



International
Labour
Organization

Minimum wage policy guide

A summary



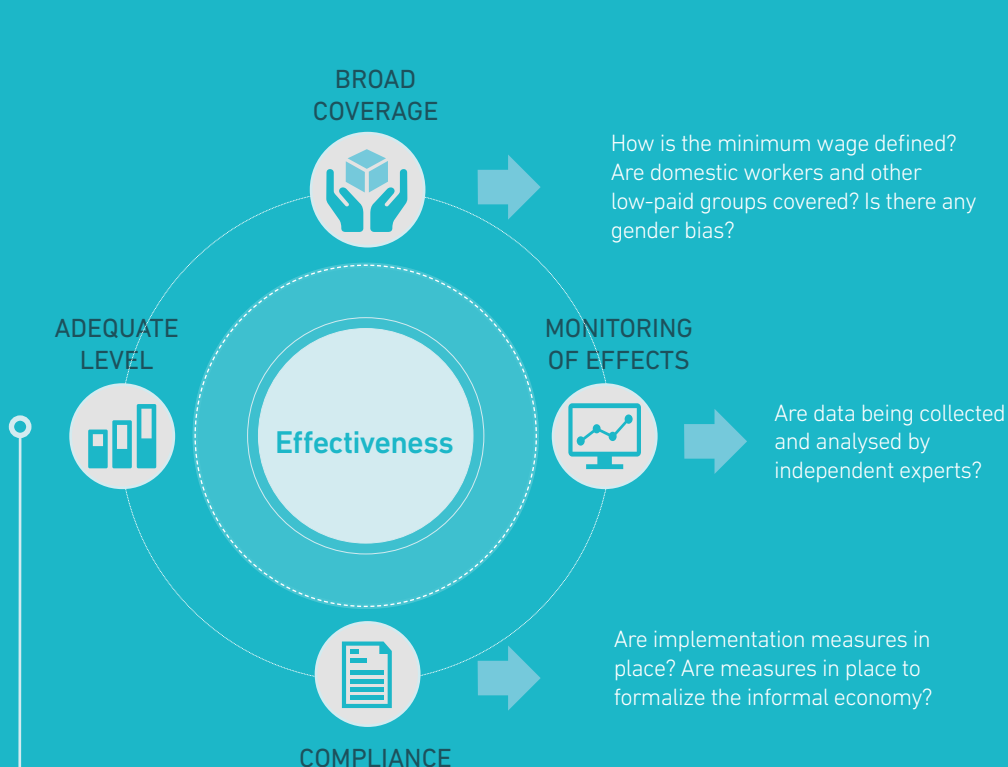
Minimum wage policy guide

A summary

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THE EFFECTIVENESS OF MINIMUM WAGES DEPENDS ON:



of ILO member States have one or more minimum wages set through collective bargaining or through statutory intervention

Minimum wages should be based on full consultation and where appropriate the direct participation of social partners on a basis of equality

SETTING AND ADJUSTING THE LEVEL SHOULD BE THE RESULT OF EVIDENCE-BASED SOCIAL DIALOGUE

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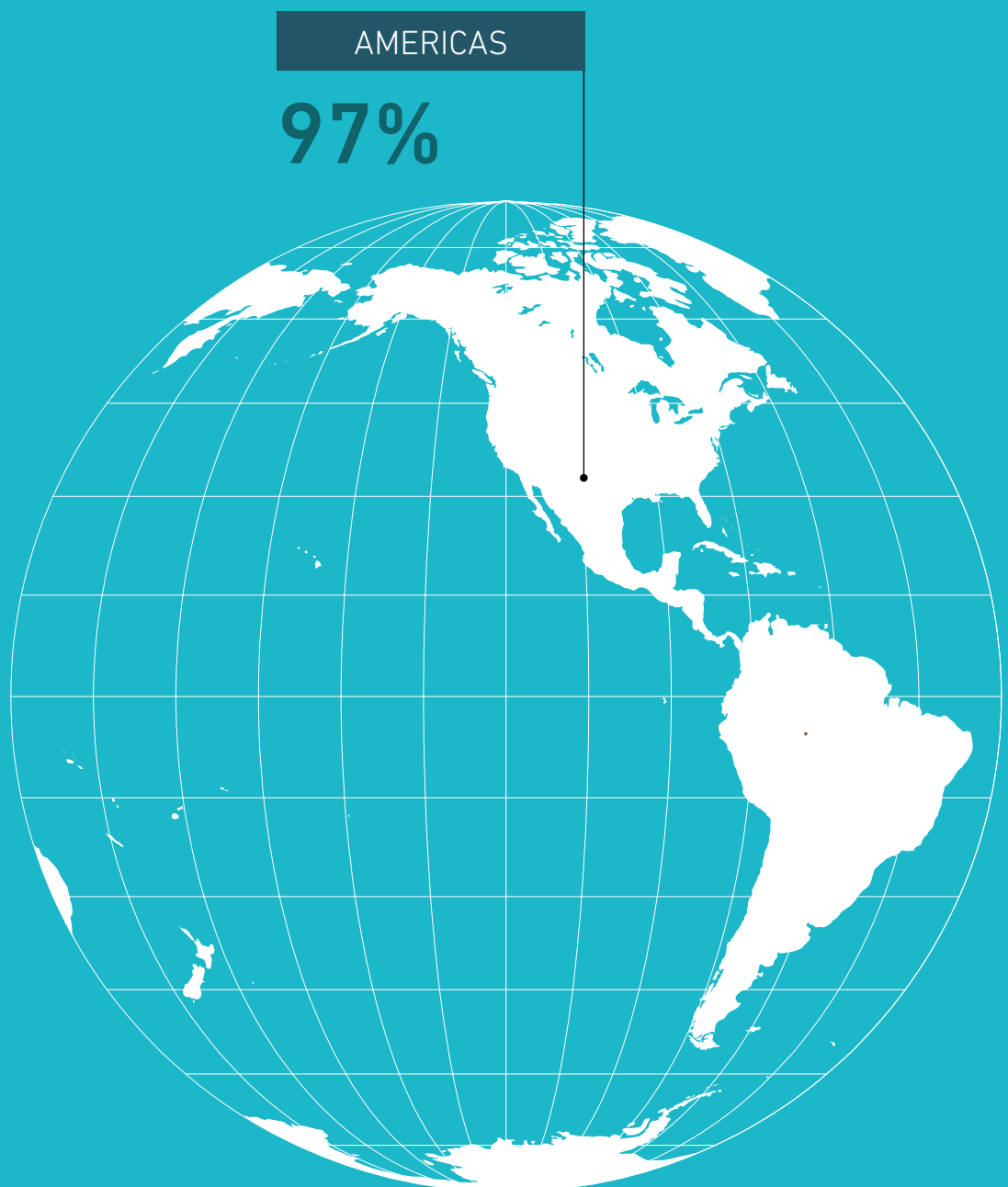
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Introduction

In recent years, minimum wage systems have been established or strengthened in many countries to address unduly low pay and reduce wage inequality. Since the early 1990s, eight European countries have introduced statutory minimum wages¹ and minimum wages have also been established or strengthened in various emerging economies, including Brazil, China, and South Africa.

