td>
<td>50.6</td>
<td>49.0</td>
<td>46.0</td>
<td>47.2</td>
<td>74.2</td>
<td>56.9</td>
<td>55.5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>(shillings/month)</td>
<td>150</td>
<td></td>
<td></td>
<td>170</td>
<td></td>
<td></td>
<td></td>
<td>240</td>
<td></td>
<td>340</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>91</td>
<td>93</td>
<td>96</td>
<td>97</td>
<td>100</td>
<td>105</td>
<td>113</td>
<td>125</td>
<td>149</td>
<td>188</td>
<td>201</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>165</td>
<td>162</td>
<td>156</td>
<td>176</td>
<td>170</td>
<td>162</td>
<td>213</td>
<td>193</td>
<td>228</td>
<td>203</td>
<td>189</td>
</tr>
<tr>
<td>Togo</td>
<td>(CFA/hour)</td>
<td>29.70</td>
<td></td>
<td></td>
<td>35.64</td>
<td>39.20</td>
<td></td>
<td></td>
<td>43.10</td>
<td>51.70</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>92</td>
<td>90</td>
<td>91</td>
<td>97</td>
<td>100</td>
<td>109</td>
<td>114</td>
<td>120</td>
<td>134</td>
<td>159</td>
<td>177</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>32.1</td>
<td>32.9</td>
<td>32.8</td>
<td>30.8</td>
<td>35.6</td>
<td>36.0</td>
<td>34.5</td>
<td>32.8</td>
<td>32.1</td>
<td>32.6</td>
<td>29.2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>(dinars/hour)</td>
<td>0.084</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.104</td>
<td></td>
<td>0.130</td>
<td>0.145</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>90</td>
<td>93</td>
<td>95</td>
<td>99</td>
<td>100</td>
<td>106</td>
<td>108</td>
<td>113</td>
<td>118</td>
<td>129</td>
<td>136</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>0.093</td>
<td>0.091</td>
<td>0.088</td>
<td>0.085</td>
<td>0.084</td>
<td>0.096</td>
<td>0.092</td>
<td>0.111</td>
<td>0.113</td>
<td>0.107</td>
<td>0.133</td>
</tr>
<tr>
<td>Zaire</td>
<td>(makuta/day)</td>
<td>13.3</td>
<td>17.3</td>
<td>24.8</td>
<td>27.3</td>
<td>32.8</td>
<td>39.4</td>
<td>43.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>41</td>
<td>56</td>
<td>85</td>
<td>97</td>
<td>100</td>
<td>106</td>
<td>122</td>
<td>142</td>
<td>182</td>
<td>233</td>
<td>438</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>32.8</td>
<td>31.6</td>
<td>29.0</td>
<td>28.1</td>
<td>32.8</td>
<td>37.2</td>
<td>35.4</td>
<td>30.6</td>
<td>23.8</td>
<td>24.7</td>
<td>15.8</td>
</tr>
<tr>
<td>Zambia</td>
<td>(Angwee/hour)</td>
<td>10</td>
<td></td>
<td></td>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td>16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CPI</td>
<td>80</td>
<td>84</td>
<td>93</td>
<td>96</td>
<td>100</td>
<td>105</td>
<td>117</td>
<td>117</td>
<td>127</td>
<td>140</td>
<td>166</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>12.5</td>
<td>11.9</td>
<td>13.9</td>
<td>13.6</td>
<td>13.0</td>
<td>12.4</td>
<td>14.5</td>
<td>13.6</td>
<td>12.6</td>
<td>11.5</td>
<td>9.6</td>
</tr>
</tbody>
</table>

Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>(rupees/month)</th>
<th>110</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>150</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nepal</td>
<td>CPI</td>
<td>84</td>
<td>83</td>
<td>86</td>
<td>95</td>
<td>100</td>
<td>101</td>
<td>108</td>
<td>117</td>
<td>138</td>
<td>155</td>
<td>152</td>
<td>165</td>
</tr>
<tr>
<td></td>
<td>RMW</td>
<td>131</td>
<td>133</td>
<td>128</td>
<td>115</td>
<td>110</td>
<td>109</td>
<td>102</td>
<td>128</td>
<td>109</td>
<td>97</td>
<td>99</td>
<td>91</td>
</tr>
<tr>
<td>Country</td>
<td>Unit/day</td>
<td>MW</td>
<td>CPI</td>
<td>RMW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td>---------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>Kina/week</td>
<td>6.50</td>
<td>95</td>
<td>6.63</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>Pesos/day</td>
<td>6.00</td>
<td>86</td>
<td>6.70</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>Baht/day</td>
<td>7.0</td>
<td>118</td>
<td>10.72</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>Liras/day</td>
<td>10.72</td>
<td>77</td>
<td>11.50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Rupees/day</td>
<td>3.89</td>
<td>81</td>
<td>4.78</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:
- = not available or not applicable.
= no change.
MW = minimum wage.
RMW = real minimum wage, 1970 prices.
CPI = consumer price index.
1 Except where otherwise indicated, the minimum wages shown are general rates applicable nationally or to the region containing the main urban centre of the country. In most cases the rates are those that were in force at the end of the year. However, for Latin American countries the rates are annual averages weighted by the number of months particular rates were in force. Also, for a number of African countries the available information only covered up to July/August 1977.
2 Minimum wage for manufacturing.
3 Average of 15 unskilled occupational minimum wages.
4 Minimum wage for industry and services.
5 Average of 23 industrial rates.
6 Average of minimum rates of non-agricultural wages boards.
Table 2. Indices of minimum wages, average wages and national product per head in constant prices (1966/67 = 100)

<table>
<thead>
<tr>
<th>Country</th>
<th>Minimum wage</th>
<th>Average wage</th>
<th>Gross domestic product per head</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrialised</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>107</td>
<td>130</td>
<td>121</td>
</tr>
<tr>
<td>Canada</td>
<td>138</td>
<td>146</td>
<td>122</td>
</tr>
<tr>
<td>France</td>
<td>155</td>
<td>215</td>
<td>116</td>
</tr>
<tr>
<td>Spain</td>
<td>123</td>
<td>179</td>
<td>137</td>
</tr>
<tr>
<td>United States</td>
<td>97</td>
<td>97</td>
<td>106</td>
</tr>
<tr>
<td>Latin America</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>86</td>
<td>44</td>
<td>93</td>
</tr>
<tr>
<td>Brazil</td>
<td>97</td>
<td>94</td>
<td>116</td>
</tr>
<tr>
<td>Colombia</td>
<td>90</td>
<td>90</td>
<td>111</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>103(b)</td>
<td>97</td>
<td>126</td>
</tr>
<tr>
<td>Ecuador</td>
<td>103(b)</td>
<td>105(b)</td>
<td>135</td>
</tr>
<tr>
<td>El Salvador</td>
<td>95</td>
<td>110</td>
<td>104</td>
</tr>
<tr>
<td>Guatemala</td>
<td>94</td>
<td>64</td>
<td>104</td>
</tr>
<tr>
<td>Mexico</td>
<td>115</td>
<td>140</td>
<td>110</td>
</tr>
<tr>
<td>Panama</td>
<td>99</td>
<td>84</td>
<td>105</td>
</tr>
<tr>
<td>Peru</td>
<td>110</td>
<td>91</td>
<td>109</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal</td>
<td>80</td>
<td>72</td>
<td>—</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>131</td>
<td>225</td>
<td>—</td>
</tr>
<tr>
<td>Philippines</td>
<td>90</td>
<td>54</td>
<td>98</td>
</tr>
<tr>
<td>Turkey</td>
<td>107</td>
<td>143</td>
<td>101</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>102</td>
<td>126</td>
<td>103</td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td>100</td>
<td>109</td>
<td>—</td>
</tr>
<tr>
<td>Cameroon</td>
<td>94</td>
<td>95(c)</td>
<td>—</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>101</td>
<td>78</td>
<td>—</td>
</tr>
<tr>
<td>Chad</td>
<td>108</td>
<td>86</td>
<td>—</td>
</tr>
<tr>
<td>Congo</td>
<td>99</td>
<td>112</td>
<td>—</td>
</tr>
<tr>
<td>Egypt</td>
<td>100</td>
<td>96</td>
<td>100</td>
</tr>
<tr>
<td>Ghana</td>
<td>87</td>
<td>54</td>
<td>119(e)</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>115</td>
<td>124</td>
<td>—</td>
</tr>
<tr>
<td>Kenya</td>
<td>94</td>
<td>104</td>
<td>—</td>
</tr>
<tr>
<td>Libyan Arab Jamahiriya</td>
<td>200</td>
<td>248</td>
<td>—</td>
</tr>
<tr>
<td>Mauritania</td>
<td>94</td>
<td>127</td>
<td>—</td>
</tr>
<tr>
<td>Morocco</td>
<td>96</td>
<td>94</td>
<td>—</td>
</tr>
<tr>
<td>Niger</td>
<td>94</td>
<td>91</td>
<td>—</td>
</tr>
<tr>
<td>Rwanda</td>
<td>94</td>
<td>81</td>
<td>—</td>
</tr>
<tr>
<td>Senegal</td>
<td>101</td>
<td>113</td>
<td>—</td>
</tr>
<tr>
<td>Tanzania</td>
<td>115</td>
<td>110</td>
<td>106</td>
</tr>
<tr>
<td>Togo</td>
<td>108</td>
<td>88</td>
<td>—</td>
</tr>
<tr>
<td>Tunisia</td>
<td>105</td>
<td>130</td>
<td>—</td>
</tr>
<tr>
<td>Zaire</td>
<td>113</td>
<td>40</td>
<td>—</td>
</tr>
<tr>
<td>Zambia</td>
<td>110</td>
<td>73</td>
<td>—</td>
</tr>
</tbody>
</table>

