Fixing Minimum Wage Levels in Developing Countries

Common Failures and Remedies

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Foreword

Minimum wage fixing which was first introduced in l956 in Indonesia occupies a central place in the national manpower policy. A National Wage Council has been in place since l969 and each province has its own regional or provincial wage council whose functions include doing a survey and calculation of the level of the decent basic needs of workers and their families. Regional minimum wages and sectoral minimum wages are considered as instruments to improve workers' wages.

International labor standards on minimum wages have had an important influence on national minimum wage setting institutions. The first ILO Convention (No. 26) was elaborated in l928. The second (No. 13l) makes special reference to developing countries and was adopted in l970. The first Convention encourages the creation of minimum wages in trades "in which no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low". The second Convention refers to "all groups of wage earners whose terms of employment are such that coverage would be appropriate" and cites two sets of factors to be taken into account when fixing minimum wages: the needs of the workers and economic factors.

Minimum wage fixing has remained a national labor issue in Indonesia with each province having its own particular experience and dilemma in dealing with and in reconciling what is often seen as competing considerations of basic needs of the workers and the requirements of enterprises and the economy to grow and to be productive and competitive. The appropriate role of minimum wage fixing continues to be discussed by workers and trade unions, employers and the government.

The ILO Office in Jakarta welcomes the recent study and analysis prepared by Ms. Catherine Saget, Senior Economist with the ILO's Conditions of Work and Employment Programme in Geneva, entitled ***"Fixing minimum wage levels in developing countries – Common failures and remedies***". It addresses the common questions asked in Indonesia as to whether the minimum wage rates are either very low or very high. It is informative and instructive from a comparative viewpoint and therefore relevant in the current debate regarding minimum wage fixing arrangements for Indonesia.

We are publishing the paper of Ms. Saget in both English and Bahasa Indonesia for the benefit of the tripartite constituents and all interested parties. The paper will help "arouse interest" and serve as a useful and handy reference in the ongoing debate on the proper role of minimum wage fixing in Indonesia to create a more conducive investment climate while at the same time respecting the welfare and interests of workers.

Jakarta, April 2006

Alan Boulton
Director ILO Jakarta

Abstract

A sizeable minority of developing countries are well-known for the extreme values of their minimum wage rates either very low or very high. The main focus of this paper is on the institutional factors that could explain the two extreme situations of a very low or a very high minimum wage. The paper concludes with an attempt to explain how the problems that the two extreme situations entail could be solved, and also how solutions have been implemented for fixing the minimum wage at a more appropriate and meaningful level.

Keywords: minimum wages, policy failures, developing countries.

1. Introduction

The huge majority of developing countries do have a legislation regarding minimum wage fixing and many of them also provide for most workers to be legally covered by the minimum wage[2]. There certainly are exceptions as far as farm workers and domestic workers, who might be excluded from the minimum wage protection from a significant minority of developing countries. Yet the striking and obvious difference between minimum wage systems in the developed and the developing world is the relative level at which it operates.

Taking a broad definition of the minimum wage as the minimum amount that must be paid to the majority of workers, and which is fixed in a way as to cover the minimum needs of the worker and his/her family in light of the prevailing national economic and social conditions, countries can be distinguished between those with very low and those with very high minimum wage. This conclusion can be reached using intuitive knowledge (e.g. it is well-known that the minimum wage in Paraguay is very high, while its extremely low level in some Commonwealth of Independent States (CIS) countries is widely recognized). It can also be reached using several indicators of productivity and average wage. This paper uses data from more than 130 transition, industrialized and developing countries and hence presents a comprehensive overview of minimum wage levels in the world. It shows that in a sizeable number of countries, principally from the former Soviet Union, Africa, and to a lesser extent, Latin America, the minimum wage is so low in the wage structure that it is not or hardly a constraint for enterprises («mini minimum wage»). The paper also shows that the situation is quite the opposite in other countries from Asia, Latin America and Africa where the minimum wage appears to be very high in the wage distribution, in fact, much too high to be considered an authentic minimum wage, which we label «maxi minimum wage»[3]. Finally, in the intermediate group of countries, the minimum wage is fixed at levels which might be very different from one country to another, but yet which seems to correspond more closely to the definition of a minimum wage.

Most of the literature on minimum wage in developing countries focuses on the effect of the minimum wage on formal and informal employment, occasionally youth employment, as well as on poverty (see Saget, 2001, for an overview). More recently, impact studies on the wage distribution have emerged. Just to mention a few, Indonesia (SMERU, 2001; Rama, 1996), Latin America and the Caribbean (Maloney and Nuñez, 2001; Gindling and Terrell, 2005) and South Africa (Bhorat, 2001; Butcher and Rouse, 2001) have been the subject of several studies.

This paper takes a different perspective from the usual studies: its major contribution lies in an attempt to provide an explanation as to why so many developing countries are in a situation of either «mini minimum wage» or «maxi minimum wage». It is not directly concerned with the effect of the minimum wage. The explanation is twofold.

