

Paying attention to wages

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Editorial

Just a few years ago, the prompt and timely payment of wages was more or less taken for granted. Apart from isolated cases of enterprises facing occasional liquidity problems, sectors hit by disputes or economic crises in one country or another, the situation seemed relatively stable. Wage-earners who were lucky enough to have a job stood a good chance of being paid regularly, even if their wage rates sometimes left much to be desired. Indeed, a workers' education manual published by the ILO in 1964 and reissued 20 years later scarcely mentions the question of wage arrears.¹ By that time, moreover, some were arguing that the Protection of Wages Convention (No. 95), adopted in 1949, had outlived its usefulness. Or, at least, that some of its provisions had. These claims turned out to be premature – a lesson worth recalling whenever we contemplate a revision of international labour standards.

Thanks in part to that Convention, now ratified by 95 countries, the regular payment of wages did become a welcome general achievement. But today, it is in serious jeopardy. Tens of millions of workers in various parts of the world are being deprived of the fruits of their labour for months on end, and sometimes for years. There have already been deaths. Wage debt is now a real scourge which destroys lives, families and communities. It leaves a wake of misery and despair. It threatens fragile democracies and slows down development.

The figures speak for themselves. According to government data, Russian wage debt stood at more than 38 billion roubles in April 2000. At that time, the Russian State owed its teachers 628 million roubles. And in Ukraine, total arrears in 2001 accounted for more than 30 per cent of the country's monthly wage mass. Five million Ukrainian workers no longer get paid regularly. In the Republic of Moldova, the delays can be as much as two years. In Bulgaria, wage debt grew sevenfold between 1991 and 1996, and then doubled again between 1997 and 1999. Unpaid wages in Belarus made up 7.5 per cent of the wage mass in 2001.

Africa, too, has been affected. One article in this issue of *Labour Education* describes wage debt as another African epidemic, comparable to AIDS.

Nor has Latin America been spared. According to the Brazilian government, most breaches of wage laws concern late payment. More than 50 per cent of all cases dealt with!

In China, arrears have reached millions of dollars.

During the past five years, most of the observations made by the ILO Committee of Experts on the Application of Conventions and Recommendations, concerning the Protection of Wages Convention, have been about wage arrears or about payment in kind – another topic covered in this issue.

So the decision to make Convention 95 the subject of a general survey which will be discussed at the International Labour Conference in June 2003, is wholly apt.

Wage debt is a complex problem. However, a number of factors emerge from analyses made by correspondents of the ILO Bureau for Workers' Activities (ACTRAV), as well as from the articles published in this issue.

To start with, there are the recommendations of the Committee of Experts, which has had to look into many cases of arrears. First, it should be clear to everyone that delays in the payment of wages are a flagrant violation of the letter and the spirit of the Protection of Wages Convention. After all, Article 12(1) of this standard stipulates: "Wages shall be paid regularly. Except where other appropriate arrangements exist which ensure the payment of wages at regular intervals, the intervals for the payment of wages shall be prescribed by national laws or regulations or fixed by collective agreement or arbitration award." As the Committee has repeatedly recalled, it is up to governments to ensure that the Convention is respected and that wages are paid promptly and punctually not only in the public services, where the State is the employer, but also in the parastatal and private sectors. Secondly, the Committee insists that the application of the Convention should be based on three elements: effective monitoring by labour inspectorates, strict application of the prescribed sanctions in cases of violation, and the payment not only of the sums owed to the workers but also of compensation for the prejudice caused by the delays. And, of course, legislation should be put into conformity with the Convention.

State intervention comes at a price. But doing nothing could prove even more costly. All the available studies show that wage arrears lead to a deterioration in living conditions, a lowering of household consumption and a fall in life expectancy. Moreover, all the affected countries are experiencing the development of a parallel economy, a black market and corruption.

Let there be no doubt about governments' ability to tackle the wage debt crisis. In some countries, the sudden improvements just before presidential or parliamentary elections speak volumes. Such sunny intervals show just how important to this issue is good governance.

Clearly, too, the international financial institutions should be able to play a role in this. For instance, they could usefully advise governments to embark on a social dialogue about the thorny subject of unpaid wages. Unfortunately, this has not happened yet. In this issue of *Labour Education*, tales are told of the many failures of structural adjustment and economic transition, as advocated by the IMF and, to a lesser extent, the World Bank. Also recounted is the way in which the arrears problems coincided with the launch of the first adjustment programmes. In some countries, these institutions are said to have intervened directly in order to encourage the downward revision of wage protection, notably in the case of enterprises' filing for bankruptcy. The debt burden has complicated the situation. Privatizations conducted at a forced pace, and often without transparency, are aggravating it.

So the question of wage arrears cannot be treated in isolation from a context that combines a lack of social concern in economic adjustment and transition efforts, the fragility of democratic or newly democratizing systems, a weak tradition of dialogue and a distrustful, even hostile, attitude to the independent organized labour movement.

These are the same factors that form the backcloth to the general erosion of purchasing power in the transitional economies or the countries undergoing structural adjustment. So this issue also looks at the question of the minimum wage. The role of the minimum wage in combating poverty is no longer in doubt (as long as it is set at a reasonable level and within a framework of social dialogue). This is also true in the industrialized countries. Thus, according to the British trade unions, the introduction of a minimum wage in the United Kingdom in 1999 lifted millions of people out of poverty, without causing the rise in unemployment that its detractors had predicted. The success of a minimum wage will depend to a large extent on the quality of social concertation that accompanies its elaboration and implementation. That is why, in this issue, we have also touched upon wage bargaining and trade union approaches to ensuring a just distribution of income. This must, of course, include the eradication of the pay discrimination that still affects women workers in most countries.

This issue of *Labour Education* has the modest ambition of shedding some light on the efforts needed to improve the situation of millions of people who are deprived of regular pay, who are on starvation wages or who suffer discrimination. To do so, it draws on analyses by ILO specialists and explores the courses of action mapped out by the trade union movement.

One thing is sure. The ILO standards on wage protection, on the setting of the minimum wage and on equal pay are as relevant as ever. The urgent need now is to ensure that they are respected and applied. Worker delegates will have a chance to emphasize this when the general survey is discussed at the International Labour Conference in June 2003.

Manuel Simón Velasco
Director
ILO Bureau for Workers' Activities

Note

¹ ILO: *Wages*, a workers' education manual, third edition, Geneva, 1984.

The ILO and the protection of wages

The Protection of Wages Convention, 1949 (No. 95) and Recommendation, 1949 (No. 85) are the first international labour instruments dealing in a comprehensive manner with all practical aspects of labour remuneration and seeking to accord the fullest possible protection to workers' earnings. A close look at these instruments shows that they have not lost any of their relevance.

Georges P. Politakis

International Labour Standards Department
ILO

Remuneration is, together with working time, the aspect of working conditions that has the most direct and tangible impact on the day-to-day lives of workers. Since its early days, the questions of decent wage levels and fair labour remuneration practices have been at the centre of the ILO's action and the ILO has advocated labour standards seeking to guarantee and protect workers' rights in respect of wages. The original Constitution of the ILO, which was established in 1919, referred to the "provision of an adequate living wage" as one of the improvements urgently required to promote universal peace and combat social unrest, hardship and privation affecting large numbers of people. It listed among the methods and principles which were considered to be well fitted to guide the policy of member States "the payment to the employed of a wage adequate to maintain a reasonable standard of life as this is understood in their time and country".

The 1944 Declaration of Philadelphia concerning the aims and purposes of the Organization reaffirmed that "poverty anywhere constitutes a danger to prosperity everywhere" and stressed the need for world programmes which will achieve "policies in regard to wages and earnings, hours and other conditions of work cal-

culated 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".