— = not available.  (a) = 1974-75.  (b) = base period 1968-69.  (c) = 1976 only.  (d) = 1975 only.  (e) = 1971 only.

APPENDIX II

EXTRACTS FROM CONVENTIONS NOS. 26, 99 AND 131
AND RECOMMENDATIONS NOS. 30, 89 AND 135
CONCERNING MINIMUM WAGE FIXING

CONVENTION 26 (1928)

Convention concerning the creation
of minimum wage-fixing machinery

Article 1

1. Each Member of the International Labour Organisation which ratifies this Convention undertakes to create or maintain machinery whereby minimum rates of wages can be fixed for workers employed in certain of the trades or parts of trades (and in particular in home working trades) in which no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low.

2. For the purpose of this Convention the term “trades” includes manufacture and commerce.

Article 2

Each Member which ratifies this Convention shall be free to decide, after consultation with the organisations, if any, of workers and employers in the trade or part of trade concerned, in which trades or parts of trades, and in particular in which home working trades or parts of such trades, the minimum wage-fixing machinery referred to in Article 1 shall be applied.

Article 3

1. Each Member which ratifies this Convention shall be free to decide the nature and form of the minimum wage-fixing machinery, and the methods to be followed in its operation:

2. Provided that—

(1) before the machinery is applied in a trade or part of trade, representatives of the employers and workers concerned, including representatives of their respective organisations, if any, shall be consulted as well as any other persons, being specifically qualified for the purpose by their trade or functions, whom the competent authority deems it expedient to consult;

(2) the employers and workers concerned shall be associated in the operation of the machinery, in such manner and to such extent, but in any case in equal numbers and on equal terms, as may be determined by national laws or regulations;
Minimum wage fixing: An international review of practices and problems

(3) minimum rates of wages which have been fixed shall be binding on the employers and workers concerned so as not to be subject to abatement by them by individual agreement, nor, except with general or particular authorisation of the competent authority, by collective agreement.

Article 4

1. Each Member which ratifies this Convention shall take the necessary measures, by way of a system of supervision and sanctions, to ensure that the employers and workers concerned are informed of the minimum rates of wages in force and that wages are not paid at less than these rates in cases where they are applicable.

2. A worker to whom the minimum rates are applicable and who has been paid wages at less than these rates shall be entitled to recover, by judicial or other legalised proceedings, the amount by which he has been underpaid, subject to such limitation of time as may be determined by national laws or regulations.

CONVENTION 99 (1951)

Convention concerning minimum wage fixing machinery in agriculture

Article 1

1. Each Member of the International Labour Organisation which ratifies this Convention undertakes to create or maintain adequate machinery whereby minimum rates of wages can be fixed for workers employed in agricultural undertakings and related occupations.

2. Each Member which ratifies this Convention shall be free to determine, after consultation with the most representative organisations of employers and workers concerned, where such exist, to which undertakings, occupations and categories of persons the minimum wage fixing machinery referred to in the preceding paragraph shall be applied.