First, the link between the minimum wage and the level of public wages, pensions and social benefits, price stabilization policies and unfavorable political environment are explored to explain «mini minimum wage» situations. Secondly, the weak development of collective bargaining is shown to be a driving factor behind the emergence of «maxi minimum wages»: if minimum wage consultations are the only forum where trade unions can make their demands known, there is a danger that the resulting minimum wage is not a genuine threshold but rather the actual wage earned by the majority of formal workers.

Although the causes have rarely been analyzed in a systematic way, the problems and dangers that derived from a situation where the minimum wage tends to be a «maxi minimum wage» received a lot of attention in the literature, in particular the effect on employment and non-compliance. It is important to recognize that «mini minimum wage» situations also create failures and not only for workers, which will be illustrated.

Finally, some of the solutions that have been implemented for fixing the minimum wage at a more appropriate and meaningful level, sometimes with a relative success, will be reviewed.

The structure of the paper is as follows. Following the introduction, section two presents minimum wage levels in the developing world and compares these levels with various estimates of average wages and labor productivity. Section three aims at proposing institutional explanations of the two extreme and yet common situations of «mini minimum wage» and «maxi minimum wage». Section four discusses the problems that these situations create before presenting a couple of innovative solutions. It concludes on the role and weakness of such a key institution as the minimum wage in developing countries

2. What indicators should the minimum wage be compared to?

This section compares the minimum wage to three estimators of wages and productivity and shows that there are very low and also very high minimum wage countries. Box 1 summarizes the pros and cons of each of the three estimators: GDP per capita, GDP per worker, and average wage. In total, data covering more than 130 countries have been used, including 30 industrialized ones.

As a first indication of the rank of minimum wages, rates were compared in Table 1 with a broad indicator of income such as GDP per capita in PPP dollars terms. Figures for industrialized countries included in Table 1 show that in none of them the minimum wage takes an extremely low or an extremely high value when expressed as a ratio of GDP per capita. Figures for all countries are comprised between .3 and .6. These two figures are used as cut-off points in an arbitrary way[4]. On the basis of that comparison, no industrialized country is in a situation of «mini minimum wages» or «maxi minimum wages». Many developing countries also have a .3-.6 ratio of the minimum wage to value added per capita.

Box 1: What indicators should the minimum wage be compared to?

1. **Minimum wage**

   Minimum wage levels come from the ILO database on Conditions of Work and Employment, which is available at www.ilo.org/travdatabase for more than 100 countries. In countries where the minimum wage is fixed through collective bargaining, the level for the leading sector has been reported. In cases where there are multiple rates of minimum wages across regions, sectors, and/or occupations, the minimum and the maximum levels for an adult unskilled worker are considered. For the purpose of this paper, we use the average of these two levels. For countries not entered in the database, information on minimum wage levels was collected from the US department of labor. All minimum wage rates are in PPP dollars. The reference year is between 2002 and 2004. In order to make the comparison more meaningful, standardized monthly minimum wages on the basis of 40 hours of work a week have been calculated. To do so, legal maximum hours of work from the ILO database were used (also see McCann, 2005, Annex I).

2. **GDP per capita ~ = (Wages + Profits) / (Workers + non-workers)**

   GDP is a measure of the total flows of goods and services produced by the economy over one year. By principle of national accounts, GDP at factors cost is equal with the values of incomes paid to the factors of production (wages + profits). Factors cost simply means that indirect taxes are deducted. However what is usually available is GDP estimated at purchaser price without the deduction of indirect taxes.The advantages of comparing the minimum wage to GDP per capita include availability of the latter for almost all countries. The main shortcomings arise from difference in the number of dependants across countries as well as from differences in the percentage of profits in GDP. Another big problem is that GDP estimates can be much distorted in countries with a high level of informality and/or with a small isolated capital-intensive sector.

3. **GDP per worker ~ = (Wages + Profits) / (Workers)**

   GDP per worker is a much better indicator of labor productivity than GDP per capita. However figures on the number of workers are not always available or the quality of employment data might be an issue. The problem also remains of difference in profits share across countries (and across time), under estimation of the informal economy, and non deduction of indirect taxes.

4. **Average wage ~ = (Wages) / (Workers)**

   In principle, comparing the minimum wage to the average wage gives a better indication of its rank in the wage distribution. The problems here are threefold: wage data are not available or of poor quality; wages used to compute the average wage might not correspond to sectors or geographical zones used to compute the minimum wage and the ratio is not meaningful; and the average is not a good indicator of the wage distribution in high inequality countries.

One of the striking characteristics of Table 1 is the number of developing countries where the ratio of the minimum wage to GDP per capita is as low as between .15 and .30. This group is made up with the following countries: Belarus, Kyrgyz Republic, Kazakhstan, Russia, Tajikistan, Uzbekistan, Mexico, Uruguay, Honduras, Gabon, Uganda and Laos. Very remarkably, this group of countries includes a number of exporters of mineral resources that are highly valued on the world market, such as oil. In our view, this feature might be partly responsible for the very low ratio of the minimum wage to GDP per capita. This is because differences in GDP per capita (or per worker) across countries reflect, at least in developing countries, the importance of small, often isolated capital-intensive sectors of the economy.