Following the definition in page 4, minimum wages now exist in more than 90 per cent of the International Labour Organization's (ILO) member States. All European countries have either a statutory or a collectively bargained minimum wage covering at least part of the private sector. In the Americas, there are only few exceptions. There are some more exceptions in Asia, Africa and particularly among Arab States.

The proportion of countries with a minimum wage, by region, is set out below.

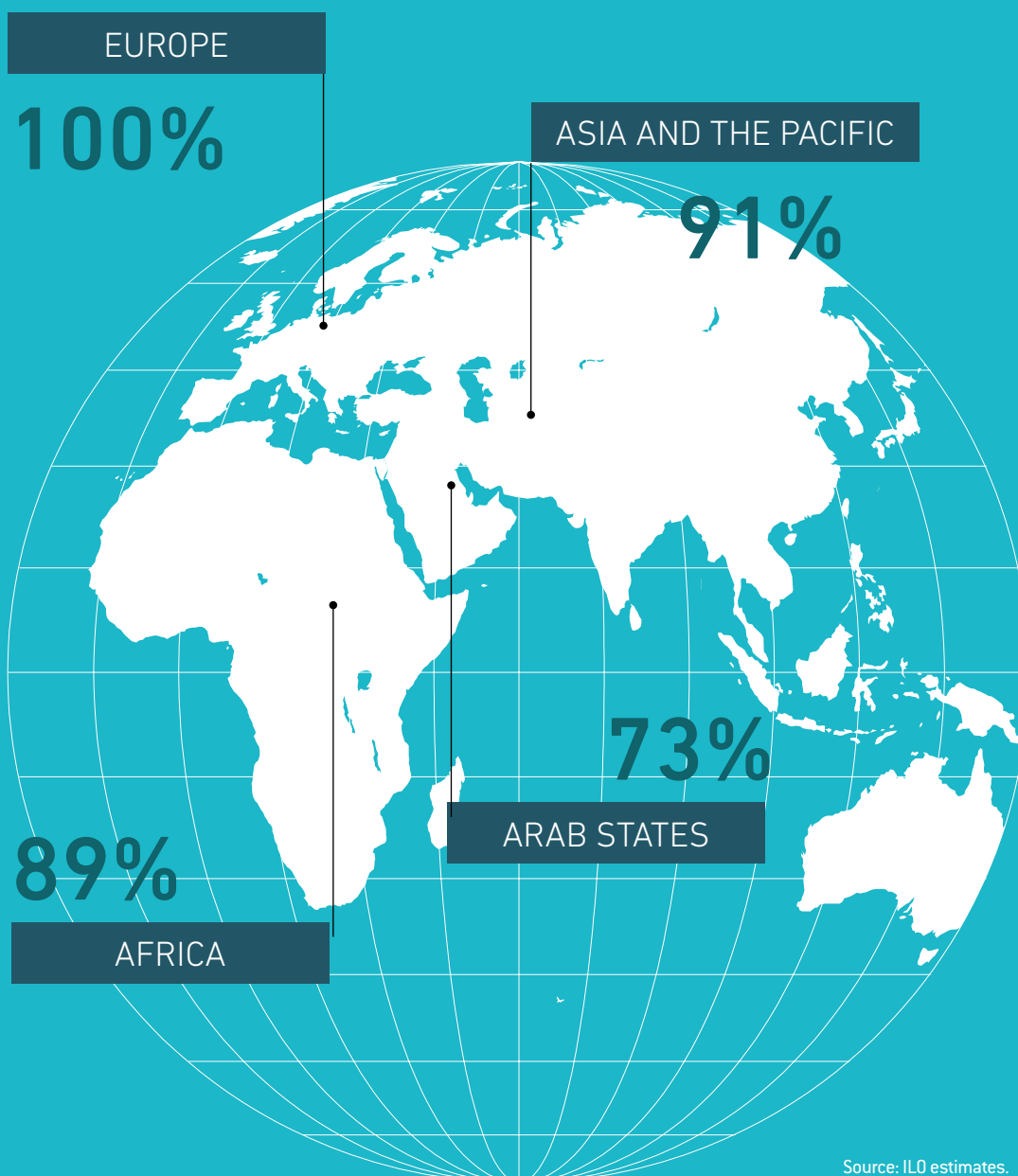


1 These are the Czech Republic, Slovakia, Poland, Estonia, Slovenia, Ireland, the United Kingdom and, most recently, Germany.

In practice, the effectiveness of minimum wages depends on many factors, including:

- The extent to which they afford protection to all workers in an employment relationship, including women, youth and migrant workers, regardless of their contractual arrangements, as well as all industries and occupations in the economy;
- Whether they are set at an adequate level that takes into account the needs of workers and their families as well as economic factors, and are regularly adjusted;
- Whether minimum wage regulations are complied with.

Also, minimum wage systems should be designed in a way to supplement and reinforce collective bargaining as well as other social and employment policies.



Source: ILO estimates.

What is the definition of a minimum wage?

Minimum wages have been defined as the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.

This definition refers to the binding nature of minimum wages, regardless of the method of fixing them. Minimum wages can be set by statute, decision of a competent authority, a wage board, a wage council, or by industrial or labour courts or tribunals. Minimum wages can also be set by giving the force of law to provisions of collective agreements.

In defining a minimum wage, it is important to be specific about which components of a wage can be counted in the minimum, the extent and conditions under which payment in kind can be allowed, how the minimum is calculated for workers with piece rate pay, and whether the minimum is an hourly and/or a monthly rate.

In various countries, the legislation stipulates for example that pieceworkers' wages may not be lower than the applicable minimum wage.

Hourly minimum wages facilitate equal treatment between full- and part-time employees by providing

additional information to workers and employers. Hourly minimum wages are especially relevant for certain categories of workers who are in a situation of partial legal coverage – they are covered by minimum wage legislation, but not by working time provisions.

This is frequently the case for domestic workers, 56.6 per cent of whom are excluded from limits on working time worldwide.² This means that they have no protection from excessive working hours or any right to payment for hours worked which exceed the standard working week for workers covered by the legislation.

² ILO: *Domestic workers across the world: Global and regional statistics and the extent of legal protection* (Geneva, 2013).

What are the main ILO Conventions on minimum wages?