3. The competent authority may exclude from the application of all or any of the provisions of this Convention categories of persons whose conditions of employment render such provisions inapplicable to them, such as members of the farmer's family employed by him.

Article 2

1. National laws or regulations, collective agreements or arbitration awards may authorise the partial payment of minimum wages in the form of allowances in kind in cases in which payment in the form of such allowances is customary or desirable.

2. In cases in which partial payment of minimum wages in the form of allowances in kind is authorised, appropriate measures shall be taken to ensure that—
   (a) such allowances are appropriate for the personal use and benefit of the worker and his family; and
   (b) the value attributed to such allowances is fair and reasonable.

Article 3

1. Each Member which ratifies this Convention shall be free to decide, subject to the conditions stated in the following paragraphs, the nature and form of the minimum wage fixing machinery, and the methods to be followed in its operation.

2. Before a decision is taken there shall be full preliminary consultation with the most representative organisations of employers and workers concerned, where such exist, and with any other persons specially qualified by their trade or functions whom the competent authority deems it useful to consult.
3. The employers and workers concerned shall take part in the operation of the minimum wage fixing machinery, or be consulted or have the right to be heard, in such manner and to such extent as may be determined by national laws or regulations but in any case on a basis of complete equality.

4. Minimum rates of wages which have been fixed shall be binding on the employers and workers concerned so as not to be subject to abatement.

5. The competent authority may permit exceptions to the minimum wage rates in individual cases, where necessary, to prevent curtailment of the opportunities of employment of physically or mentally handicapped workers.

**Article 4**

1. Each Member which ratifies this Convention shall take the necessary measures to ensure that the employers and workers concerned are informed of the minimum rates of wages in force and that wages are not paid at less than these rates in cases where they are applicable; these measures shall include such provision for supervision, inspection, and sanctions as may be necessary and appropriate to the conditions obtaining in agriculture in the country concerned.

2. A worker to whom the minimum rates are applicable and who has been paid wages at less than these rates shall be entitled to recover, by judicial or other appropriate proceedings, the amount by which he has been underpaid, subject to such limitation of time as may be determined by national laws or regulations.

**CONVENTION 131 (1970)**

Convention concerning minimum wage fixing with special reference to developing countries

**Article 1**

1. Each Member of the International Labour Organisation which ratifies this Convention undertakes to establish a system of minimum wages which covers all groups of wage earners whose terms of employment are such that coverage would be appropriate.

2. The competent authority in each country shall, in agreement or after full consultation with the representative organisations of employers and workers concerned, where such exist, determine the groups of wage earners to be covered.

3. Each Member which ratifies this Convention shall list in the first report on the application of the Convention submitted under article 22 of the Constitution of the International Labour Organisation any groups of wage earners which may not have been covered in pursuance of this Article, giving the reasons for not covering them, and shall state in subsequent reports the position of its law and practice in respect of the groups not covered, and the extent to which effect has been given or is proposed to be given to the Convention in respect of such groups.

**Article 2**

1. Minimum wages shall have the force of law and shall not be subject to abatement, and failure to apply them shall make the person or persons concerned liable to appropriate penal or other sanctions.

2. Subject to the provisions of paragraph 1 of this Article, the freedom of collective bargaining shall be fully respected.

**Article 3**

The elements to be taken into consideration in determining the level of minimum
Minimum wage fixing: An international review of practices and problems

wages shall, so far as possible and appropriate in relation to national practice and conditions, include—

(a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;

(b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

Article 4

1. Each Member which ratifies this Convention shall create and/or maintain machinery adapted to national conditions and requirements whereby minimum wages for groups of wage earners covered in pursuance of Article 1 thereof can be fixed and adjusted from time to time.

2. Provision shall be made, in connection with the establishment, operation and modification of such machinery, for full consultation with representative organisations of employers and workers concerned or, where no such organisations exist, representatives of employers and workers concerned.

3. Wherever it is appropriate to the nature of the minimum wage fixing machinery, provision shall also be made for the direct participation in its operation of—

(a) representatives of organisations of employers and workers concerned or, where no such organisations exist, representatives of employers and workers concerned, on a basis of equality;

(b) persons having recognised competence for representing the general interests of the country and appointed after full consultation with representative organisations of employers and workers concerned, where such organisations exist and such consultation is in accordance with national law or practice.