Origins and objectives of Convention No. 95

National laws relating to the protection of wages are among the oldest measures of social protection. The question of adopting standards with a view to regulating the medium of wage payment as well as other aspects such as wage deductions, the attachment of wages and wage guarantees in case of bankruptcy was first placed on the agenda of the International Labour Conference in 1947. Until then, the Conference had given only incidental consideration to the problems of wage protection, adopting a number of resolutions and also some provisions in various Conventions and Recommendations. At its 19th Session in 1935, for instance, the Conference adopted a resolution inviting the Office to undertake an inquiry into the "truck system" (the obligation to spend wages on goods supplied by the employers) and related practices, but the inquiry was later suspended because of the outbreak of the Second World War. At its 25th Session in

1939, the Conference included in the Contracts of Employment (Indigenous Workers) Convention, 1939 (No. 64), certain provisions relating to the question of the protection of wages, in the form of a requirement that contracts of employment are to contain particulars concerning, inter alia, the rate of wages, the method of wage calculation, the manner and periodicity of wage payments, and advances of wages. Finally, the Social Policy (Non-Metropolitan Territories) Convention, 1947 (No. 82), adopted at the 30th Session of the Conference in 1947, contains specific provisions on workers' remuneration and, in particular, provisions on wage payment in legal tender and at regular intervals, wage deductions, record keeping and wage statements, payments in kind, the place of wage payment and advances on wages. These principles had been for the most part set forth in the Social Security (Seafarers) Convention, 1946 (No. 70), adopted in 1944 by the 26th Session of the Conference, and in the Certification of Able Seamen Convention, 1946 (No. 74), adopted in 1945 by the 27th Session of the Conference.

The origins of Convention No. 95 are to be found in the report on the "Future policy, programme and status of the International Labour Organization", prepared by the Office for the 1944 Conference, in which it was pointed out that "wage policy lies at the core of the preoccupations of the International Labour Organization" and further suggested that:

... a Convention or Recommendation on methods of wage payment dealing with the periodicity of wage payments, deductions from wages, advances of wages, the prohibition of truck, the adequacy of remuneration in kind, the protection of wages in legal proceedings and similar subjects would also be of great value in relation to many parts of the world, especially in regard to rural workers.¹

The preliminary report prepared by the Office for the 31st Session of the Conference in San Francisco introduced the subject in these terms:

... the general purpose of legal measures for the protection of wages is to guarantee the worker against practices which would tend to make him unduly dependent on his employer and to ensure that he receives promptly and in full the wages which he has earned. To achieve these ends it is necessary that he should normally receive his wages in the form of money which he can spend as he wishes, that he should be paid regularly and at intervals short enough to allow him to live on a cash rather than a credit basis, that he should be protected against any unjustified or arbitrary deductions from his nominal earnings and, in general, that he should be kept informed of his wage conditions of employment.²

Scope and content

The Convention (Article 2) applies to all persons to whom wages are paid or payable, although the competent authority may, after consultation with employers' and workers' organizations, exclude persons who are not employed in manual labour or are employed in domestic service or similar work and whose conditions of employment are such that the application to them of all or any of the provisions of the Convention would be inappropriate. To make use of exemption possibilities, a ratifying State has to specify in its first annual report submitted under article 22 of the Constitution any categories of persons which it proposes to exclude from the application of the Convention, additional exclusions not being possible after the date of its first annual report, while in subsequent reports it has to indicate any progress made with a view to the application of the Convention to such categories of persons. The term "wages" (Article 1) is used in a generic sense to cover all earnings or remuneration, however designated or calculated, capable of being expressed in terms of money and fixed by mutual agreement or by national laws or regulations, which are payable in virtue of a written or unwritten contract of employment by an employer to an employed person for

work done or to be done or for services rendered or to be rendered.

Wage payment in legal tender. The Convention (Article 3) guarantees that the remuneration owed by the employer to the worker by virtue of a contract of employment must be paid in cash. This requirement for legal tender may also take the form of a prohibition of payment in the form of promissory notes, vouchers, coupons or other tokens taking the place of money.

Payment in kind. In the earlier stages of industrial development wages were paid in other media such as food, clothing and shelter. This method of payment, known as the “truck system”, led to abuses and was thus generally prohibited. It has always been recognized, however, that in particular industries and occupations, such as agriculture, mining, construction work in remote areas, merchant marine, hotels and restaurants, hospitals and domestic service, allowances in kind offer certain advantages to the workers and are often equally beneficial to their family members. In a number of countries, therefore, labour laws and regulations provide for exceptions to the principle of payment in cash, while seeking to protect the wage earners by laying down concrete conditions which authorized payment in kind should meet. In some cases, regulations specify that the goods supplied to workers should be of suitable quality and sufficient quantity, while in other cases employers are required to supply allowances at cost price, or at specially favourable rates. Strict regulation is all the more necessary as, in many cases, the value of the goods provided in lieu of wages can be deducted from the cash wages. By way of safeguard, the labour legislation in certain countries specifies that deductions cannot be authorized except with the express consent of the worker concerned, whereas in other countries regulations fix the maximum percentage of cash wages which may be deducted.

The Convention (Article 4) recognizes that in those industries or occupations where the partial payment of wages in the

form of allowances in kind is customary or desirable because of the nature of the industry or occupation concerned, national laws or regulations, collective agreements or arbitration awards may authorize such payment subject to the following conditions: (i) the payment of wages in the form of liquor of high alcoholic content or of noxious drugs is not permitted in any circumstances; and (ii) when authorized, adequate measures have to be taken to ensure that such allowances are appropriate for the personal use and benefit of the worker and his family and also that the value attributed to such allowances is fair and reasonable.

Freedom of workers to dispose of their wages. It is not enough that workers should receive the wages due to them in full and in a regular fashion. They must also be able to spend them as they choose. Any constraint on the part of the employer on the use of the wage should be forbidden. The Convention (Articles 6 and 7) expressly prohibits employers from limiting in any manner the workers’ freedom to dispose of their wages and recognizes the workers’ right to make use of a company store, where one exists, only if they so wish. It also provides that the competent authority has to take appropriate measures to ensure that works stores are not operated for the purpose of securing profit, but for the benefit of the workers concerned, and that the goods are sold at fair and reasonable prices, where access to other stores and services is not possible. These provisions are supplemented by another clause included in the Recommendation (Paragraph 9) suggesting appropriate measures to encourage arrangements for the association of representatives of the workers concerned, and more particularly members of works welfare communities or similar bodies, in the general administration of works stores or similar services established in connection with an undertaking for the sale of commodities or provision of services to the workers.

Wage deductions. The regulation of deductions is necessary to protect workers from arbitrary, unfair or excessive deduc-

tions which would amount to an unjust decrease of their remuneration. The Convention (Article 8) sets out the principle that deductions should be permitted only under prescribed conditions and that such conditions should be required to be brought to the notice of the workers in the manner deemed most appropriate by the competent authority.

Attachment and assignment of wages. The Convention (Article 10) provides that the conditions under which and the limits within which wages may be attached or assigned should be prescribed by national laws or regulations. It also stipulates that wages should be protected against attachment or assignment to the extent deemed necessary for the maintenance of the worker and his family. The rationale behind this provision is similar to that regarding deductions, i.e. there must be a proportion of the worker's wage which is absolutely essential to the maintenance of the worker and his family and which for that reason must be immune from attachment or seizure.

Wage guarantee in the event of bankruptcy. One of the oldest established measures of social protection consists of provisions to protect workers' claims in the event of the insolvency of their employer, since wages are recognized as being essential for the worker's maintenance and often equally vital for the subsistence of the worker's family. To avoid a situation where wage earners are deprived of their livelihood upon the bankruptcy of their employer, provisions have to be made to guarantee the immediate and full settlement of debts owed by the employer to workers. The Convention (Article 11) spells out the almost universally recognized principle according to which wage claims should be treated as privileged debts in the event of the bankruptcy or judicial liquidation of an undertaking. However, the Convention allows each State to determine the relative priority of wages constituting a privileged debt, as well as the overall limits, in terms of a maximum period of service or amount,

within which outstanding wage claims are to be accorded preferential treatment. The principle of the preferential treatment of wage claims in the event of the employer's insolvency was later substantially reinforced through the adoption of the Protection of Workers' Claims (Employer's Insolvency) Convention (No. 173) and Recommendation (No. 180), 1992.³

Periodicity, time and place of wage payments. The Convention (Article 12) lays down the obligation to pay wages at regular intervals, to be prescribed by national laws or regulations or fixed by collective agreement or arbitration award. The rationale underlying this provision is to discourage long wage payment intervals and thus to minimize the likelihood of indebtedness among workers. The Recommendation (Paragraphs 4 and 5) deals with the periodicity of wage payments in greater detail and suggests that workers whose wages are calculated by the hour, day or week should be paid at least twice a month, and not less than once a month for salaried employees. It also recommends that workers whose wages are calculated on a piece-work or output basis should be paid, so far as possible, not less than twice a month, while in the case of workers employed by the task, the completion of which requires more than a fortnight, payments should be made on account, not less than twice a month in proportion to the amount of work completed, and the final settlement should be made within a fortnight of the completion of the task.