A second feature of Table 1 is the group of countries where the minimum wage seems very high, at least in comparison with GDP per capita, and the ratio is above one. This group is made of Burkina Faso, Chad, Paraguay, Lesotho, Cambodia, Ethiopia, Tanzania, Turkey, Pakistan, Nigeria, Mali, Nepal, Mozambique, all countries with very low income levels, except Turkey and perhaps Paraguay. To a lesser extent, the Philippines, Indonesia and Egypt also have relatively high minimum wages (ratio between .6 and 1).

As can be seen from the second and third columns of Table 1, about half the variation in the ratio comes from variation in GDP per capita across countries rather than from variation in the minimum wage[5]. Hence it is important to understand how GDP is measured. In fact, one big problem with comparing the minimum wage to GDP, let it be per capita or per worker, lies in the underestimation of GDP in some transition countries. Saget (2000) shows that in some transition countries GDP estimates might be even less reliable than employment data. There might be a similar issue in developing countries at large. Marinakis and Velasco (2005) argue that one of the reasons for the high value of the minimum wage respective to GDP per worker in Paraguay, which can be seen from Table 2, precisely lies in the underestimation of GDP.

The comparison between standardized monthly minimum wage in PPP dollars and GDP per worker is reported in Table 2 for a sample of countries. These countries were selected on the basis of their extreme minimum wage values with respect to GDP per worker. Here too, two groups of countries emerge from the comparison, one with relatively low and the other one with relatively high minimum wages. Both groups correspond quite closely to the ones obtained using data the ratio of the minimum wage to GDP per capita. As previously, this cross-country difference seems to transcend the level of development and geographical location. The group with very low minimum wage include CIS countries, Botswana, Mexico and Mauritius, while Paraguay still shows a very high minimum wage compared with GDP per worker. The first conclusion that can be derived from Table 2 is that the classification of countries according to their minimum wage is similar to that obtained with Table 1. The second conclusion is that due to the poor quality of employment data in general, comparing the minimum wage to GDP per worker instead of GDP per capita might not be the panacea. It is easy to come across this conclusion by looking at the size of the increase in the ratio between the two tables. It is expected that the ratio of the minimum wage to GDP per capita should be higher than that of GDP per worker and it is so. While in most cases, the ratio more or less tripled from Table 1 to Table 2, the increase is much more modest for Ukraine and even more so for China (+77%). It is hard to believe that this entirely reflects differences in the dependency ratio across countries. As GDP is calculated in the same way in Tables 1 and 2, this result casts serious doubt on the validity of employment data used. The source of the problem lies in the mis-measurement and treatment of seasonal workers, informal workers and workers in small firms, particularly in the service sector.

To conclude this part, Table 3 shows a comparison of minimum wage levels with respect to the average wage. In principle, this comparison makes more sense as it provides information on the location of the minimum wage in the wage distribution. Yet there are shortcomings here too. First, the average wage, which is very sensitive to extreme values, is not a good indicator of the wage distribution in high inequality countries. Second, available data on wages are generally restricted to formal wages or to wages in the manufacturing sector or for employees, while we are looking for data on general wages. Another big issue is that few countries release recent and reliable wage data. Finally, the minimum wage might not correspond to sectors or geographical zones used to compute the average wage; for example, agriculture workers are excluded from minimum wage protection in Botswana but agriculture wages enter in the computation of the average wage; in Paraguay, agriculture workers, domestic workers and apprentices are not entitled to the standard minimum wage used in the three tables but to a lower level. In this case, what does the ratio of the minimum to the average wage exactly mean?

Keeping these caveats in mind, the results that emerged from the comparison of the minimum wage to the average wage in Table 3 are still very instructive. First, some countries previously classified as very low minimum wage countries such as Botswana, Mauritius and Ukraine are now amongst the medium or even very high minimum wage countries with ratios respectively equal to .53, .79 and .71. This finding confirms our hypothesis that value added per worker might not be a valid estimator of average wage for countries with a small, isolated, highly productive sector. As GDP is equal to the sum of wages and profits, another source of divergence between average wage and average GDP per worker comes from a high share of profits in GDP. Second, the majority of countries remained within the same group. On the one hand, the minimum wage is relatively low and corresponds to less than 24% of the average wage in Azerbaijan, Mexico and Uruguay, all classified as «mini minimum wage» on the basis of Table 1. On the other hand, high minimum wage countries include Indonesia, Paraguay and Mauritius, similarly to the results from Table 1 and 2.

In conclusion, this section first shows that some countries have extreme values of the minimum wage based on whatever estimator of wages and productivity. Second, the estimators used, GDP per capita or per worker and average wages, all have shortcomings and one has to be careful before drawing hasty conclusions based on simple ratios. This is, however, the case of the Doing Business database elaborated by the World Bank, which establishes a ranking of countries based on the value of their ratio of the minimum wage to value added per worker[6]. One example can be given, which will be further elaborated in the next section. In Uruguay, the minimum wage was used up to the end of 2004 to fix a number of fees, allowances and social benefits; many other prices such as of houses were evaluated in multiple of the minimum wage; and inequality was commonly measured with respect to the minimum wage. Yet the minimum wage was not used to pay wages in the labor market. Hence there is a disconcerting feeling in realizing that this country actually gets good grading in the Doing Business database while its minimum wage policy was up until very recently more or less characterized by failure.