Minimum wages have been an important subject at the ILO since its creation in 1919. Based on the view that “universal and lasting peace can be established only if it is based upon social justice”, the ILO Constitution called in its Preamble for an urgent improvement of conditions of labour, including “the provision of an adequate living wage”.

In 1944, the ILO Declaration of Philadelphia referred to the importance of wage policies “to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection”. This was reiterated in the 2008 ILO Declaration on Social Justice for a Fair Globalization.

ILO Conventions and Recommendations reflect the historical evolution of minimum wages, from a policy tool used selectively in a few low-wage sectors to an instrument of much broader coverage.

- In 1928, the ILO adopted the Minimum Wage Fixing Machinery Convention, 1928 (No. 26). In line with the prevailing philosophy of the time, this Convention encouraged member States to implement minimum wages “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”. Agriculture was excluded. With 105 ratifications (as of 2017), Convention No. 26 remains to this day one of the most widely ratified ILO Conventions. It is complemented by Recommendation No. 30, which calls for the participation of women in wage-fixing bodies and for strong enforcement measures to protect law-abiding employers from unfair competition.

In the second half of the twentieth century, the ILO participated in the extension of minimum wage protection to previously excluded categories of workers.

- In 1951, the ILO adopted the Minimum Wage Fixing Machinery (Agriculture) Convention, 1951 (No. 99). This extended minimum wages to agriculture,

which was excluded from Convention No. 26. By 2017, Convention No. 99 had 54 ratifications. It is complemented by Recommendation No. 89.

- In 1946, a minimum wage was negotiated for the first time for seafarers at the ILO – a tradition that continues to this day. The Maritime Labour Convention, 2006, provides that seafarers' wages should be no less than the amount periodically set by the Joint Maritime Commission, which meets at the ILO.

In 1970, the ILO adopted the Minimum Wage Fixing Convention, 1971 (No. 131), which is considered to offer broader protection than that envisaged by ILO Convention No. 26.³ The objective of a generally applicable lower limit under which wages are not permitted to fall reflects the view that all workers – as a matter of right – should receive protection against “unduly low wages”.

Convention No. 131 encourages ratifying member States to establish a system of minimum wages⁴ which:

1) offers a broad scope of application and where exclusions are kept to a minimum;

2) establishes a machinery to fix and adjust minimum wages from time to time;

3) is based on the principle of full consultation with social partners and, wherever appropriate, the direct participation in the design and operation of minimum wages of social partners on a basis of equality along with persons having recognized competence for representing the general interest of the country;

4) sets minimum wage levels that take into account the needs of workers and their families, as well as economic factors;

5) includes appropriate measures to ensure the effective application of minimum wages.

By 2017, Convention No. 131 had been ratified by 53 member States, including by 12 countries since 2000.

Note that Convention No. 131 does not prescribe a single national minimum wage. The Minimum Wage Fixing Recommendation, 1970 (No. 135), which accompanies the Convention, makes clear that broad coverage can be achieved “either by fixing a single minimum wage of general application or by fixing a series of minimum wages applying to particular groups of workers”. By not seeking to impose a single model on all ILO member States, Convention No. 131 allows for the existence of different national circumstances and different levels of economic and social development.⁵

³ ILO General Survey 2014 on minimum wage systems, para. 406.

⁴ ILO: Conclusions of the Committee for the Recurrent Discussion on Social Protection (Labour Protection), *Provisional Record* No. 12/1, International Labour Conference, 104th Session, Geneva, 2015.

⁵ See ILO: Report of the Committee on the Application of Standards, *Provisional Record* No.13/1, International Labour Conference, 103rd Session, Geneva, 2014.

How many different minimum wage rates should there be?

Within the specific circumstances and policy objectives of each country, it is advised to keep minimum wages “as complex as necessary but as simple as possible”, and to avoid wage differentiation between different groups of workers which is not based on objective valid reasons, such as educational objectives, work experience or skills. Minimum wage systems should also leave space for the determination of wages through collective bargaining.

Keeping it simple

Across the world, minimum wage systems are diverse and many approaches are possible, depending on the needs and choices of individual countries. Minimum wage systems range from very simple systems, which determine a unique rate applied to the whole country, to very complex systems that determine many different rates depending on the sector of activity, occupation, and/or geographical region, among other alternatives.

Simple and complex minimum wage systems are not good or bad per se. Simple systems are easier to operate, communicate and enforce, but offer less scope to take into account the particular circumstances of different regions or sectors within a country. More complex systems can be better tailored to the circumstances of different sectors or regions, but require greater institutional capacity.

Whatever the system in place, attention should focus on keeping the level of complexity manageable considering the country's institutional capacity, the quality of wage statistics, and the enforcement capacity of the labour administration. Systems that are overly complex tend to lose their effectiveness, and may in some instances interfere with collective bargaining between workers and employers.

Sub-minimum wages

Some countries set lower minimum wage rates for some groups of workers, such as young workers, migrant workers, or persons with disabilities. Different minimum wages by sector or occupation can also result, indirectly, in lower minimum wages for workers with different characteristics, for example when rates are lower in occupation or sectors where women or migrant workers predominate.



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Although such lower rates are sometimes set with the aim to facilitate entry into the labour market, critics of sub-minimum wages have been mainly concerned about the possible discrimination against groups of people whose productivity is not systematically lower. This may explain why a significant number of countries have recently removed, or restricted in scope, provisions fixing lower minimum wages for young workers. Instead, various countries have established a reduced minimum wage for the probationary period following a worker's recruitment. This can be done in place of differentiated minimum wage rates for young workers, in order to account for the potentially lower productivity of new workers in a job. Other countries set minimum wages for apprentices. In such schemes, persons covered by apprenticeship or traineeship contracts should only be paid at a differentiated rate when they receive actual training during working hours.

In some countries, lower rates can be set for certain

workers with disabilities. This is generally done with a view to promote the employment of workers with reduced productivity. However, the fact that a worker may have a disability should not in and of itself be sufficient to warrant the payment of a sub-minimum wage if his or her productive capacity for the work is not reduced. In New Zealand, for example, employers can apply to a labour inspector for an exemption permit if the worker and employer both agree that there is a valid reason why a worker should be paid less than the minimum wage. Labour inspectors will issue a minimum wage exemption only if they think it is reasonable and appropriate to do so and the disability really prevents the worker from earning the minimum wage. In France, workers with a disability can ask that the extent of their disability be documented, giving the employer the right to obtain a wage subsidy from the State.

Who should set minimum wages?

Minimum wages can be fixed in different ways, including by giving the force of law to provisions of collective agreements. However, there are only a few countries that rely exclusively on collective bargaining for minimum wage fixing.

These are usually countries where collective agreements cover a large share of employees (see box 1).