Notification of wage conditions and statement of earnings. The Convention (Article 14) calls for effective measures, where necessary, to ensure that the workers are informed in an appropriate and easily understandable manner of the general wage conditions to which they are subject before they enter employment, as well as of the wage details concerning the calculation of their earnings in respect of each pay period. The provisions of the Convention are supplemented by more detailed provisions in the Recommendation. With respect to

notification of wage conditions, the Recommendation (Paragraph 6) specifies that the details of the wage conditions which should be brought to the knowledge of the workers should include: (i) the rates of wages payable; (ii) the method of calculation; (iii) the periodicity of wage payments; (iv) the place of payment; and (v) the conditions under which deductions may be made. As regards wage statements and payroll records, the Recommendation (Paragraphs 7 and 8) provides that, in all appropriate cases, workers should be informed with each payment of wages of the following particulars relating to the pay period concerned, in so far as such particulars may be subject to change: (i) the gross amount of wages earned; (ii) the amount of any deduction which may have been made including the reasons therefor; and (iii) the net amount of wages due. In addition, employers should be required in appropriate cases to maintain records showing, in respect of each worker employed, the above particulars.

Implementation through national laws. The Convention (Article 15) requires that the laws and regulations giving effect to its provisions have to be made available for the information of persons concerned, define the persons or institutions responsible for compliance, prescribe effective sanctions or other remedies to punish infringements, and finally provide for the maintenance of adequate payroll records.

Role and impact of the supervisory bodies

The number and nature of the comments made by the Committee of Experts on the Application of Conventions and Recommendations (CEACR) in recent years concerning the practical application of the Convention in ratifying States attest to the continued relevance of most of its provisions.⁴ While certain requirements of the Convention, such as those relating to the notification to workers of wage conditions, the payment of wages directly to the

worker concerned, the operation of works stores or the payment of wages on working days and at or near the workplace seem to be generally complied with, others, such as those regarding the payment of wages in kind, the wage deduction limits, or the preferential treatment of wage claims in case of bankruptcy, have not elicited the same degree of legislative conformity on the part of ratifying States. Yet, most importantly, the provision respecting the regular payment of wages has recently turned into an urgent issue for a growing number of countries, especially those of Central and Eastern Europe following their transition to a market economy, and also in Africa and Latin America.⁵ In the last five years, practically all the observations formulated by the Committee of Experts in respect of Convention No. 95 have referred to problems of wage arrears and the failure of the governments concerned to ensure the regular payment of wages in accordance with Article 12, paragraph 1, of the Convention. Similarly, in the past ten years, the Conference Committee on the Application of Standards (CCACR) has regularly considered individual cases referring to persistent problems of wage arrears. In addition, in the past decade, the Governing Body has dealt with seven representations made under article 24 of the ILO Constitution alleging non-observance of Convention No. 95, mostly in respect of delayed payment of wages.

In relation to wage arrears, the Committee of Experts has consistently pointed out that delays in the payment of wages clearly contravene the letter and the spirit of the Convention and has stressed that the application of the Convention should comprise three essential elements in this respect: (i) efficient control; (ii) appropriate sanctions; and (iii) means to redress the injury caused, including not only the full payment of the amounts due, but also fair compensation for the losses incurred by the delayed payment.⁶ Another remark frequently made by the Committee of Experts is that putting an end to the accumulation of wage arrears calls for sustained efforts, an open and continuous dialogue

with the social partners and a wide range of measures, not only at the legislative level, but also in practice.⁷

Apart from the issue of timely payment of wages and rapid settlement of outstanding wage debts, the Committee of Experts has made recurrent comments on other aspects of the Convention, such as the concept of the “wages” to be protected, the principle of wage payment in legal tender, the partial payment of wages in the form of allowances in kind, wage deductions and the attachment of wages. Concerning the notion of the “wage” to be protected under the Convention, the Committee has pointed out that while the wage nature of any sums paid by an employer to an employed person for work done may vary according to national legislation, all earnings, however termed or considered for the purpose of calculating the base wage, benefits and other allowances, have still to enjoy full wage protection in accordance with the provisions of Articles 3 to 15 of the Convention.⁸ In relation to the payment of wages in legal tender, the Committee has stressed that the relevant provision is sufficiently clear and precise, and therefore practices such as providing convertible tokens of the currency in place of cash, or paying wages in local government bonds, or converting wage arrears into an internal debt are inconsistent with the requirements of the Convention.⁹

With regard to payments in kind, the Committee of Experts has principally focused its comments on the need for adequate guarantees that allowances in kind are indeed beneficial to workers and their families and they are valued reasonably.¹⁰ In concrete terms, the Committee has underlined three main points: first, the modalities of such payments are to be regulated by legislation, collective agreement or arbitration award, and not left to individual agreement between the employer and worker. Secondly, setting an upper limit on the amount of wages which may be paid in kind does not resolve the problem of how the valuation of these allowances is to be made. Thirdly, when payment consists of allowances other than

food and lodging, specific provision needs to be made to ensure that allowances in kind are appropriate for the personal use and benefit of workers and their families. The Committee has also repeatedly emphasized the need for a legislative provision explicitly prohibiting the payment of wages in the form of alcoholic drinks or narcotic substances.¹¹

With respect to deductions, the Committee of Experts has on a number of occasions drawn attention to the fact that provisions of national legislation authorizing deductions by virtue of individual agreement or consent are not compatible with the terms of the Convention. The Convention is considered as fully applied by States whose national laws or regulations specify the types and fix the overall limits of permissible deductions, and also prohibit any other deductions. In other instances, the Committee has emphasized that there is an obligation to keep workers informed of the legal provisions regulating wage deductions.

Regarding the attachment or assignment of wages, the Committee of Experts has concentrated its comments on whether or not the ratifying States have in fact adopted national laws and regulations which set out the conditions and the limits within which wages may be attached or assigned, and which protect wages against both of these procedures to the extent deemed necessary for the maintenance of workers and their families. Concerning the requirement for a prompt final settlement of outstanding wage payments upon the termination of the employment relationship, the ILO’s supervisory bodies have affirmed that such an obligation applies to all persons to whom wages are paid or payable, irrespective of the characteristics of their contracts, formal or non-formal, whatever the cause of the termination, and independently of the nationality of the workers concerned.¹²

Finally, it should be noted that, at its forthcoming annual session (Nov.-Dec. 2002), the Committee of Experts will be considering for adoption a general survey of national law and practice in regard to the

Protection of Wages Convention (No. 95) and Recommendation (No. 85) on the basis of reports which have been supplied by member States under article 19 of the ILO Constitution.

Notes

¹ See International Labour Conference, 26th Session, 1944, Report I, p. 51.

² See International Labour Conference, 31st Session, 1948, Report VI (c)(1), p. 3. For the Conference discussions which led to the adoption of the Convention and the Recommendation, see ILO, *Record of Proceedings*, International Labour Conference, 31st Session, 1948, pp. 459-469, and International Labour Conference, 32nd Session, 1949, pp. 324-332, 499-524. To date, Convention No. 95 has been ratified by 95 member States.

³ Convention No. 173 entered into force in 1995 and has so far been ratified by 14 member States.

⁴ It should be recalled that, following the recommendations of the Working Party on Policy regarding the Revision of Standards which was set up in 1995 for the purpose of assessing actual needs for the revision of standards, the Governing Body has decided to include Convention No. 95 among the Conventions which are considered up to date and the ratification of which should be encouraged since they continue to respond to current needs; see GB.283/LILS/WP/PRS/1/2, para. 17.