3. Causes for the two policy failures

What makes developing and transition countries adopt very low or, on the contrary, very high minimum wage levels? The next section aims to propose a tentative answer on their motivations and constraints.

It was suggested in the previous section that the levels of minimum wages in some countries are not fixed with respect to the objective of establishing a threshold in the labor market for unskilled labor, nor with value added, whether estimated at the national or sector level. How is the minimum wage fixed then? It is first instructive to look at the legislation before turning to its application.

In general, a number of criteria are used to fix the level of the minimum wage reflecting at the same time the needs of workers and their families and economic factors. As shown in Eyraud and Saget (2005), criteria commonly found in the legislation include the basic needs of workers and their families, the increase in consumer price index, productivity, the level of employment, the level of wages and social security benefits. These last two criteria are especially relevant for our analysis and should be reviewed carefully.

Causes for «mini minimum wage» (very low minimum wages)

In a number of countries, social benefits such as the minimum level of old-age pension and disability benefits, and, to a lesser extent, maternity benefits and unemployment benefits, are fixed according to the level of the minimum wage (for example, the minimum level of old-age pension is equal to 75% of the minimum wage in Algeria). An analysis of the legislation in 101 countries carried out by Eyraud and Saget (2005) shows that about a third provided for such a link between the minimum wage and one or several social benefits. The analysis also shows that the link between the minimum wage and social benefits originated in the desire to protect living standards of vulnerable people such as old-age pensioners and disabled persons. This social policy objective might, of course, put pressure on social security funds and enter in conflict with macro-economic equilibrium. The pressure on social security fund can be illustrated with the examples of Algeria, Brazil and Uruguay.

In Algeria, it was estimated that the increase in the minimum wage from 8,000 to 10,000 DA in 2004 cost 24 billion DA per year ($US 310 million), half of which was paid for by the State; the other half through social security funds[7]. In Brazil, the drop in the real value of the minimum wage between the 1980s and 1990s originates from its impact upon the massive public deficit of that period through the payment of benefits and pensions (DIEESE; 2004). The purchasing power of the minimum wage has since being partly restored and the ratio of the minimum to the average GDP per capita is now .33 (Table 1).

The case of Uruguay is exemplary of a minimum wage which was irrelevant in establishing a floor in the labor market but used for other purposes of fixing taxes, fees, social benefits levels and many other prices. In this country, the minimum wage represented 21% of the average wage in 2003 (Table 3). At such a low value, less than three percent of workers were receiving the minimum wage or even less (ILO, 2004). The analysis undertaken by Furtado (2004), shows that the minimum wage, which was almost irrelevant in the labor market, was commonly used as a threshold in the Uruguayan legislation. The minimum wage was, for example, used in fixing the level of family allowances. Families whose income laid between six and ten times the minimum wage received eight percent of the minimum wage per child, while families whose income was less than six minimum wages received 16% of the minimum wage per child. Many other allowances were fixed with respect to the minimum wage: birth allowance (one minimum wage), seniority allowances, disabled allowance, unemployment benefits, wedding allowance for public sector workers, widow allowance, and some medical benefits. This direct relation between the minimum wage and a number of social benefits might be the main reason why, as shown by the ILO (2004), Uruguay had the lowest relative minimum wage in the whole region and has registered the biggest decrease in the minimum wage with respect to its level in the mid-1990s.

To conclude, the government passed a law which ended the links between the minimum wage and social benefits in 2004 (Law No. 17.856 of 20.12.2004), which forbids its use in the calculation of income levels and indexation based on the minimum wage. At the same time, efforts were made to introduce another mechanism of protecting social security benefits, through the establishment of a new baseline at a level equal to the minimum wage. The law specifies that the base will be adjusted according to the financial situation of the State, consumer price increase and optionally to the increase in public wage, majored or minored by at most 20%. As a result of delinking the minimum wage from the payment of social security benefits, a major obstacle to readjusting the minimum wage disappeared and since then the minimum wage increased by 70% in real terms in 2005. This puts the minimum wage at around 35% of the average wage.

The second result of the reform, e.g. the creation of a reference unit to adjust social benefits means that the level of pensions is, in theory, protected. Given the short period of time elapsed since the reform was passed, it is too early to state how it is applied.

In some countries, increases in the minimum wage may put pressure on the state budget, not only on social security funds. This is the case in countries where the minimum wage is used as a reference wage or a threshold to fix wages in the public sector, especially wages of government officials. This is the case in a number of ex-communist countries such as Russia and Mongolia. In Brazil, a number of local government workers receive the minimum wage. They represent 5.2% of all public sector workers, and as many as 15 to 20 percent in the municipalities of the Northeast Region (DIEESE, 2004).