Article 5

Appropriate measures, such as adequate inspection reinforced by other necessary measures, shall be taken to ensure the effective application of all provisions relating to minimum wages.

RECOMMENDATION 30 (1928)

Recommendation concerning the application of minimum wage-fixing machinery

1

(1) In order to ensure that each Member ratifying the Convention is in possession of the information necessary for a decision upon the application of minimum wage-fixing machinery, the wages actually paid and the arrangements, if any, for the regulation of wages should be ascertained in respect of any trade or part of trade to which employers or workers therein request the application of the machinery and furnish information which shows prima facie that no arrangements exist for the effective regulation of wages and that wages are exceptionally low.

(2) Without prejudice to the discretion left to the Members by the Convention to decide in which trades or parts of trades in their respective countries it is expedient to apply minimum wage-fixing machinery, special regard might usefully be had to trades or parts of trades in which women are ordinarily employed.
II

(1) The minimum wage-fixing machinery, whatever form it may take (for instance, trade boards for individual trades, general boards for groups of trades, compulsory arbitration tribunals), should operate by way of investigation into the relevant conditions in the trade or part of trade concerned and consultation with the interests primarily and principally affected, that is to say, the employers and workers in the trade or part of trade, whose views on all matters relating to the fixing of the minimum rates of wages should in any case be solicited and be given full and equal consideration.

(2) (a) To secure greater authority for the rates that may be fixed, it should be the general policy that the employers and workers concerned, through representatives equal in number or having equal voting strength, should jointly take a direct part in the deliberations and decisions of the wage-fixing body; in any case, where representation is accorded to one side, the other side should be represented on the same footing. The wage-fixing body should also include one or more independent persons whose votes can ensure effective decisions being reached in the event of the votes of the employers' and workers' representatives being equally divided. Such independent persons should, as far as possible, be selected in agreement with or after consultation with the employers' and workers' representatives on the wage-fixing body.

(b) In order to ensure that the employers' and workers' representatives shall be persons having the confidence of those whose interests they respectively represent, the employers and workers concerned should be given a voice as far as is practicable in the circumstances in the selection of their representatives, and if any organisations of the employers and workers exist these should in any case be invited to submit names of persons recommended by them for appointment on the wage-fixing body.

(c) The independent person or persons mentioned in paragraph (a) should be selected from among men or women recognised as possessing the necessary qualifications for their duties and as being dissociated from any interest in the trade or part of trade concerned which might be calculated to put their impartiality in question.

(d) Wherever a considerable proportion of women are employed, provision should be made as far as possible for the inclusion of women among the workers' representatives and of one or more women among the independent persons mentioned in paragraph (a).

III

For the purpose of determining the minimum rates of wages to be fixed, the wage-fixing body should in any case take account of the necessity of enabling the workers concerned to maintain a suitable standard of living. For this purpose regard should primarily be had to the rates of wages being paid for similar work in trades where the workers are adequately organised and have concluded effective collective agreements, or, if no such standard of reference is available in the circumstances, to the general level of wages prevailing in the country or in the particular locality.

Provision should be made for the review of the minimum rates of wages fixed by the wage-fixing bodies when this is desired by the workers or employers who are members of such bodies.

IV

For effectively protecting the wages of the workers concerned and safeguarding the employers affected against the possibility of unfair competition, the measures to be taken to ensure that wages are not paid at less than the minimum rates which have been fixed should include:

(a) arrangements for informing the employers and workers of the rates in force;
(b) official supervision of the rates actually being paid; and
(c) penalties for infringements of the rates in force and measures for preventing such infringements.
Minimum wage fixing: An international review of practices and problems

(1) In order that the workers, who are less likely than the employers to have their own means of acquainting themselves with the wage-fixing body’s decisions, may be kept informed of the minimum rates at which they are to be paid, employers might be required to display full statements of the rates in force in readily accessible positions on the premises where the workers are employed, or in the case of homeworkers on the premises where the work is given out or returned on completion or wages paid.

(2) A sufficient staff of inspectors should be employed, with powers analogous to those proposed for factory inspectors in the Recommendation concerning the general principles for the organisation of systems of inspection adopted by the General Conference in 1923, to make investigations among the employers and workers concerned with a view to ascertaining whether the minimum rates in force are in fact being paid and taking such steps as may be authorised to deal with infringements of the rates.