Box 1: Minimum wages in Nordic countries

Denmark and Sweden use collective agreements as their only mechanism for setting minimum wages, while Finland, Iceland and Norway have also started to use extension mechanisms to cover all workers at industry level. In all these countries, sector-specific minimum wage agreements are often differentiated by age, skill or seniority. Higher wages will be subject to further negotiations at the enterprise level. In Denmark and Sweden, the collective agreements are binding only for those parties that have signed them. This system covers around 89% of employees in Sweden, and about 84% in Denmark. In Norway, EU enlargement in 2004 caused these practices to be supplemented by an extension of collectively agreed wage rates in industries that absorbed many migrant workers from the new Member States. Finally, in both Finland and Iceland, coverage of collective agreements is widespread, applying to about 90% of workers. Finland extends all collective agreements that have an industry coverage exceeding 50%. In Iceland negotiated wages apply to all employees who perform work of similar type.

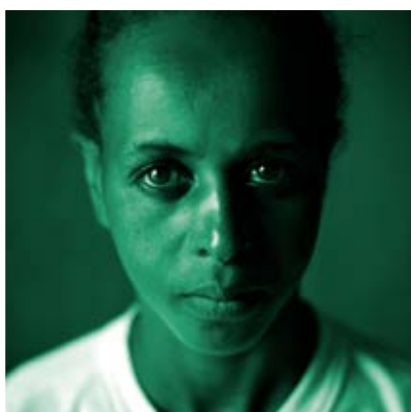
Sources: L. Eldring and K. Alsos: *European minimum wage: A Nordic outlook* (Fafo, Norway, 2012), adapted from pp. 71–73 and 78; ILO: *Trends in collective bargaining coverage: Stability, erosion or decline?* Issue Brief No. 1 – Labour Relations and Collective Bargaining (Geneva, 2015).

In most countries, the coverage of collective bargaining is insufficient to provide protection of minimum standards to a broad majority of workers. In

many countries, governments have therefore adopted statutory minimum wages in addition to those set through



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collective agreements.⁶ Collective agreements can set minimum wages provided that they are not lower than statutory levels. This means that when a statutory minimum is increased above the floor level of some collective agreements, the statutory minimum wage applies.

The principle of full consultation

In statutory minimum wages, governments should ensure the full consultation and, in so far as possible, direct participation, on a basis of equality, of the social partners in the establishment and operation of minimum wage systems.

In general, the involvement of social partners allows the concerns and priorities of those most directly affected by the minimum wage policy to be taken into account more effectively. This in turn is likely to secure greater legitimacy and support for the minimum wage that will be set, and tends also to facilitate its effective implementation.

⁶ As is generally the case in the economic literature, the term “statutory minimum wage” is used here to designate all minimum wage fixing mechanisms other than through collective agreements. This may include minimum wages set through the decision of a competent authority; decisions of wage boards or councils; or industrial or labour courts or tribunals. This differs from the more narrow legal definition of the term “statutory” that refers to a legislative process.

In statutory systems, the most frequent way of ensuring consultation and participation of social partners is through institutions such as tripartite wage commissions, wage boards, or other bodies with general competence for economic and social affairs. However other forms of consultations are possible, including written communications or separate ad hoc bilateral consultations. Although most wage commissions are consultative, some countries (e.g. the Republic of Korea) have delegated decision-making authority to them.

The role of independent experts

Independent experts with technical expertise, who represent the general interest of the country, and national statistical offices play a key role. Sufficient resources should be devoted to the collection of wage statistics and other relevant data, as governments, employers and workers' organizations need to have access in advance to relevant information as a basis for taking evidence-based decisions.

Who should be getting minimum wages?

To be most effective, minimum wages should afford adequate protection to all workers in an employment relationship, including women, youth and migrant workers, regardless of their contractual arrangements. Exclusions should be kept to a minimum, particularly in relation to vulnerable categories of workers.

To date, some of the groups most frequently excluded from minimum wage systems are domestic workers and workers in agriculture. Other groups often excluded are workers in family businesses, small enterprises, apprentices and trainees, or workers with disabilities. Workers in non-standard forms of employment are also receiving growing attention, and efforts have recently been made to extend minimum wage protection, in law and in practice, to workers in the informal economy through the process of formalization.

Domestic workers

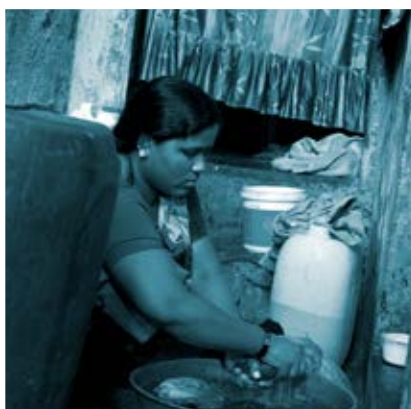
Domestic workers are amongst the lowest paid and often amongst the most informal group of wage employees. According to ILO estimates, 22.3 million domestic workers (42.5 per cent of the total) still do not have any protection against unduly low wages and no minimum wage is applicable to them.⁷

⁷ ILO: *Domestic workers across the world: Global and regional statistics and the extent of legal protection* (Geneva, 2013), pp. 75–76.

Domestic workers should receive minimum wage protection equivalent to that provided to other workers generally. The ILO Domestic Workers Convention, 2011 (No. 189), states that: “Each Member shall take measures to ensure that domestic workers enjoy minimum wage coverage, where such coverage exists, and that remuneration is established without discrimination based on sex” (Article 11). A minimum wage recognizes the basic contribution of these workers and is a key means of ensuring the principle of equal pay for work of equal value.

Several countries, including South Africa, Brazil, Switzerland or the United States have recently taken measures, in very different circumstances, to extend minimum wage coverage to domestic workers.

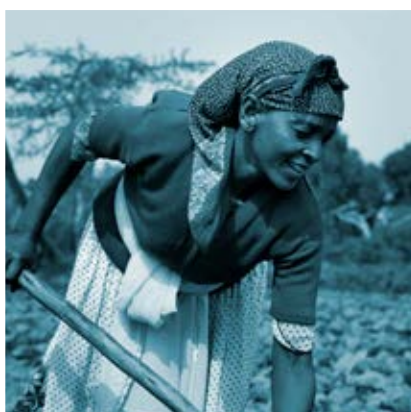
When extending a single national minimum wage to domestic workers, in cases where they were previously excluded from such coverage, some countries elected to provide them gradually with equality of treatment.



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This gradual approach involves cases where the minimum wage is initially set at a lower level than the national minimum wage in place and is gradually increased over time to equal the national minimum wage level, as was the case in Chile.

An effective minimum wage should also take into account the working time of domestic workers, and the prevalence of live-in and live-out workers. Limits should also be placed on payments in kind. Some countries have opted to set both hourly and monthly minimum wages to ensure more effective protection.

The full minimum wage policy guide has an entire chapter devoted to minimum wages for domestic workers.