This section showed that minimum wage legislation in some countries put pressure on public budgets because social benefits and/or public wages are directly linked to the minimum wage. This calls for removing the link between the minimum wage, social benefits and public wages while introducing a mechanism to protect the level of the latter two. We also have to remember the context in which «mini minimum wages» started to mushroom, namely structural adjustment process of the 1980s-1990s. In Mexico for example, the reduction of inflation in the 1980s became the main consideration in fixing the minimum wage as adjustments were indexed over expected future inflation which turned out to be higher than expected (Marinakis, 1998). The objective of price stability has been a driven force behind the drop of the minimum wage in Mexico after the debt crisis of 1982. In former communist countries, another reason why the value of the minimum wage reduced so much was that it became perceived as a kind of symbol of communism and hence was not very much in favor after the introduction of price liberalizing policies in 1990. In any of these cases: link with social benefits and public wages, fight against inflation and unfavorable environment, minimum wage fixing is done for reasons other than establishing a wage floor for workers. This is in our view the key in explaining "mini minimum wages". What is the best way out of this situation? It would seem straightforward to recommend breaking the link between the minimum wage and social benefits while introducing another kind of protection for the latter.

Causes for «maxi minimum wages» (very high minimum wages)

Here it is further argued that in countries where the minimum wage seems very high with respect to value added per worker or wages, it is simply not a minimum wage but rather a negotiated kind of average wage. The legislation referred to in this section comes from the ILO Conditions of Work and Employment Database available at www.ilo.org/travdatabase.

A close examination of the legislation in some Asian countries indicates that the minimum wage is in a number of cases not really a minimum wage, but rather the effective wage paid to the majority of unskilled or semi-skilled workers. Table 3 suggested that this might be the case in Indonesia where the minimum wage represents 60% of the average wage. Indeed a review of the legislation in Indonesia confirms that the minimum wage is more than a minimum wage. For example the legislation provides for exceptions to be made for companies who are not in a position to pay the minimum wage to their workforce. This practice is clearly contrary to the basic definition of the minimum wage as compulsory and not optional. The Indonesian legislation specifies that an agreement must be reached between employers and employees[8]. Exceptions seem to be granted fairly easily as shows the declaration from the Ministry of Labor during minimum wage negotiations in Fall 2005 that followed huge increase in oil prices. According to the declaration, small enterprises would be asked to show their two year's balance sheets, while large enterprises will face audits (The Jakarta Post, 8 October 2005).

The Philippines is another country where the minimum wage seems to be set at a high level (more than 90% of average wage in 2000, as shown in Table 3). Here too, the legislation provides for the possibility of small enterprises to be exempted from the requirement to pay the statutory minimum wage. Exemptions may also be granted if an establishment is experiencing temporary financial difficulties, and to new business[9]. Domestic workers are entitled to a much lower level.

Thailand is another clear example of a minimum wage that is in reality an effective wage. This can be seen in the fact that the minimum wage is fairly close to the average wage at around 66% in 2003 (Table 3) and also from the fact that many low-paid workers, such as agriculture workers, home workers and domestic workers are excluded from coverage. Minimum wage negotiations become the forum for collective bargaining on wages. Hence the minimum wage crowds out collective bargaining.

A fourth example of a «maxi minimum wage» situation is illustrated with Paraguay. As the minimum wage in Paraguay is almost equal to the average wage (table 3), it is certain that it does not represent a threshold for unskilled labor wages. The minimum wage legislation of Paraguay is highly complex and provides for a minimum wage for «unspecified activities» and a minimum wage for «specified occupations», the latter being a kind of wage scale. Domestic workers, young workers and apprentices are not entitled to the minimum wage for «unspecified activities» but to a much smaller percentage of it ranking between 40 and 60%[10]. As these three categories of workers are traditionally amongst the lowest paid ones and hence typically minimum wage earners, their exclusion is a strong indication that the minimum wage is not really a minimum wage but rather an effective wage. The triple fixing mechanism of sub-minimum wages, a minimum wage for «unspecified activities» and minimum wages for «specified occupations» mean that the minimum wage system in Paraguay has a strong effect on the wage structure. This means that many wages are determined by minimum wage legislation. Marinakis and Velasco (2005, page 10) conclude from their review that:

«Minimum wages in Paraguay are not a floor, they are the effective wages paid in the modern private sector; hence they are a central element of wage policy. The system, which was established to counteract the weakness of collective bargaining, is turning into a system which prevents the development of bargaining».

We have established that minimum wage negotiations tend to become a platform for actual wage negotiations in the above countries. This result seems to be independent from the minimum wage fixing procedure. While tripartite bodies make recommendations to the (regional) government concerning adjustment to the minimum wage in Thailand, Paraguay and the Philippines, minimum wages are fixed by collective agreement within bargaining councils in the South African clothing industry (where the minimum wage corresponds quite closely to actual wages), and fixed by a tripartite body in the Philippines (source: ILO database 2004, www.ilo.org/travdatabase).

What can be done to get out of a «maxi minimum wages» situation? Many would argue for the simple removal of the minimum wage on the basis that it fails to fulfill the main objective of protecting the living standards of low-paid workers. Given our explanation that the minimum wage is in fact a substitute for wage negotiation, it would seem obvious to recommend lowering the minimum wage and simultaneity promoting collective bargaining on wages other than the minimum wage. Yet decreasing the minimum wage and promoting collective bargaining are both difficult to implement. It is clear from the above examples that the minimum wage crowds out collective bargaining in Thailand and that in theory, bargaining could be strengthened by diminishing the statutory process of minimum wage fixing. In reality, bargaining is a solution as much to anything in Thailand where trade union density is barely over one percent in the private sector.