⁵ See ILO, Report of the Committee of Experts, 1997, *General Report*, paras. 71-73, p. 21. In Ukraine, for instance, the non-payment of wages began in 1994 and by 1998 wage arrears had grown to more than 5 billion hryvnya (nearly US\$3 billion). This amount is greater than a six-month wage bill for the entire country. In total, nearly 200,000 enterprises reported an inability to pay wages; see ILO, *Ukraine: Country Employment Policy Review*, 1999, p. 50. Similarly, in the Russian Federation, the number of workers affected by arrears is huge. According to March 1996 data, only 60 per cent of workers received their last wage in full and on time. About a quarter of employees received a wage on time but were not paid in full, whilst around 11 per cent received their wage late and not in full; see H. Lehmann, J. Wadsworth and A. Acquisti: *Crime and punishment: Job insecurity and wage arrears in the Russian Federation*, 1998, p. 6. See also OECD: *Russian Federation*, Economic Surveys, 1997, pp. 36-37.

⁶ See, for instance, ILO, Report of the Committee of Experts, 2000, p. 215 (Russian Federation); 1998, p. 212 (Russian Federation); 1997, p. 227 (Ukraine); 1995, p. 233 (Turkey). See also the report of the Committee set up to examine the representation under article 24 of the Constitution alleging non-observance by the Russian Federation of Convention No. 95, Nov. 1997, GB.270/15/5, paras. 30-40, pp. 7-10; and the

report of the Committee set up to examine the representation under article 24 of the Constitution alleging non-observance by Congo of Convention No. 95, Mar. 1996, GB.265/12/6, paras. 21-24, pp. 6-7.

⁷ See, for instance, ILO, Report of the Committee of Experts, 2001, p. 354 (Congo); 1999, p. 319 (Ukraine); 1998, p. 216 (Ukraine). See also ILO, *Record of proceedings*, International Labour Conference, 86th Session, 1998, p. 18/101, and International Labour Conference, 75th Session, 1988, p. 28/48.

⁸ See, for instance, ILO, Report of the Committee of Experts, 1998, p. 217 (Venezuela). See also the report of the Committee set up to examine the representation under article 24 of the Constitution alleging non-observance by Venezuela of Convention No. 95, Mar. 1997, GB.268/14/9, paras. 17-23, pp. 5-8.

⁹ See, for instance, Report of the Committee of Experts, 2001, p. 355 (Costa Rica); 1997, p. 219 (Argentina). See also the report of the Committee set up to examine the representation under article 24 of the Constitution alleging non-observance by Congo of Convention No. 95, Mar. 1997, GB.268/14/6, para. 21, p. 5.

¹⁰ See, for instance, Report of the Committee of Experts, 1996, p. 179 (Greece); 1993, p. 245 (Egypt).

¹¹ See, for instance, the report of the Committee set up to examine the representation made under article 24 of the Constitution alleging non-observance by the Republic of Moldova of Convention No. 95 which reads in part: "the Committee does not need to insist that Article 4 of the Convention may only be understood as laying down a comprehensive prohibition against replacing salaries and other contractual remuneration by harmful products such as alcoholic beverages, narcotic substances or tobacco. The Committee recalls, in this respect, that the Committee of Experts on the Application of Conventions and Recommendations has consistently read into the provision of Article 4, paragraph 1, of the Convention a clear proscription of wage payment in the form of alcoholic beverages or noxious drugs of any sort and in any circumstances. Moreover, the Committee is of the opinion that the exclusion of liquors and noxious drugs from permissible allowances in kind should be read in conjunction with the provision of Article 4, paragraph 2, of the Convention which limits payment in kind to those allowances which are appropriate and beneficial to the worker and his family"; GB.278/5/1, para. 32, p. 7.

¹² See, for instance, Report of the Committee of Experts, 2001, p. 356 (Côte d'Ivoire); 1997, p. 223 (Libyan Arab Jamahiriya); 1992, p. 260 (Iraq). See also the report of the Committee set up to examine the representation made under article 24 of the Constitution alleging non-observance by Mauritania of Convention No. 95, *Official Bulletin*, Vol. 74, 1991, Series B, Supplement 1, paras. 68-69, 71 and 75, pp. 15-16, and the report of the Committee set up to examine the representation made under article 24 of the Constitution alleging non-observance by Iraq of Convention No. 95, May-June 1991, GB.250/15/25, paras. 23-24, pp. 4-5.

The local ups and downs of a universal principle

The universal principle that labour is not a commodity was interpreted in highly specific ways in the United States during the first half of the twentieth century.

Louis Bredow
Journalist

“Labour is not a commodity,” states one of the ILO principles adopted in 1944 by the International Labour Conference held in Philadelphia. Although the principle was proclaimed unanimously, it probably had different connotations for different members of the tripartite delegations from the 41 countries that attended the Conference.

Most of the delegates to the Conference – which was convened at the height of the Second World War – were aware of the threats that could rapidly materialize as soon as the war was over. The social truce which trade unions had agreed to in order to support the war effort in their respective countries would come to an end, and many demands put on hold by the war would once again be made. The winding up of the war industries was expected to result in job losses, but no one had a clear idea of how to adapt the production system to peacetime purposes. Furthermore, it was feared that the return of large numbers of troops to civilian life would further swell the great wave of mounting unemployment. All of these prospects made Marx’s analysis particularly relevant, since, starting out from the premise that labour was a commodity, Marx had predicted the emergence of serious social conflicts if market forces were allowed to push wages down. Ironically (and cruelly), the end of the war foreboded more violence.

Thus, in affirming the principle that labour was not a commodity, many delegations to the ILO Conference were expressing their determination to counter those grim forecasts. Many employers, trade unionists and progressive politicians agreed on the need to remove labour from the influence of the market and to regulate wages through long-term collective agreements endorsed by the state. Only in this way could full employment and industrial peace be guaranteed. Faced with these urgent tasks, the Conference hastened to establish the universal principles that would act as beacons for the welfare state and decent work for everyone.

The desire to prevent the livelihood of human beings from being determined by the inhuman mechanisms of supply and demand had already been voiced many years earlier. For example, the idea that labour should not be a commodity was at the very heart of Catholic social doctrine. Pope Leo XIII had put forward this principle in 1889, and 40 years later, in 1931, Pius XI’s encyclical *Quadragesimo Anno* restated the theological arguments underpinning that principle. However, the arguments advanced in support of the principle were not just ethical, but also economic, and a very wide range of social thinkers were persuaded that any economic system which tolerated the exploitation of workers was doomed to violence and crises.

Thus, during the first half of the twentieth century, the idea that labour should not be a commodity found support both in Christian theology and in non-Marxist economic and social theories. Not surprisingly, therefore, a broad consensus legitimated the principle when it was proclaimed in the 1944 Declaration of Philadelphia.

As part of that consensus, however, the importance American trade unionists attached to the principle is particularly noteworthy. "Labor is not a commodity" was a very popular slogan among workers in the United States and the principle that it encapsulated bore special significance for them. Indeed, American trade unionists proclaimed it with a view to removing what for many years had been the greatest obstacle to the development of the trade union movement in that country, namely the stringent provisions of the law protecting against monopolies, or *Sherman Anti-trust Act*.

The adoption of the principle by the ILO was expected to strengthen the position of American trade unions in the legal battle they had been waging for years against the employers.

In fact, since 1890, US employers had successfully been developing a legal strategy that assimilated labour to a commodity. On several occasions the employers' attorneys had succeeded in making the law courts apply the Antitrust Act against the unions. The Act outlawed "every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce" and could be interpreted in such a way as to characterize trade union organizations as "conspiracies" and industrial action or boycotts by the workers as limiting the trade in the commodity of "labour". On the strength of such an interpretation of the Sherman Act, the employers had secured injunctions from the law courts to effectively put an end to a wide range of trade union activities. By means of injunctions, the employers could prevent workers from forming a union, organizing a strike or pressing their claims in any other way. The injunctions could be

enforced with the help of state or federal troops, so trade union activity was disrupted by the forces of law and order before it could lead to negotiations with the employers.

The trade unions consistently argued that the Sherman Act had been adopted to regulate the commerce or exchange of commodities, but labour could not be considered a commodity. They therefore denied that the draconian Sherman Act was relevant to labour issues. However, their argument had no specific basis in case law, and for many years the unions were defenceless in the face of the Sherman Act, which became a major obstacle to the development of trade union demands and the American labour movement.