Workers in non-standard forms of employment

Non-standard forms of employment include fixed-term contracts and other forms of temporary work, temporary agency work and other contractual arrangements involving multiple parties, disguised employment relationships, dependent self-employment and part-time work.⁸

Among workers employed by these different types of contractual arrangements, several are classified as employees by their relevant legal system. This holds true particularly for workers under fixed-term contracts, temporary agency workers and part-time workers, even if significant exceptions may affect these workers in some countries. For this reason, they should be covered by minimum wage laws, unless an explicit exception applies.

Some countries have also partially extended labour protection to categories of workers who do not qualify as employees under the relevant legal system. One category is recognized as “dependent self-employment”, the definition of which varies from country to country. Individuals in dependent self-employment are not automatically covered by minimum wage regulation, but this protection may nonetheless be extended to them. In the United Kingdom, for instance, the category “workers”, which encompasses both “employees” and other individuals performing work or services personally,⁹ has been introduced, and labour protection has been partially extended to them.

⁸ ILO: Conclusions of the Meeting of Experts on Non-Standard Forms of Employment, Governing Body, 323rd Session, Geneva, 12–27 March 2015 (Geneva, 2015). See also ILO: *Non-standard employment around the world: Understanding challenges, shaping prospects* (Geneva, 2016).

⁹ See Employment Rights Act 1996, Section 230 (3).

Formalizing the informal economy

Developing countries are frequently characterized by the co-existence of formal and informal employment. In some countries, legal provisions on minimum wages do not apply to some workers in informal employment, for example when enterprises employing fewer than ten wage earners are excluded from the relevant legislation. In other countries the situation is more ambiguous. In Pakistan, for example, although workers in informal sector enterprises or holding informal jobs are not expressly excluded from minimum wage or industrial relations legislation, stakeholders have historically interpreted legal protections as being applicable only to employees in formal sector enterprises.

According to the recently adopted ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), countries should progressively extend minimum wage protections, in law and in practice, to workers in the informal economy through the process of formalization.

The Recommendation provides guidance to facilitate the transition of workers and economic units to the formal economy, while ensuring the preservation and improvement of existing livelihoods during

the transition. It calls for a combination of incentives, compliance and enforcement measures including, for example, improving access to business services or finance as a result of transition, reducing compliance costs for micro- and small economic units through simplified tax and contribution regimes, as well as more extensive coverage of labour inspection in the informal economy.

The public sector

Public sector employees are often excluded – in whole or in part – from the scope of labour laws, including provisions on minimum wage fixing. However, this does not imply that no minimum wage applies to them since they can be covered by administrative laws or arrangements, which include pay scales. To ensure coherence, lower pay scales should normally be adjusted to be set no lower than the minimum wage.

At what level should minimum wages be set and adjusted?

Setting and adjusting the level is perhaps the most challenging part of minimum wage fixing. If set too low, minimum wages will have little effect in protecting workers and their families against unduly low pay or working poverty. If set too high, minimum wages will be poorly complied with and/or have adverse employment effects.

A balanced approach is therefore emphasized in the Minimum Wage Fixing Convention, 1970 (No. 131), which in Article 3 states that:

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

It is understood that these criteria are not exhaustive.

While economic factors may constrain increases in

minimum wages, in other instances they may provide an opportunity to raise minimum wages beyond the bare minimum needs of workers and their families.

The need for regular adjustments

Minimum wage levels need to be adjusted from time to time to take into account changes in the cost of living and other economic conditions. Failure to do so may lead to an erosion of the purchasing power of workers who earn the minimum when prices of goods and services are rising, or to greater wage inequality when the general level of wages is increasing.

Governments and social partners can in principle agree to revise the minimum wage whenever they consider it necessary. However, in the absence of fixed periodicity, both workers and employers face some degree of uncertainty. It has been observed that in countries without fixed periodicity, minimum wages sometimes

remain unadjusted for long periods followed by sudden and large adjustments. This not only weakens the relevance of the minimum wage, but also makes it more challenging for enterprises to absorb the cost increases.

Most frequently, countries adjust their minimum wages once a year. Some countries, adjust rates every six months, while others have two-year intervals. Annual adjustments seem adequate in periods of low or moderate inflation, providing workers and employers with appropriate predictability and allowing for regular adjustments, in line with evolving economic circumstances.

Evidence-based social dialogue

An evidence-based approach implies that there should be clear criteria to guide discussions on the level of minimum wages, as well as reliable statistical indicators to support governments and social partners in their deliberations. When governments and social partners agree on the basic criteria that they intend to use for the minimum wage adjustment, discussions can take place within a common framework.

Some common statistical indicators that are used are discussed below:

- *Estimates of needs of workers and their families*

To be meaningful, minimum wages have to be set at a level that covers the needs of workers and their families, while taking into account economic factors.

Assessing whether existing rates are sufficient to meet the needs of workers and their families can be challenging. First, the needs of workers and their families cannot be considered in a vacuum; they must be understood in relation to a country's level of economic and social development, taking into account the views of social partners. Second, whether a minimum wage is sufficient to cover family needs depends on the size of one's family, which varies from one worker to another. It also depends on how many family members earn the minimum wage, and on the local cost of living.

Nonetheless, estimates of needs of workers and their families can be constructed for example by evaluating the average cost of a basic but decent lifestyle for a worker and a family of standard size by adding up the cost of food, housing, and other essential expenses such as health, children's education and participation in the social life of the community. This is the approach usually taken in estimating "living wage" thresholds. Alternatively, relative needs or relative poverty lines can be defined

as a certain proportion – sometimes 60 per cent – of median household income.

- *Increases in prices and the cost of living*

Increases in the general level of prices and the cost of living are the most frequent consideration in minimum wage adjustments. This is because inflation erodes the real value of the minimum wages over time. One indicator used to capture the changes in prices is the consumer price index (CPI). This index tracks the evolution of prices for a basket of goods and services purchased by consumers over time. It is well established in most countries. Monthly figures are usually available after a short period of time.

However, sometimes countries publish different CPIs. Some countries may wish to consider a CPI that is computed for the poorest households since they are among those most likely to be affected by the minimum wage. In particular, this CPI has a special relevance in cases where food prices have risen more rapidly than average prices since poor households usually spend a larger share of their income on food.

Because past inflation will not necessarily be reproduced in the future, an alternative is to use expected future inflation. However, as with most forecasts, estimates of future inflation usually differ from the effective inflation rates. An



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ex post “corrective adjustment” can thus be introduced in case the estimates are significantly different from the effective rates.

Automatic indexation above a certain level, however, can be risky and lead to inflationary wage-price “spirals” in situations of sharply accelerating inflation.

- **Economic growth and labour productivity**

When setting the level of the minimum wage, policy makers should take into account economic factors. In setting and adjusting minimum wages, policy makers thus frequently make reference to labour productivity.