A more practical solution would be for trade unions, employers' representatives and officials from the Ministry of Labor (as well as academics and international organizations) to recognize or be aware of the role of the minimum wage in different countries. A major policy implication can be drawn from our analysis. It is very different to negotiate minimum wage fixing in the two extreme situations we outlined when the minimum wage serves two extremely opposite purposes. In particular the discussion on criteria for minimum wage fixing differs.

4. Concluding remarks

On the basis of three estimators of wages, this paper showed that two groups of developing countries found themselves in extreme situations with respect to the minimum wage. One has very low minimum wages («mini minimum wages») and the other very high minimum wages («maxi minimum wages»). The paper drew attention to the fact that depending on the choice of the estimator, the ranking of countries changes for a few of them. This change was explained by the specific production structure of some export countries, under-estimation of informal economy in CIS and other countries, and differences in the sectors/occupations/regions used to calculate the minimum and the average wage.

This central finding of the paper calls for caution on any conclusion derived from exclusive use of any of the three estimators as a basis for evaluating the level of the minimum wage.

Focusing on «mini minimum wage» and «maxi minimum wage» countries, the rest of the paper sought to explain the two extreme situations. On the one hand, it showed that the link between the minimum wage, and the level of social benefits and public wages, structural adjustment and an unfavorable political environment, might be a major explanation for «mini minimum wage», as for example in Uruguay, Mexico and CIS countries[11]. On the other hand, an analysis of the legislation in Paraguay, the Philippines, Thailand and Indonesia, taken as illustrative of «maxi minimum wage» countries, revealed that the minimum wage is not set to establish a wage floor in the labor market for unskilled workers. This can be seen from the analysis of the legislation, which revealed exclusion from coverage of several categories of low-paid workers, as well as from the practice of fixing the minimum wage at a level close to the actual wage.

These two situations create problems. In «mini minimum wage» countries such as Uruguay, the biggest problem up until the December 2004 reform was the absence of a wage reference in the labor market on the basis of which other wages could be fixed or negotiated. The three social partners in Uruguay and especially the Ministry of Labor have felt the need for an effective minimum wage which could act as a floor in the labor market and have subsequently reformed its system. This reform has ended the links between the minimum wage and social benefits while tentatively putting in place a mechanism to protect the level of the latter.

In «maxi minimum wage» countries, the high level of the minimum wage results in widespread non-compliance and prevents the development of collective bargaining. In Indonesia for example, 30% of all full-time workers earn below the minimum wage. This percentage increases to 50% for full-time casual workers[12]. Hence the minimum wage does not protect the wage of vulnerable and low-paid workers in this country. It is set as an effective wage for workers in the private formal sector or even as a maximum wage for skilled or semi-skilled workers. It seems that the labor movement in Indonesia is aware of the danger that the «maxi minimum wage» situation entails for collective bargaining[13].

How did such a situation develop? In this paper, we argue that in cases where minimum wage negotiations are the only forum where trade unions can demonstrate their role of protecting workers' interest, the minimum wage tends to be set as an effective wage for a sizeable group of workers and not as a threshold at the lower end of the labor market. «Maxi minimum wage» situation is therefore a consequence of the weakness of collective bargaining. However, by focusing almost entirely on the minimum wage, collective bargaining does not develop in other issues. «Maxi minimum wage» situation might also be a cause of the weakness of collective bargaining.

For «maxi minimum wage» countries, a solution to escape this situation would be to set the minimum wage at a smaller level *and* develop collective bargaining on other wages. Yet, lowering the minimum wage is difficult to implement. There is also a big practical question that is opened up: how to manage a move to a lower minimum wage? Could employers immediately reduce workers' wages, for example? Or would workers on the old minimum wage have their wages frozen until inflation brought the new minimum wage up to the former level? These are very delicate political issues which deserve some exploration, including the guarantees that might be given (by governments and employers) to rigorously enforce a new, lower minimum wage (rather than permit, expressly or tacitly, exceptions as at present). Furthermore, developing collective bargaining in countries where the level of unionization is very low, such as Thailand, raises other problems.

In the short term, a more practical answer would be to engage in a discussion on the role of the minimum wage and the criteria of adjustment. If the minimum wage is close to the effective wage paid in enterprises, different criteria must be used than in cases where it is a true threshold. Hence this paper showed that countries cannot be treated as applying the same minimum wage policy. In particular, it is very different discussing criteria for minimum wage adjustment in these two groups of countries where minimum wage serves different purposes than the original one.

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Table 1: Standardized minimum wages and GDP/capita in PPP dollars, 2002/2004.