The unions had to endure the legalized violence sanctioned by the Antitrust Act for 24 years before the Clayton Act was finally passed in 1914 under pressure from the labour movement. Through this law, trade unionists succeeded in introducing the principle that "the labour of a human being is not a commodity or article of commerce" and that therefore trade union activities did not fall within the scope of the Sherman Act. So we can now understand why the proclamation of the same principle by the ILO Conference in Philadelphia had very special significance for American workers.

The Clayton Act was a major success for the labour movement.¹ By reducing the number of injunctions which, on the basis of the Sherman Act, prevented industrial action, it enabled workers to carry out strikes, boycotts and peaceful demonstrations effectually.

It is not surprising that the founding President of the American Federation of Labor, Samuel Gompers, considered the Clayton Act the "Magna Carta" of trade unionism in the United States.

The Clayton Act served the purpose of preventing the Sherman Act from being misused against organized workers. But, though affording trade unions a certain degree of protection against the antitrust legislation, it also gave rise to considerable controversy.

A good example of this occurred in the period following the Philadelphia Conference.²

In mid-1945 the Supreme Court of the United States had to decide whether the actions of a particular union were unlawful under the Sherman Act or whether, on the contrary, they were protected by the Clayton Act. The case was brought before the Supreme Court after several years of legal proceedings.

The defendant was Local Union No. 3 of the International Brotherhood of Electrical Workers (IBEW), with jurisdiction over New York City. The plaintiffs were several manufacturers of electrical equipment whose factories were located outside the city. They argued that the union was preventing them from manufacturing and selling their goods in the New York metropolitan area because of the closed-shop agreements which the union had concluded with electrical installation contractors in the city. In fact, the latter were not allowed to hire personnel that were not members of the union.

Summing up the facts, the Supreme Court recognized that the aim of the union was to increase its membership, reduce working hours, and improve wages and employment opportunities for its members. In order to achieve better employment opportunities, the union had arranged for electrical equipment factories in New York City to benefit from a protected market in which to sell their products.

On the strength of the closed-shop agreements in force in the electrical installation companies, the union had instructed its members to boycott the installation of any electrical implement manufactured by companies located outside New York City. The companies entrusted with installing electrical equipment had therefore been forced to buy their supplies from factories in New York that exclusively employed members of Local Union No. 3. Factories were also being forced to sell their products exclusively to local installers who had concluded closed-shop agreements with the union.

As might be expected, in the absence of competition, electrical equipment facto-

ries in New York City experienced a major boom in that period. The number of jobs multiplied, wages rose and working hours decreased.

These practices alarmed manufacturers located outside the city boundaries. Not only were they effectively being prevented from marketing their products in the country's largest conurbation, but now they also found that their own markets were being eroded by competitors who could sell products at cut-throat prices. Manufacturers located outside the city feared that, as a result of these developments, they would eventually lose their markets and be taken over by the metropolitan companies. They therefore sought the protection of the law courts, invoking the Sherman Antitrust Act.

In the opinion of the original-jurisdiction judge, it was fairly obvious that the practices in question violated the provisions of the Sherman Act. The judge issued injunctions against the union, ordering it to put an end to some of its practices.

In the event, however, the Court of Appeals overturned the decision of the Court of First Instance, arguing that the activities of the trade union could not be judged under the Sherman Act since the Clayton Act expressly prohibited doing so. The Court of Appeals quoted the relevant paragraph of the Clayton Act.³ "The labor of a human being is not a commodity or article of commerce. Nothing contained in the antitrust laws shall be construed to forbid the existence and operation of labor, agricultural, or horticultural organizations, instituted for the purposes of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the antitrust laws."

The controversy reached the Supreme Court, which found itself in the delicate position of having to reconcile two laws

that apparently neutralized each other: the Sherman Act, designed to protect an economy based on free competition, and the Clayton Act, which sought to protect the right of unions to strive for better living standards and working conditions for their members.

The courts could not order manufacturers or installers of electrical equipment to terminate their agreements since these had been negotiated collectively with the union.

The Supreme Court delivered an extensive ruling in which it expounded the difficulties it had encountered in reaching a coherent decision, given that the two main legal instruments at its disposal contradicted each other.

However, the Court stated that a conspiracy did exist between the unions and the employers, as was apparent from the fact that the employers had engaged in price-fixing. The Court decided that the union had forfeited the immunity it enjoyed under the Clayton Act and that therefore its actions fell within the scope of the Sherman Act. "Had the union acted alone, in its own interest, and had this resulted in a restraint of interstate trade, the Sherman Act would not apply. But the union helped the manufacturers and traders to violate that law, and therefore the union's immunity is annulled."

The Court's ruling did not fail to elicit criticism. "What is legal when performed in isolation should not become illegal when performed with the help of others for the same purpose. Otherwise collective bargaining will come under the threat of illegality," argued one of the judges, who had a divergent opinion.

The ruling of the Supreme Court on this matter became a precedent in case law, thus paving the way for the Sherman Act to be invoked once again in disputes between employers and unions.

Even worse was that the contradictions between the two laws led the US Congress to adopt the Taft-Hartley Act in 1947 which limits trade union rights. Key elements of the Taft-Hartley Act include the following:

- unions are forbidden to spend money or make contributions in connection with federal elections, primaries and conventions;
- the National Labor Relations Board is authorized to secure injunctions that restrain labour unions from engaging in a set of predefined "unfair labor practices";
- businesses are given the right to sue for damages from strikes or work stoppages deemed unlawful under the Taft-Hartley Act;
- employees are explicitly granted the right not to join a union and not to participate in collective action (a right that was never legally denied);
- closed-shop (a workplace in which only union members can be employed) agreements are prohibited;
- limited union-shop agreements are allowed only if a majority of the employees agree in a secret-ballot election and only if permitted by state law;
- employers are prohibited from contributing to union health and welfare funds that are not under joint labour-management administration;
- the federal government may stop a strike for a so-called "80-day cooling off period".

Nevertheless, in spite of the ups and downs it experienced, the principle that labour is not a commodity remained fully in force and the Sherman Act could not be invoked again to prevent workers from forming trade unions or engaging in industrial action. This "American adventure" could be regarded as an anecdote of merely marginal interest if it did not tellingly illustrate the questionable use to which a universal principle can be put in certain specific contexts. Hence the need to remain ever vigilant to ensure that principles and standards retain the spirit and serve the purposes for which they were adopted.

Notes

¹ Other legal instruments extended trade union rights. The Norris-Laguardia Act (1932), for example, prohibited contracts whereby an employee undertook not to join a union (“yellow dog con-

tracts”). The Wagner Act, regulating the organization of trade unions and collective bargaining, was adopted in 1935.

² US Supreme Court, *Allen Bradley Co. v. Local Union No. 3*, 325 U.S. 797 (1945).

³ Part 6 of Law 15 U.S.C.A. 17.

It pays to be union, US figures show

Unionized American workers earn much more than their non-union counterparts. Also, women and ethnic minorities face a smaller pay gap in union-organized workplaces. So why aren't more Americans in a union?

Ian Graham
Journalist

It pays to be union. That's official – at least in the United States. Once again, government statistics show that unionized workers have much higher earnings.

Last year, American union members across all sectors earned on average about 25 per cent more than their non-union counterparts, the US federal Department of Labor found.¹ Union workers averaged US\$718 a week, while the unorganized had to make do with \$575.

In almost all occupational groups, union workers fared much better than others, as shown in table 1. For workers in the protective services industry, the union advantage was a staggering 56 per cent.

"A woman's place is in her union," insists another old labour saw. Here too, the facts are firmly on the American unions' side. Women union members earn 30 per cent more than non-union women. In other words, the gender pay gap is narrower when unions are present (see figure 1), although differences certainly remain.

A similar effect can be seen for ethnic minorities. African-American union members earn 30 per cent more than their non-union counterparts and for Latino workers, the union advantage reaches 45 per cent (figure 1).

Americans generally like a bargain, so it might be expected that they would be queuing up to join the unions. But that is far from being the case. Union density – union membership as a proportion of the

organizable workers – has fallen dramatically over the past few decades.

US union density peaked in 1945-46 and in 1954, when 35 per cent of workers were union members. By 1983, this had declined to 20.1 per cent. After that, a steep drop brought it down to 13.5 per cent in 2001 (figure 2). Moreover, the latest figure is mitigated by a rise in organizing among government services, where union density is currently 37 per cent. In private non-agricultural industry, the American unions now organize less than 10 per cent of the workforce.