Labour productivity provides contextual information on the market value of what is produced by an average worker in a country, given existing levels of capital and technology.¹⁰ Taking into account labour productivity in regular adjustments can also ensure that workers receive a fair share of the fruits of economic progress.

Average labour productivity in a country is usually measured as GDP per worker, or GDP per hour worked. Data on sector-level productivity are also useful when minimum wages are set at different levels in different industries.

However, in some sectors, measuring labour productivity is problematic. For example, quantifying the value added in the education sector or in domestic work is a particular challenge.¹¹

In practice, in their periodic adjustments, many countries use some proxy indicators, like GDP growth or GDP per capita growth. In Brazil, for example, price inflation and GDP growth are used for minimum wage adjustment. Other countries, such as Costa Rica, increase the minimum wage by inflation plus a share of past economic growth.

- **Possible impact on labour costs and employment**

Another statistical indicator to consider is the proportion of employees likely to be affected by the introduction of a minimum wage or an uprating of an existing minimum wage. This indicator captures the probable impact of the minimum wage on the overall wage structure and the total wage bill.

The proportion of workers affected can be calculated at the national, regional or industry level. It can also be calculated for certain groups of workers (based on sex, ethnicity, and so on). These disaggregated analyses enable

10 OECD: *Measuring Productivity – OECD Manual. Measurement of aggregate and industry-level productivity growth* (Paris, 2001).

11 A. Atkinson: *Atkinson Review: Final Report. Measurement of government output and productivity and the national accounts* (New York, Palgrave Macmillan, 2005).

a richer understanding of the wage distributions unique to each part or group of workers in the economy. They also allow a better understanding of the individuals, regions or industries that will be most likely or disproportionately impacted by the minimum wage.

If the minimum wage is set too high or increased too much, this may have unexpectedly large impacts on the labour costs that employers must pay. This, in turn, could trigger

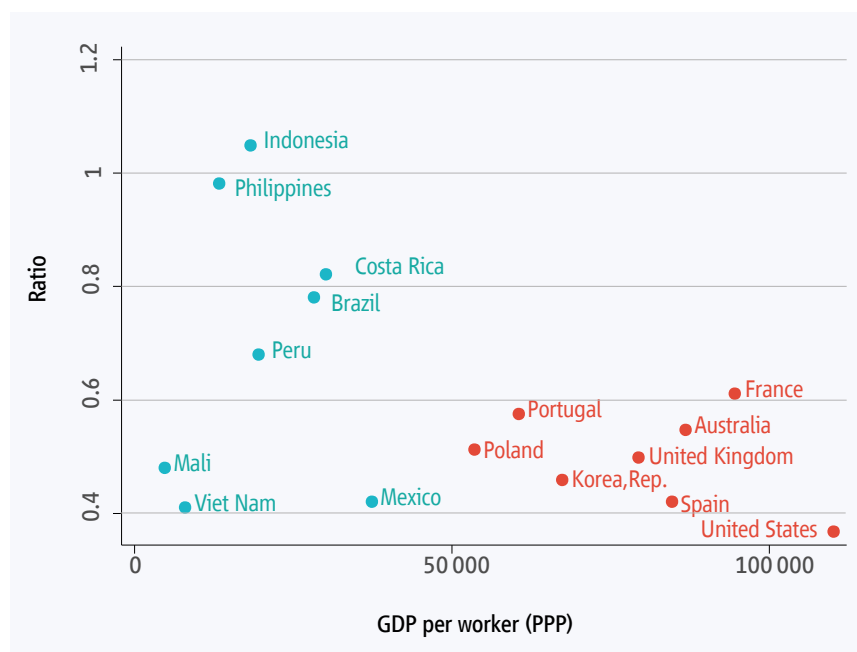
price inflation, hurt exports and reduce the level of employment. Monitoring employment effects of minimum wages is therefore essential. Employment effects have long been at the centre of minimum wage research, with much debate over whether and how minimum wages affect jobs, employee numbers and hours worked. As highlighted by Belman and Wolfson, “support for the minimum wage is premised on its improving the lives of those most vulnerable in the labour market. If a minimum wage

leads to job loss for many of those same people, serious questions arise with respect to its relative benefits and costs”.¹²

- **The ratio of minimum to median wages**

Finally, one useful and widely used statistical indicator is the ratio of the minimum wage to either the mean or the median wage. As mean wages are affected by extreme values, median¹³ wages provide a better point of reference, especially in countries that have high wage inequality.

Figure 1. Ratio of minimum wage to median wages and productivity in selected countries



Sources: OECD: *Earnings: Minimum wages relative to median wages*, OECD Employment and Labour Market Statistics (database), 2015; U. Rani, P. Belser, M. Oelz and S. Ranjbar: “Minimum wage coverage and compliance in developing countries”, in *International Labour Review*, 2013, Vol. 152, No. 3–4, pp. 411–442.

Figure 1 illustrates the fact that in high-income economies, the minimum wage ranges typically between 40 and 60 per cent of the median wage. In developing countries, the ratio of minimum to median wages is frequently higher. This could be due to the fact that in developing countries, the median wage earner is often relatively low-paid. Thus, considerations related to the needs of workers and their families sometimes lead to higher minimum wage ratios than in developed economies. In developing economies, there may also be a gap between the (higher) average wage of formal employees who are

12 D. Belman and P. Wolfson: *What does the minimum wage do?* (W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, 2014), p.21.

13 Median wages refer to the middle wage. For example, if five people earn a monthly wage equal to 5, 6, 7, 9, and 15 respectively, the median wage would be 7.

more likely to be covered or actually benefit from a minimum wage and the (lower) overall average wage of all employees, including informal employees. It should thus be noted that these ratios can be misleading when they are interpreted too literally.

Hence, while such indicators can be useful in evaluating minimum wage levels, they should be complemented by more refined country-specific analysis. Country-level ratios should also be calculated at a disaggregated level by sector, sex, and region in order to identify the groups or regions most likely to be affected by the minimum wage.

Putting the numbers together

The objective of statistical indicators is not, of course, to replace social dialogue or bargaining, but rather to allow well-informed social dialogue. How can these numbers be used to determine a final minimum wage level?

First the indicators could be ranked from lowest to highest. For example, there will probably be several potential minimum wage values based on the needs of workers and their families that could be ranked.

Each of the values for the other indicators falling under economic factors could also be ranked, thereby creating a range of minimum wage

values for each indicator. Once the ranges for all of the indicators are overlaid (combined together), the result is a general range of figures within which governments and social partners may want to negotiate.

However, the indicators could also be examined individually, and parties to the negotiation process could decide how much weight to attribute to each indicator. For example, some countries may give more weight to the needs required to support a worker and his/her family, while others may give more weight to trends in productivity.