As a means of enabling the inspectors adequately to carry out these duties, employers might be required to keep complete and authentic records of the wages paid by them, or in the case of homeworkers to keep a list of the workers with their addresses and provide them with wage books or other similar record containing such particulars as are necessary to ascertain if the wages actually paid correspond to the rates in force.

(3) In cases where the workers are not in general in a position individually to enforce, by judicial or other legalised proceedings, their rights to recover wages due at the minimum rates in force, such other measures should be provided as may be considered effective for preventing infringements of the rates.

B

The General Conference of the International Labour Organisation thinks it right to call the attention of Governments to the principle affirmed by article 41 of the Constitution of the International Labour Organisation that men and women should receive equal remuneration for work of equal value.

RECOMMENDATION 89 (1951)

Recommendation concerning minimum wage fixing machinery in agriculture

I

1. For the purpose of determining minimum rates of wages to be fixed it is desirable that the wage fixing body should in any case take account of the necessity of enabling the workers concerned to maintain a suitable standard of living.

2. Among the factors which should be taken into consideration in the fixing of minimum wage rates are the following: the cost of living, fair and reasonable value of services rendered, wages paid for similar or comparable work under collective bargaining agreements in agriculture, and the general level of wages for work of a comparable skill in other industries in the area where the workers are sufficiently organised.

II

3. Whatever form it may assume, the minimum wage fixing machinery in agriculture should operate by way of investigation into conditions in agriculture and related occupations, and consultation with the parties who are primarily and principally concerned, namely, employers and workers, or their most representative organisations, where such exist. The opinion of both parties should be sought on all questions concerning minimum wage fixing and full and equal consideration given to their opinion.

4. To secure greater authority for the rates that may be fixed, in cases where the machinery adopted for fixing minimum wages makes it possible, the workers and employers concerned should be enabled to participate directly and on an equal footing in
the operation of such machinery through their representatives, who should be equal in number or in any case have an equal number of votes.

5. In order that the employers' and workers' representatives should enjoy the confidence of those whose interest they respectively represent, in the case referred to in paragraph 4 above, the employers and workers concerned should have the right, in so far as circumstances permit, to participate in the nomination of the representatives, and if any organisations of employers and workers exist, these should in any case be invited to submit names of persons recommended by them for appointment on the wage fixing body.

6. In the case where the machinery for minimum wage fixing provides for the participation of independent persons, whether for arbitration or otherwise, these should be chosen from among men or women who are recognised as possessing the necessary qualifications for their duties and who have no such interest in agriculture or in any branch thereof as would give rise to doubt as to their impartiality.

III

7. Provision should be made for a procedure for revising minimum wage rates at appropriate intervals.

IV

8. For effectively protecting the wages of the workers concerned, the measures to be taken to ensure that wages are not paid at less than the minimum rates which have been fixed should include—

(a) arrangements for giving publicity to the minimum wage rates in force, and in particular for informing the employers and workers concerned of these rates in the manner most appropriate to national circumstances;

(b) official supervision of the rates actually being paid; and

(c) penalties for infringements of the rates in force and measures for preventing such infringements.

9. A sufficient number of qualified inspectors, with powers analogous to those provided for in the Labour Inspection Convention, 1947, should be employed; these inspectors should make investigations among the employers and workers concerned with a view to ascertaining whether the wages actually paid are in conformity with the minimum rates in force and, if need be, should take such steps as may be authorised in the case of infringement of the rate fixed.

10. In order to enable the inspectors to carry out their duties efficiently, employers should, where appropriate or necessary in the opinion of the competent authority, be required to keep complete and authentic records of the wages paid by them, and might also be required to issue the workers pay books or similar documents containing the information necessary for verifying whether the wages actually paid correspond to the rates in force.

11. In cases where the workers are not in general in a position individually to enforce, by judicial or appropriate proceedings, their rights to recover wages due at the minimum rates in force, such other measures should be provided as may be considered effective for this purpose.

RECOMMENDATION 135 (1970)

Recommendation concerning minimum wage fixing with special reference to developing countries

I. Purpose of Minimum Wage Fixing

1. Minimum wage fixing should constitute one element in a policy designed to
Minimum wage fixing: An international review of practices and problems

overcome poverty and to ensure the satisfaction of the needs of all workers and their families.