So why have the American unions' organizing rates failed to match their very clear achievements on the wages front? One reason often advanced by US trade unionists themselves is that they did not place a high enough priority on new organizing during the 1970s and 1980s. They changed that approach in the 1990s, when the "Union Yes" slogan heralded a new emphasis by sectoral unions and the national labour federation, the AFL-CIO. Big new funds went into organizing, and many more organizers were recruited. But, of course, the impact of this would take some time to be felt.

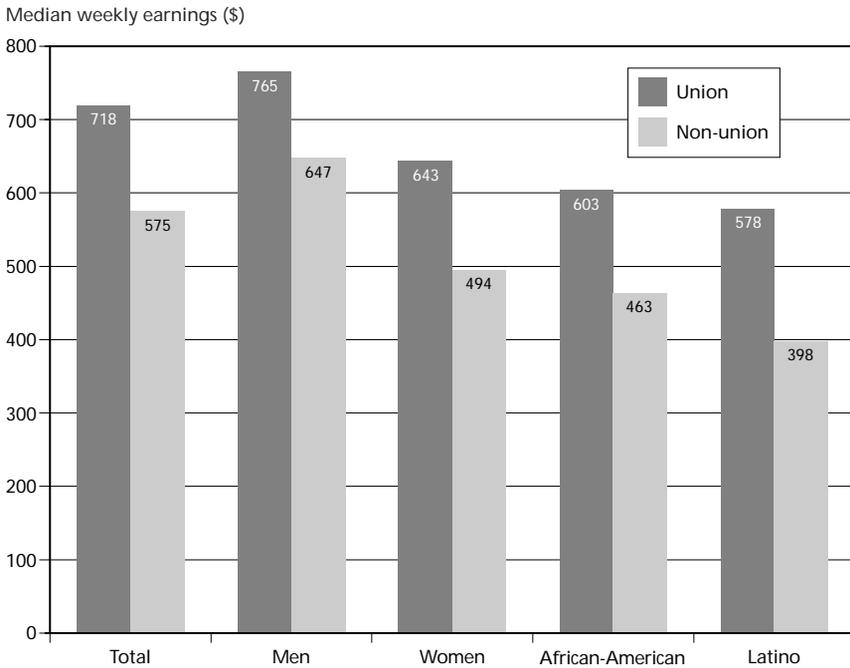
In any case, there is another, much bigger obstacle to union membership in America – anti-union employers, backed by legislation that frustrates organizing at every turn (see also the article by Louis Bredow on page 8).

Table 1. US union and non-union earnings by occupation, 2001
Full-time wage and salary workers' median weekly earnings

Occupation	Union (\$)	Non-union (\$)	Difference (%)
Total	718	575	25
Executive, administrative, manager	869	865	-0.4
Professional	864	853	0.1
Technicians	731	662	11
Sales	559	575	-3
Administrative-clerical	597	472	26
Service, protective	809	518	56
Service, other	426	333	27
Precision, craft, repair	822	590	39
Machine operators	587	421	39
Transportation, moving	724	521	39
Handlers, labourers	530	369	44
Farm, forestry, fish	587	345	70

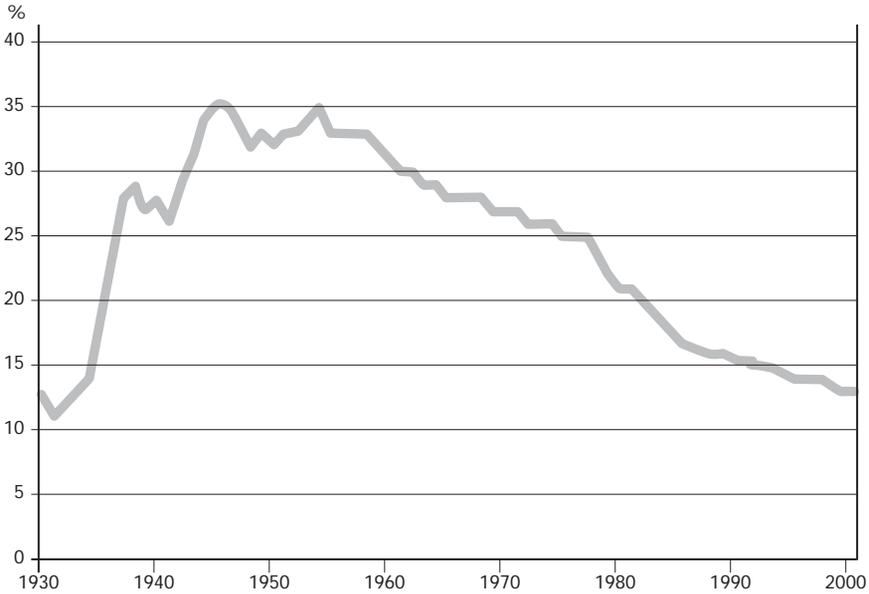
Source: US Department of Labor, *Employment and Earnings*, January 2002. Prepared by the AFL-CIO.

Figure 1. Median weekly earnings of full-time US wage and salary workers, 2001



Source: US Department of Labor, *Employment and Earnings*, January 2002. Prepared by the AFL-CIO.

Figure 2. US union density, 1930-2001



Note: Bureau of Labor Statistics information before 1981 was compiled on a different basis from the present series and it is not necessarily comparable.

Sources: Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970*; Bureau of Labor Statistics, *Handbook of Labor Statistics Bulletin 2070*, December 1980; and Bureau of Labor Statistics, *Employment and Earnings*, January, various years, 1983-2002. Prepared by the AFL-CIO.

According to a major national survey from September 2001, 68 per cent of working Americans believe that workplace rights need more protection and 65 per cent also felt that corporations have too much power and new laws are needed to hold companies responsible for the way they treat employees. The poll was conducted for the AFL-CIO by Peter D. Hart Research Associates.² It noted a 10 percentage point increase over the past five years in workers' view that management has too much power and a 12-point increase in those saying new laws are needed.

Certainly, America's labour laws have often come in for strong criticism. "The right to organize and the right to strike are not adequately protected under US labour legislation," commented the International Confederation of Free Trade Unions (ICFTU) in a detailed submission to the ILO Governing Body in March 2002.³ The AFL-CIO is an affiliate of the ICFTU,

which went on to state that American law is "unable to protect workers when the employer is determined to destroy or prevent union representation. Weak laws and enforcement also inhibit the practice of collective bargaining."

In the ICFTU's opinion, "a series of far-reaching measures needs to be taken in order to establish genuine respect for core labour standards in the US, particularly with regard to trade union rights".

But perhaps the highest-profile denunciation of US labour law came two years ago, from Human Rights Watch. In a special report, it noted that thousands of American workers are fired from their jobs each year or suffer other reprisals for trying to organize unions. Employers can resist union organizing by dragging out legal proceedings for years.⁴ The penalties for violating labour laws are so slight that companies often treat them as a routine cost of doing business. In any case, as Human Rights

Watch pointed out, millions of workers – including farmworkers, domestic household workers, low-level supervisors and “independent” contractors who are really dependent on a single employer – are deliberately excluded from the coverage of laws on organizing and bargaining rights.

Human Rights Watch called on the US Congress to ensure, amongst other things:

- rapid reinstatement and full back pay for workers who are fired for organizing;
- faster election procedures for determining union representation in a workplace;
- expedited appeals to resolve unfair labour practices more quickly;
- proper union access rights to workplaces;
- stronger remedies against bad faith bargaining by employers;
- US ratification of ILO Conventions on freedom of association and collective bargaining.

Such measures would undoubtedly boost American labour’s organizing rates.

Meanwhile, the unions continue to improve their members’ pay and conditions.

Of course, pay is about more than wages alone. Pensions are an important part of any remuneration package. So is health coverage, particularly in the US where there is no generalized health insurance scheme.

On these points, too, union members win. Government figures in 1999 showed that 73 per cent of unionized workers in American private industry participated in medical care benefits, as against just 51 per cent of non-union workers. Similarly, 79 per cent of union workers were covered by pension plans, compared with 44 per cent of non-union workers.⁵

Retirement benefits are a sore point for American workers these days. The recent big corporate collapses suddenly threw long-serving employees on to the street but

also, in many cases, robbed them of their retirement savings. Not only had employer contributions to pension schemes been invested in the company’s own stock, but there had also been a growing tendency to press workers to put their own retirement savings back into the company.