If mathematical formulas are used to periodically adjust minimum wage rates, these should be discussed with social partners and not be used as a substitute for social dialogue.

Devising a medium-term strategy

In periodic adjustments there is a tendency to concentrate on short- and medium-term indicators. A typical minimum wage adjustment will normally give much weight to a limited set of factors, such as price inflation or economic growth. While this approach is natural, minimum wage fixing authorities should also bear in mind the longer-term perspective. They should therefore commission from time to time detailed reports on the state of the minimum wages in the country.

Some long-term objectives may be to reach a minimum wage level that is sufficient to cover the basic needs of a worker and his/her family; to ensure the minimum wage is effectively applied, with non-compliance reduced to a minimum; and to provide a comprehensive coverage of wage employees. It is also useful to contextualize a minimum wage policy within a broader perspective in which economic factors and wages are affected by structural changes.

Many countries have discovered that a gap exists between the legitimate needs of workers and their families and the need to ensure that enterprises remain sustainable.¹⁴ It will not be possible to eliminate this gap in a single minimum wage adjustment, at least not without adverse economic or employment effects. This suggests that there should be a medium- to long-term target for this policy – in other words, closing this gap in successive, gradual adjustments.

14 On the importance of sustainable enterprises, see <http://www.ilo.org/global/topics/employment-promotion/sustainable-enterprises/lang--en/index.htm>

Monitoring the effects of minimum wages

Monitoring the effects of minimum wages is a key element of an evidence-based system. Findings from rigorous impact assessment studies should find their way back to governments and social partners, and inform subsequent rounds of adjustment or changes to the system.

Governments and social partners should have access to studies on the effects of minimum wages on variables such as wages, employment, informality, hours of work, gender pay gaps, income inequality or poverty. Studies should also monitor effects on prices and on the different elements of aggregate demand, including household consumption, investment or the competitiveness of exports. Different and credible methodologies should be used to ensure that conclusions are not driven by biases in the choice of methodologies.¹⁵

Data used for this purpose should be timely, comprehensive, and disaggregated by sex. In order to assess the effect of the minimum wage, or simulate the effects an uprate might

have on the economy, it is necessary to have data which are as representative of the economy as possible. In many countries, a labour force survey will broadly meet these requirements. In some cases, in cooperation with national statistical offices, the labour force survey can be modified to include questions on wages or to oversample a specific population, such as domestic or migrant workers, as was done recently in Namibia, for example.

Admittedly, there are criticisms of household and labour force surveys, since they are prone to measurement error, particularly with regard to self-reporting of income, wages and hours. Other surveys, such as establishment surveys, can complement analyses drawn from the labour force survey. However, it is important to note the groups that are often excluded from establishment surveys – workers in the informal economy, the self-employed and small or medium-sized enterprises.

¹⁵ See D. Belman and P. Wolfson: *What does the minimum wage do in developing countries? A review of studies and methodologies* (Geneva, ILO, 2016). Available at: http://www.ilo.org/travail/whatwedo/publications/WCMS_463192/lang--en/index.htm



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Excluding these groups from surveys also excludes them from subsequent data analyses that are used to set and adjust the minimum wage.

Wages and employment effects

Monitoring should seek to detect both positive and negative effects of minimum wages. If they are effective, minimum wages should raise the wages of some groups of workers. When women are over-represented among low-paid workers, the minimum wage should also reduce the gender pay gap. But the overall wage effect depends on the level and legal coverage of the minimum, the degree of compliance, and the “spillover” effects on the wages of workers who are paid above the minimum. Spillover effects arise when, as a result of a higher minimum wage, workers with more seniority or skills also demand higher wages, either through collective or individual bargaining. Spillovers can also occur because changes in the minimum wage can have far-reaching effects on pay in the public sector.

More controversial is the debate on the employment effects, which have been found to vary across countries and studies. A recent World Bank overview concluded that “although the range of estimates from the literature varies considerably, the

emerging trend in the literature is that the effects of minimum wages on employment are usually small or insignificant (and in some cases positive)”.¹⁶ But differences in findings across countries and studies point towards the importance of country-specific programmes for monitoring the employment effects of minimum wages, particularly on vulnerable workers.

In recent years, the ILO has worked with a number of member States to assess the impact of minimum wages, including in Mexico or in Cabo Verde, which introduced a national minimum wage for the first time in 2014.

16 A. Kuddo, D. Robalino and M. Weber: *Balancing regulations to promote jobs: From employment contracts to unemployment benefits* (Washington, DC, World Bank Group, 2015).

How to promote compliance?

High rates of non-compliance, where they exist, have negative consequences not only for workers and their families, whose rights are violated, but also for compliant employers, as it gives non-compliant enterprises an illegitimate cost advantage.

Within countries, there are usually significant differences in non-compliance rates across different population groups. Non-compliance is often more widespread in rural than in urban areas, and in the informal than in the formal economy. Women are also usually more likely to be underpaid than men, as are disadvantaged ethnic or social groups. There are also differences in non-compliance across different industries, and non-compliance tends to be higher in smaller than in large enterprises.

In order to design, put in place and pursue sound strategies and measures for compliance and enforcement, it is important to analyse the extent and patterns of non-compliance as thoroughly as the available data permit.

Implementation measures

Compliance can be improved through a number of implementation measures, including the following:

Information and awareness-raising campaigns:

For example, in the United Republic of Tanzania it was found that workers who knew their rights and legal entitlements were also more likely to be paid accordingly.¹⁷ In Costa Rica, a National Minimum Wage Campaign was undertaken in 2010, which combined awareness raising and information on complaint procedures. A central feature of the campaign was a new telephone hotline allowing workers to report wage violations in a simple and anonymous manner. Awareness-raising activities and information dissemination strategies undertaken by governments and social partners can rely on a range of different channels including the Internet, television and radio broadcasts.

Capacity-building activities for employers' and workers' representatives:

A participative process of minimum wage fixing – which allows the minimum

¹⁷ S. Lee and D. McCann: "The impact of labour regulations: Measuring the effectiveness of legal norms in a developing country", in S. Lee and D. McCann (eds): *Regulating for decent work* (Geneva, ILO, 2011), pp. 291–312.



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wage to be set at a level agreed by workers' and employers' representatives – tends to give the minimum rate more legitimacy with social partners, thereby also facilitating compliance. Besides involvement in designing rates, workers' and employers' organizations can disseminate information on minimum wages to their members and provide related advice and support. Training activities for employers' and workers' representatives can help to ensure that non-compliance is not due to lack of awareness or misunderstanding.

Empowering workers to claim their rights through individual complaints as well as collective action: In the Philippines, legislation provides that union representatives or workers representing workers' interests should always accompany labour inspectors during inspections. In other countries, workers' organizations can bring claims for unpaid wages to court on behalf of the worker concerned.