Country	Monthly minimum wages	GDP/H/month	Ratio
Albania	195.27	380.94	0.51
Algeria	389.41	520.66	0.75
Angola	65.63	193.29	0.34
Argentina	443.17	965.48	0.46
Armenia	88.54	300.60	0.29
Australia	1474.50	2428.61	0.61
Austria	1345.23	2497.71	0.54
Azerbaijan	50.93	300.50	0.17
Bangladesh	80.32	148.80	0.54
Barbados	420.60	1309.46	0.32
Belarus	74.40	501.02	0.15
Belgium	1417.12	2366.34	0.60
Benin	92.87	93.68	0.99
Bolivia	136.43	212.21	0.64
Bosnia and Herzegovina	594.93	502.40	1.18
Botswana	164.37	696.56	0.24
Brazil	214.01	647.27	0.33
Bulgaria	213.02	650.60	0.33
Burkina Faso	162.40	98.03	1.66
Burundi	15.90	52.24	0.30
Kamboja	255.94	182.43	1.40
Kamerun	108.16	172.39	0.63
Kanada	1065.55	2538.60	0.42
Republik Afrika Tengah	77.99	90.41	0.86
Chad	161.50	100.50	1.61
Chili	321.53	850.49	0.38
Chi	227.50	416.27	0.55
Kolombia	402.62	565.32	0.71
Kongo. Republik.	87.30	79.00	1.10
Kosta Rica	471.36	790.79	0.60
Cote d'Ivoire	111.51	122.38	0.91

Country	Monthly minimum wages	PDB/H/month	Ratio
Kroasia	483.82	928.29	0.52
Republik Chekoslovakia	466.49	1370.69	0.34
Denmark	1913.86	2635.85	0.73
Djibouti	299.36	178.65	1.68
Dominika	244.59	454.20	0.54
Republik Dominika	228.83	558.61	0.41
Ecuador	173.36	306.96	0.56
Mesir. Republik Arab	227.94	329.15	0.69
El Salvador	187.94	416.20	0.45
Estonia	384.76	1112.36	0.35
Etopia	103.44	59.63	1.73
Fiji	302.44	459.75	0.66
Finlandia	1220.31	2271.01	0.54
Prancis	1395.46	2277.27	0.61
Gabon	111.35	511.19	0.22
Gambia	61.58	142.84	0.43
Jerman	1465.28	2300.73	0.64
Ghana	167.30	186.21	0.90
Grenada	506.74	611.42	0.83
Guatemala	219.88	343.48	0.64
Guinea-Bissau	139.51	56.72	2.46
Haiti	180.67	136.25	1.33
Honduras	55.07	221.52	0.25
Hungaria	420.80	1214.36	0.35
Islandia	914.42	2554.85	0.36
India	177.06	242.41	0.73
Indonesia	184.42	280.37	0.66
Irlandia	1343.23	3064.57	0.44
Italia	1195.32	2254.16	0.53
Jamaika	157.98	348.69	0.45
Jepang	815.89	2346.85	0.35
Jordania	232.29	359.96	0.65
Kazakhstan	109.82	546.34	0.20

Country	Monthly minimum wages	PDB/H/month	Ratio
Kenya	75.56	86.24	0.88
Korea. Rep.	519.49	1492.37	0.35
Kyrgyz Republij	10.51	142.87	0.07
Lao PDR	38.50	158.04	0.24
Latvia	335.61	831.75	0.40
Lebanon	199.17	422.76	0.47
Lesotho	386.88	220.45	1.75
Lithuania	313.73	937.53	0.33
Luksemburg	1820.91	5237.00	0.35
Madagaskar	75.98	67.35	1.13
Malawi	42.87	51.54	0.83
Malaysia	103.40	808.00	0.13
Mali	119.77	82.84	1.45
Mauritania	169.94	157.99	1.08
Mauritius	273.94	938.17	0.29
Meksiko	131.44	761.35	0.17
Moldova	79.42	125.38	0.63
Mongolia	98.41	150.19	0.66
Moroko	392.82	334.32	1.17
Mozambik	166.19	94.40	1.76
Namibia	139.54	531.25	0.26
Nepal	165.61	118.15	1.40
Belanda	1330.86	2450.98	0.54
Selandia Baru	1007.29	1764.75	0.57
Nikaragua	155.40	210.26	0.74
Niger	122.66	68.94	1.78
Nigeria	117.77	85.34	1.38
Norway	1844.42	3088.61	0.60
Pakistan	182.08	164.29	1.11
Panama	309.76	539.60	0.57
Papua Nugini	122.30	208.76	0.59
Paraguay	580.59	393.66	1.47
Peru	258.28	438.88	0.59

Country	Monthly minimum wages	PDB/H/month	Ratio
Filipina	322.45	360.09	0.90
Polandia	448.86	968.57	0.46
Portugis	518.95	1536.96	0.34
Romania	224.02	601.83	0.37
Federasi Russian	59.47	766.27	0.08
Senegal	152.97	140.18	1.09
Sierra Leone	33.43	46.30	0.72
Republik Slovakia	376.63	1122.40	0.34
Slovenia	818.16	1608.36	0.51
Kepulauan Solomon	91.35	136.62	0.67
Afrika Selatan	354.81	874.32	0.41
Spanyol	706.58	1855.33	0.38
Sri Lanka	89.84	314.71	0.29
Sudan	109.51	170.48	0.64
Swaziland	135.57	393.22	0.34
Swedia	1251.09	2221.29	0.56
Swiss	1732.78	2515.52	0.69
Republik Arab Siria	154.74	297.92	0.52
Tajikistan	8.71	93.22	0.09
Tanzania	102.61	50.88	2.02
Thailand	259.95	631.69	0.41
Togo	137.26	127.28	1.08
Trinidad dan Tobago	283.72	831.23	0.34
Tunisia	362.79	590.24	0.61
Turki	590.93	562.44	1.05
Uganda	19.12	122.57	0.16
Ukraina	205.34	456.00	0.45
Inggris	1233.48	2258.85	0.55
Amerika Serikat	895.23	3112.67	0.29
Uruguay	110.19	690.00	0.16
Uzbekistan	24.85	144.77	0.17
Venezuela. RB	203.44	409.08	0.50
Vietnam	153.14	207.49	0.74
Zambia	34.67	73.57	0.47