Tough questions are now being asked about the wisdom and morality of ploughing employees’ pension funds back into their employers’ finances. One way of “Enron-proofing” retirement provisions is through defined-benefit pension plans. These carry insurance and are thus somewhat better protected against employer bankruptcies.

Significantly, the 1999 figures showed that 70 per cent of union members in American private industry had defined-benefit retirement coverage, but only 16 per cent of non-union workers...

Notes

¹ The figures on earnings and union membership in this article, and the tables and graphics, are taken from *The union difference*, an online publication of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). In turn, the AFL-CIO drew its statistics from two main sources: US Department of Labor, *Employment and earnings*, January 2002, and Bureau of National Affairs, *Union members and earnings data book*, 2000. *The union difference* is online in English at <http://www.afcio.org/uniondifference/index.htm> and in Spanish (as a PDF) at http://www.afcio.org/uniondifference/diferencia_sindical.pdf

² AFL-CIO, *Workers’ rights in America*, September 2001. Also downloadable as a PDF at <http://www.afcio.org/rightsinamerica/report.pdf>

³ *Freedom of association and effective recognition of the right to collective bargaining*, document for the ILO Governing Body, 283rd Session, March 2002. This document reproduces information received and does not represent the opinion of the ILO. The section on the United States begins on page 179. A PDF version can be downloaded at <http://www.ilo.org/public/english/standards/relm/gb/docs/gb283/pdf/gb-3-2-coll.pdf>

⁴ Human Rights Watch, *Unfair advantage*, August 2000. Also available online in English, French and Spanish at <http://www.hrw.org/reports/2000/uslabor>

⁵ Bureau of Labor Statistics, *Employee benefits in private industry*, 1999.

Wage debt: Africa's other plague

Non-payment of wages has reached epidemic proportions in parts of Africa. It has serious, even fatal, consequences for the workers concerned. And it is undermining education, health, democracy and the rule of law.

André Linard

Journalist

With contributions from
the Syfia International network

On 20 June 2002, workers from Senegal's supplementary nutrition programme marched through Dakar demanding payment of four months' wage arrears. Before that, and for the same reason, the workers of the Dakar public transport company Sotrac and the textile workers had taken to the streets several times.

These are just a few recent examples among many. They illustrate a common practice on the continent of Africa – delayed payment of wages, sometimes so delayed that it amounts to non-payment.

In September 2001, the staff of the Côte d'Ivoire newspaper *Fraternité Matin* were suddenly faced with the result of a pull-out by the State. One Friday, they found just 5,000 francs CFA (less than US\$7) in their pay packets. In February 2002, the staff of Air Afrique were hit when the company filed for bankruptcy. It already owed two months' wages to its workers in Togo and Benin, and six months' pay to those in Côte d'Ivoire. And so it goes on ...

If we look back a little farther in time, many more examples come to light. "The only thing that isn't going up is officials' salaries," wrote a Central African journalist in mid-1997. "But in any case, none of them have seen any money since the beginning of the year. At the end of April, after threatening to go on strike, they did get one payment. It was their salary for December

1996." (Germain Sylai Gotto, Agence Syfia, June 1997.)

In the Democratic Republic of the Congo, the mining concern Gécamines was similarly hit. Its new boss, appointed in 1999, paid off part of the outstanding wages, but "the previous wage arrears, for 1997 and 1998, could not be covered. On the contrary, further wage debts accrued, up to 2001, so that today, some 18 months' pay is owing." (*Le Phare*, Kinshasa, 3 May 2002.)

In Madagascar, there are at least three different types of delay – wages that are never paid, delayed payments and arbitrary wage cuts.

Other variants exist, such as a Zimbabwean case denounced by the ICFTU: in October 2001, "about 200 cleaners at the Harare Central Hospital were suspended pending dismissal.¹ They had been on strike since September 24 in protest at being paid less than half the monthly salary they were contracted to have." Another problem is the non-payment of wages to trade union representatives who have been suspended because of their activities, as in Malawi.²

All sectors affected

Different sectors are affected in different places, depending on the situation. In Sen-

egal, it is the private enterprises that fall behind. Many company bosses do not abide by the legislation on wages. The worst-hit sectors are transport, textiles and food and agriculture. "Over the past five years, there has been a steep rise in the number of disputes linked to wage payment problems, and the courts have been swamped with cases," explains lawyer Ablaye Fall, a labour law specialist in Dakar. On the other hand, public servants' salaries are paid regularly.

But what goes for Senegal does not necessarily hold true elsewhere. In Cameroon, for instance, many town halls have faced labour disputes over the pay owed to council staff. "Our salaries were cut, like those of all state employees, but in fact, we're not employed by the state," explains Mahzou, a town clerk in Douala. "Later, the state employees' salaries were raised back up a bit, but not ours."

So they counted as state employees when it came to pay cuts, but not for pay rises. Playing around with employment status is another way of avoiding full payment of wages.

In Madagascar, employees of public enterprises, or companies in which the State holds shares, are among the first to suffer. Then the short-term staffers, in other words those state employees who never make it into the great family of civil servants. Then the workers in small and medium-scale enterprises, many of which are run by foreigners.

Bad management and world markets

Non-payment of wages is due to at least three causes – lethargic leadership, corruption and bad management. In Madagascar, for example, more than 150 public enterprises are scheduled for privatization, and some are being run down by executives who intend to buy them on the cheap later. But a badly managed enterprise does not have the resources to pay wages. A good case in point is the National Malagasy Rail Network (RNCFM). Since 1996, this company has been shunted into a siding. "No

development strategy has been put in place. The last big repairs date back to 1992!" exclaims Rambelo Jacky, RNFCM's chief executive. The result: since 1998, the staff have received only half of their salary, which has never been revised. For the past six months, they have received nothing at all.

Delays in wage payments may also be due to external causes, such as economic conditions. Thus, in Benin the fall in the price of cotton on the world market (down from US\$1,300 a tonne in 2000 to US\$660 in June 2000) deprived the cotton company Sonapra of resources, and the producers and transporters have not been paid. Similarly, some delays in paying state employees (civil servants, teachers and so on) are due both to administrative failings and to the strangulation caused by structural adjustment plans. In developing economies, enterprises do not necessarily have the reserves or the easy access to credit that would enable them to weather a cash-flow crisis.

Near-slavery

The consequences of delayed payments can be many, varied and serious – for the workers, the enterprise and society as a whole.

The first to suffer are, of course, those who have earned their pay but do not receive it. Sometimes, their situation is dramatic. On Madagascar's railways, during the first six months, about 40 employees died from impoverishment. The families of some unpaid workers are now living in old rolling stock. As for the 24,000 workers at Gécamines and their families, they have been left without any social protection. "In Kinshasa and Matadi, families are being turned out of their homes; the children are being kicked out of school; hospitals, clinics and laboratories are slamming the door in their faces..." (*Le Phare*, Kinshasa, 3 May 2002.)

In the fight for survival, these workers can sometimes find themselves in situations that are close to slavery. In Africa, one of the main causes of forced labour is

indebtedness.³ During the war in the Democratic Republic of the Congo, unpaid public servants contracted debts with usurers and were forced to do agricultural work on the moneylenders' farms. Some of the workers sold their children in order to repay their debt.

To avoid ending up without any income, workers are also sometimes driven to seek alternatives, and this can be to the detriment of the enterprise or other social groups. Many desert their posts and go off to work elsewhere, in order to make ends meet. Take the case of Mose, a short-term employee at the Ministry of Agriculture in Madagascar. He gets into the office at first light. An hour later, having put in an appearance, he is off to a little garage where he can earn a crust by doing small repairs. At 4 pm, he goes back to the office to clock off. Then straight on to his other job, driving a taxi. Asked about his absences, Mose replies, "My boss understands. After all, the family has to survive somehow. The State can't offer me anything better!"

Unpaid or underpaid workers do indeed sometimes have to take on a second job and may be tempted to absent themselves during working hours in the search for additional income. In Cameroon, the head teacher of a primary school in Douala explains that "due to inadequate incomes, some teachers can no longer afford to pay for their transport to work. So they no longer come to the school, and you can imagine the losses involved."