2. The fundamental purpose of minimum wage fixing should be to give wage earners necessary social protection as regards minimum permissible levels of wages.

II. Criteria for Determining the Level of Minimum Wages

3. In determining the level of minimum wages, account should be taken of the following criteria, amongst others:
   (a) the needs of workers and their families;
   (b) the general level of wages in the country;
   (c) the cost of living and changes therein;
   (d) social security benefits;
   (e) the relative living standards of other social groups;
   (f) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

III. Coverage of the Minimum Wage Fixing System

4. The number and groups of wage earners who are not covered in pursuance of Article 1 of the Minimum Wage Fixing Convention, 1970, should be kept to a minimum.

5. (1) The system of minimum wages may be applied to the wage earners covered in pursuance of Article 1 of the Convention either by fixing a single minimum wage of general application or by fixing a series of minimum wages applying to particular groups of workers.

   (2) A system based on a single minimum wage—

   (a) need not be incompatible with the fixing of different rates of minimum wages in different regions or zones with a view to allowing for differences in costs of living;

   (b) should not impair the effects of decisions, past or future, fixing minimum wages higher than the general minimum for particular groups of workers.

IV. Minimum Wage Fixing Machinery

6. The minimum wage fixing machinery provided for in Article 4 of the Convention may take a variety of forms, such as the fixing of minimum wages by—
   (a) statute:
   (b) decisions of the competent authority, with or without formal provision for taking account of recommendations from other bodies;
   (c) decisions of wages boards or councils;
   (d) industrial or labour courts or tribunals; or
   (e) giving the force of law to provisions of collective agreements.

7. The consultation provided for in paragraph 2 of Article 4 of the Convention should include, in particular, consultation in regard to the following matters:
   (a) the selection and application of the criteria for determining the level of minimum wages;
   (b) the rate or rates of minimum wages to be fixed;
   (c) the adjustment from time to time of the rate or rates of minimum wages;
   (d) problems encountered in the enforcement of minimum wage legislation;
   (e) the collection of data and the carrying out of studies for the information of minimum wage fixing authorities.

8. In countries in which bodies have been set up which advise the competent authority on minimum wage questions, or to which the government has delegated
responsibility for minimum wage decisions, the participation in the operation of minimum wage fixing machinery referred to in paragraph 3 of Article 4 of the Convention should include membership of such bodies.

9. The persons representing the general interests of the country whose participation in the operation of minimum wage fixing machinery is provided for in Article 4, paragraph 3, subparagraph (b), of the Convention should be suitably qualified independent persons who may, where appropriate, be public officials with responsibilities in the areas of industrial relations or economic and social planning or policy-making.

10. To the extent possible in national circumstances, sufficient resources should be devoted to the collection of statistics and other data needed for analytical studies of the relevant economic factors, particularly those mentioned in Paragraph 3 of this Recommendation, and their probable evolution.

V. Adjustment of Minimum Wages

11. Minimum wage rates should be adjusted from time to time to take account of changes in the cost of living and other economic conditions.

12. To this end a review might be carried out of minimum wage rates in relation to the cost of living and other economic conditions either at regular intervals or whenever such a review is considered appropriate in the light of variations in a cost-of-living index.

13. (1) In order to assist in the application of Paragraph 11 of this Recommendation, periodical surveys of national economic conditions, including trends in income per head, in productivity and in employment, unemployment and underemployment, should be made to the extent that national resources permit.

(2) The frequency of such surveys should be determined in the light of national conditions.

VI. Enforcement

14. Measures to ensure the effective application of all provisions relating to minimum wages, as provided for in Article 5 of the Convention, should include the following:

(a) arrangements for giving publicity to minimum wage provisions in languages or dialects understood by workers who need protection, adapted where necessary to the needs of illiterate persons;

(b) the employment of a sufficient number of adequately trained inspectors equipped with the powers and facilities necessary to carry out their duties;

(c) adequate penalties for infringement of the provisions relating to minimum wages;

(d) simplification of legal provisions and procedures, and other appropriate means of enabling workers effectively to exercise their rights under minimum wage provisions, including the right to recover amounts by which they may have been underpaid;

(e) the association of employers' and workers' organisations in efforts to protect workers against abuses;

(f) adequate protection of workers against victimisation.