Source: Minimum wage in PPP dollars: ILO database on Conditions of Work and Employment and US Department of Labour (shaded countries). Monthly minimum wage rates have been standardized on the basis of 40 hours of work a week by the author, using information on legal maximum hours of work. GDP per capita at purchaser price in 2003 were taken from the World Development Indicators (World Bank). In the third column, ratio is the ratio of the standardized monthly minimum wage on GDP per capita/12.

Table 2: Monthly minimum wages and GDP per worker in selected countries (PPP dollars – 2003/2004)

Country	Minimum wage	GDP/worker and month	Rasio
Armenia	88.50	1271.00	.07
Azerbaijan	50.90	659.20	.08
Botswana	164.40	2802.40	.06
Kazakhstan	109.80	1158.20	.09
Kyrgyz Republik	10.50	411.80	.03
Mauritius	169.90	2391.00	.07
Meksiko	131.40	1935.80	.07
Paraguay	580.60	935.40	.62
Ukraina	205.30	1129.50	.18
Cina	227.50	743.30	.31

Source: GDP at purchaser price: International Monetary Fund, World Economic Outlook Database, September 2005; GDP is in billions of PPP dollars; Employment: Labourstat, latest available year; Minimum wage in PPP dollars: ILO database on Conditions of Work and Employment, monthly standardized on the basis of 40 hours of work a week.

Table 3: Wages and minimum wages in selected countries (monthly levels in local currency - 2002/2004)

Country	Minimum wages	Average wages	Rasio
Armenia	13 000.00	29 307.00	.44
Azerbaijan	60 000.00	302 666.00	.20
Botswana	417.60	783.00	.53
Cina	412.50	729.00	.57
Indonesia	456 560.00	759 235.00	.60
Mauritius	2 964.00	3747.00	.79
Meksiko	950.00	3969.30	.24
Paraguay	813 471.00	816 428.00	.99
Filipina	6837	7300	.94
Afrika Selatan	903.00	2604.00	.35
Thailand	3870	5841	.66
Ukraina	205.00	289.00	.71
Uruguay	1242.00	5914.00	.21

Source: Wages: Laboursta and KILM, third edition (2003), latest available year, Labor Force Survey (Indonesia, 2004; South Africa, 2004); Statistical Yearbook: Thailand 2003 (private sector), The Philippines: Bureau of Labor and Employment Statistics, Employment, Hours and Earnings Survey, manufacturing establishments with more than 20 workers, Minimum wage in local currency: ILO database on Conditions of Work and Employment except Armenia and Azerbaijan: US department of Labor.

(Endnotes)

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2 Source: ILO Conditions of Work and Employment Database available at www.ilo.org/travdatabase, which provides information on minimum wages, working time and maternity protection legislation of more than 100 countries.

3 This situation is sometimes referred to as «maximum wage» in the literature, an expression which has the merit of being catchy but might lead to some confusion. What is meant here still refers to wages earned by blue-collar workers and even if very high, does not belong to the top wages structure, as the expression «maximum wage» would suggest.

4 Other ways of ranking countries according to their minimum wage levels could be used, for example those based on standard deviations with respect to the mean minimum wage in the sample.

5 The ratio of the mean to the standard deviation is .9 for the minimum wage, while it is .87 for GDP per head.

6 The Doing Business database assigns 1 to countries where the ratio of the minimum wage to the average value added per worker is higher than 0.75; 0.67 for a ratio between 0.5 and 0.75; 0.33 between 0.25 and 0.50; and 0 for a ratio less than 0.25. Minimum wage regulations represent one of several labour laws which are measured across countries and assigned numbers. These numbers are then averaged. Countries with high average have the most “rigid” employment regulations.

7 Source: Minister of Labour and Social Security.

8 Minimum Wages, Regulation of the Manpower Minister No. Per-01/Men/1999, Article 24; Law on Manpower Affairs, Article 90 (2).

9 Source: Rules on Exemption from compliance with the Prescribed Wage Increases/Cost of Living Allowances Granted by the Regional Tripartite Wages and Productivity Boards, NWPC Series of 1996, dated 18 November, 1996.

10 Source: ILO Conditions of Work and Employment Database available at www.ilo.org/travdatabase.

11 Many CIS countries have recently tried to remove the link between the level of the minimum wage and the payment of social benefits.

12 Source: Labour Force Survey, 2004.

13 A trade union leader in Indonesia has publicly said that there was too much attention on the minimum wage to the detriment of other issues.