Measures to formalize the informal economy: According to the recently adopted ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), countries should progressively extend minimum wage protections, in law and in practice, to workers in the informal economy through the process of formalization. Disseminating information can potentially improve compliance even in the informal economy, where a

widely known wage standard can play a guiding role for wage fixing and alter workers' and employers' expectations and behaviour – the so-called “lighthouse” effect.

Targeted labour inspections:

The enforcement of minimum wages usually falls within the scope and responsibilities of labour inspectorates. In the context of wages, there is a tendency for inspections to be triggered by complaints rather than proactive identification of inspection targets in the context of labour inspection programmes and strategies. To avoid an entirely reactive complaints-based strategy, proactive strategies could be based on an analysis of the levels and patterns of compliance from labour statistics.

Sanctions that function as a deterrent to non-compliance:

Compliance is encouraged when employers perceive a likely probability of being inspected and exposed to penalties. In order to be dissuasive, a sanction regime needs to include penalties that are sufficiently high to act as a deterrent. The length of the proceedings required to impose sanctions also influences the extent to which penalties act as a deterrent. Immediate sanctions are a greater deterrent than longer proceedings, particularly if their outcome is uncertain. In some countries, labour administration agencies are empowered to fine

employers for minimum wage violations through fast-track administrative proceedings.

Recovery of wages due and protection against victimization:

Enabling workers to exercise their rights to back wages and wages due to underpayment is part and parcel of minimum wage enforcement. In a large number of countries, workers can exercise this right in the courts or through administrative authorities. However, requiring workers to take legal action to recover unpaid amounts is often burdensome and can involve lengthy and costly proceedings. This is why a number of countries provide for simpler administrative procedures. Some countries have empowered labour inspectors to directly order the payment of wage arrears.

Monitoring and responsible purchasing practices within global supply chains:

While wages and working conditions for the numerous workers engaged in global supply chains are sometimes better than those in enterprises which supply the domestic market (particularly in the informal economy), the existence of low wages and long hours remain a source of concern.¹⁸ Falling prices paid to suppliers have

contributed to stagnating or in some instances declining wages, and have made it difficult for suppliers to pay higher wages and sometimes even to comply with minimum wages.¹⁹ Compliance with minimum wages is thus also facilitated by responsible purchasing practices.

Public employment

programmes: A positive effect of public employment programmes which pay statutory minimum wages is to promote compliance also in the private sector. This happens because private employers who pay less than the minimum wage risk losing their employees, who will prefer to work in public works programmes or employment guarantee schemes. This improves workers' wage negotiation capacity. In addition, public employment programmes can create awareness among workers about their basic entitlements. By acting as the "employer of last resort", the government can thus encourage compliance in the private sector.

Finally, the extent of non-compliance can also vary depending on the design of minimum wage policies and the number of rates, and ultimately depends on the

effectiveness of the entire process of designing and implementing minimum wage policies and fixing the adequate level and rate structure in the first place, in full consultation with employers' and workers' organizations.

18 D. Miller and K. Hohenegger: *Redistributing value added towards labour in apparel supply chains: Tackling low wages through purchasing practices*, Conditions of Work and Employment Series No. 83, INWORK (Geneva, ILO, 2016).

19 M. Starmanns: *How is value shared within global supply chains? Purchasing practices and low wages in global supply chains*, Conditions of Work and Employment Series No. 86, INWORK (Geneva, ILO, forthcoming).

Minimum wages in a selected group of countries

UNITED STATES

The federal minimum wage (US\$7.25 per hour as of 2017) is complemented by state-level minimum wages set at higher levels. Domestic workers were originally excluded but are now fully included in the federal minimum wage.

UNITED KINGDOM

A statutory minimum wage with national coverage was introduced in 1999 (set at £7.50 in 2017) with lower rates for workers below 25 years old and apprentices. The rate is recommended by the Low Pay Commission, based on extensive monitoring.

FRANCE

The national minimum wage called SMIC (set at € 9.76 per hour in 2017) is adjusted every year, taking into account price inflation faced by the 20% of poorest households and the general evolution of wages of blue-collar and clerical workers.

COSTA RICA

In 1987, the wage decree included 520 specific minimum wages. As the system became increasingly difficult to manage, the number of rates was reduced to 23, including one rate which applies to unskilled workers not covered by any other specific rate.

BRAZIL

The national minimum wage (937 reais per month in 2017) is complemented by state-level minimum wages set at higher levels. In the past few years, minimum wage adjustments have been determined by a formula that includes past inflation and GDP growth.

CABO VERDE

Introduced a national minimum wage for the first time in its history in 2014, set at 11,000 escudos.

FINLAND

Minimum wages are set through collective agreements. Coverage is widespread (about 90%), and all national collective agreements that have an industry coverage exceeding 50% are extended.

GERMANY

A national minimum wage was adopted for the first time in 2015 (when it was set at € 8.50 per hour, increased to € 8.84 in 2017) and complements collectively agreed wages that cover about 60% of workers.

RUSSIAN FEDERATION

The national minimum wage (set at 7,800 rubles as of 2017) is subject to negotiations between the government and social partners in the Russian Tripartite Committee. Since 2007, it can be complemented with higher regional minimum wages.

REPUBLIC OF KOREA

The tripartite Minimum Wage Council has decision-making authority to determine the level of the national minimum wage if there is agreement among its 27 members. In the absence of agreement, the government decides.

CHINA

A decentralized minimum wage policy was adopted in 1994 and strengthened in 2004. There is no national minimum wage. It is up to provincial governments to set and adjust minimum wage rates, following criteria set by the central government.

INDIA

There exist more than 1,500 minimum wage rates (called "schedules"), mostly set at the state level for selected occupations and industries. The central government sets a non-binding indicative national floor level (160 rupees per day as of 2017).

MALAYSIA

Adopted a national minimum wage in 2013 as part of its New Economic Model (NEM) to become a high-income nation by 2020, and ratified ILO Convention No. 131 in 2016.

SOUTH AFRICA

A system of sectoral minimum wages was established after the end of apartheid in 1997, and it has been announced that a national minimum wage (set at 20 rand per hour) will be introduced in 2018.

Reducing inequality and promoting decent work for all women and men have been identified as key objectives in the 2030 Agenda for Sustainable Development, adopted at the United Nations in 2015.

Well-designed and effective minimum wages can contribute to these objectives. Poorly designed minimum wages, by contrast, can put workers' well-being at risk, undermine effective implementation, and risk encouraging informality.

The ILO minimum wage policy guide reviews some of the key principles of minimum wage fixing based on existing ILO standards and the diversity of international practice. It highlights different choices that can be made depending on national preferences and country circumstances.

The full version of the guide is available at: www.ilo.org/minimumwage.

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