Sometimes, the consequences are worse, entailing corruption and extortion. Teachers deprived of their salaries frequently require "contributions" from parents, so certificates and lessons are literally up for sale. And then there are the policemen who impose arbitrary fines and pocket the proceeds. Unpaid journalists, meanwhile, resort to advertorials, sponsored features, "buff envelopes", hacking. Call it what you will. In all of these cases, late payment or non-payment of salaries has consequences that reach far beyond the workers concerned. The victims are the education system, the rule of law, democracy – in short, the whole of society.

Trade union action

Certainly, there are solutions to this problem, but they are not simple. Often, the workers face a dilemma. Should they protest, at the risk of losing their jobs, or should they accept delayed payments in order to maintain at least some source of income? "This is a difficult battle which we often lose, because workers are much more concerned with holding on to their jobs," explains Iba Ndiaye Diadji. He heads the Confederation of Autonomous Trade Unions of Senegal (CSA).

In Madagascar, for instance, despite all the failings, few complaints are lodged with the labour inspectorate. Unpaid wages account for only 10 per cent of the complaints registered.

Does the existence of trade unions help to ensure regular payment for the workers? Yes, trade unionists generally reply. "The existence of unions is extremely important, because it makes the employer think," an expert in Dakar emphasizes, "particularly when the unions are cool-headed and non-confrontational and aren't out to destroy the tools of the trade."

First and foremost, the union presence has a preventive role. If the Senegalese public services pay their staff on time, this is "linked to the prestige of the administration, but also to the fact that the most turbulent unions, such as those of the teachers, are in the public services", Iba Ndiaye Diadji explains. Of the 67,000 state employees, 25,000 are teachers.

In Senegal, experience has shown that it is more effective to promote negotiations between employers and workers. This avoids long drawn out proceedings or disputes. However, lawyer Ablaye Fall notes, "agreements should never be reached against workers' interests", because payment of wages is a right. But once a dispute flares up, it becomes difficult to negotiate, because the labour inspector has to apply the law, which states that "the matter of wages is not negotiable".

When "prevention" is not enough, trade unions proceed to other forms of action, and everything depends on the bal-

ance of strength that they can build up. In Cameroon, in the course of a few years, salaries in the public service have been unilaterally reduced. This amounts to a refusal to pay. For two years now, the Cameroonian teachers' unions have staged a wave of strikes, demanding that their salaries be restored to their pre-1993 levels and calling for a stable employment status for their members. They obtained this, a teacher's union leader explains, and this means in particular that they are now entitled to bonuses, but their employment contract "omits to specify the amount. It says that the amount of the bonuses will be determined by an implementation document, but we're still waiting for that." In the same country, town hall staff have conducted several disputes, demanding payment of salaries that have been arbitrarily reduced. The result has been that payments are now at least being made regularly, even if they are occasionally delayed for two weeks.

Training challenge

When trade union organizations represent a significant number of workers, and are independent, their members become a force that the defaulters must reckon with. But these two conditions for effective trade unionism (representativity and independence) are not always fulfilled. In Madagascar, one reason why few workers turn to the union is its political past. "I don't find it necessary to join. The existing unions are so dependent on the political parties. So their concerns often don't match those of ordinary wage-earners," admits Rajo, a worker in a free trade zone. Whether this is true, or whether it is due to a wrongful perception of trade unions, is neither here nor there. Workers who are not organized weaken their own defensive capacity, but also that of their unionized colleagues. Relying on the courts is often a gamble, given

the lack of real independence for the judges and of resources for the plaintiffs. "It's no use my going to the law. It would probably be a waste of time. If I don't have the means to 'sweeten' certain officials, I won't win my case," reveals Basile, a Malagasy driver who has been unemployed since April 2002. In 1997, Senegal introduced the concept of a "*référé social*", a plea of social urgency that may lead to an interim court order. But "there has to be an immediate danger and an absence of serious contestation", lawyer Ablaye Fall points out.

Certain heads of small and medium-scale enterprises take advantage of the credulity of some employees and refuse to pay their wages. "Certain new foreign investors don't give a damn about the labour laws here, and find pretexts for not paying their employees what they owe them," a Malagasy labour inspector maintains. This is because many workers do not know anything about their rights or the labour laws. In this situation, late payments are common.

So the main way forward is to educate workers about their rights. This is a basic trade union activity. "Most workers don't know what they're entitled to. A lot still needs to be done to teach them about the labour laws," explains the head of the Fisemare trade union in Antananarivo. Germany's Friedrich Ebert Foundation, in particular, has organized training courses for workers, so that they know their way around the labour legislation and can defend their rights. After all, laws are there to protect the vulnerable against the strong...

Notes

¹ International Confederation of Free Trade Unions (ICFTU), *Annual Survey of Violations of Trade Unions Rights 2002*.

² *ibid.*

³ See World Confederation of Labour (WCL), *Annual Report on Workers' Rights 2001*.

Unpaid salaries in Africa: An explosive issue

There is a link between wage arrears in Africa and structural adjustment programmes promoted there by international financial institutions. But government policies are also partly to be blamed for the problem.

Ibrahim Mayaki

Regional Specialist in Workers' Education
ILO Office
Abidjan

In August 2002, when employees of the Bangui local council decided to hold an eight-day all-out strike, their discontentment peaked – and with good reason, for most of the 400 council employees in the Central African Republic's capital have not been paid for the last 42 months. Aware of the administration's financial situation, they are prepared to accept seven months of back pay. Anything would be a help, as the situation is now desperate. "For the last four years, nothing has been done to ease the staff's suffering. Many of my colleagues have died in poverty, while others, because they had no money, have seen their wives or husbands and children die before their very eyes," one trade union official lamented.

The case of the local government employees in Bangui is no isolated case in French-speaking Africa (see also the article by André Linard on page 17). For nearly two decades now, the non-payment of salaries has become a widespread problem throughout Africa, particularly in public and semi-public administrations.

Is this mere coincidence? In the early 1980s, Mali started the trend of late payment of African civil servants' salaries when it embarked on a structural adjustment course designed to cure the country's

ailing finances. At that time, thousands of Malian civil servants were laid off. And not only were there redundancies, but also delayed payments for those who remained in work. Unpaid wages and "rationalization" were no doubt familiar ploys to a trade union movement that was the leading pro-democracy force and that, in 1991, brought General Moussa Traoré's regime to an end.

In the 1990s the "wage arrears club" gained new members in the Central African Republic, Chad and Niger. Benin, Côte d'Ivoire, Guinea Bissau, Madagascar and Togo were also quick to jump on this shameful bandwagon, extending the delays in payment to 42 months. In Niger, another country in the throes of structural adjustment, the number of strikes in protest at wage arrears grew virtually throughout the decade. To wipe the slate clean, the Government went as far as issuing bonds to civil servants. But the whole operation was a failure, leaving loan sharks and speculators the main winners. It was not until 1999 that social dialogue produced an agreement that finally offered a way out.

From strikes to "ghost towns" and from demonstrations to stormy negotiations, the thorny question of the non-payment of salaries in many French-speaking

African countries has remained a source of social instability. Here and there, protests have already cut short the terms of several governments which have turned a deaf ear to the calls for talks.

Today though, calm would appear to have been restored. Various draft agreements are being finalized, and in some countries social pacts between employers and trade unions have been concluded. However, unless steps are taken to consolidate such social consultation, unless the commitments that have been made are actually respected, and unless measures liable to boost economic economy are implemented, this slight improvement could be short-lived – all the more so since the phenomenon of wage arrears is now also hitting private-sector workers, who had previously remained unaffected.

Now is surely the right time to attack the roots of the problem. Admittedly, governments are not entirely wrong to point out the poor economic situation, as Carlos Pinto Pereira, Guinea Bissau's Minister of Public Administration and Labour, did last April. Last May, the Guinea Bissau Government began paying the arrears it owed its teachers and medical staff by giving them two of the four months they had demanded. "The fact that other arrears have not been paid is not a sign of the government's lack of goodwill, but is due to a very difficult financial situation," said Pinto Pereira. And while the adjustment programmes implemented in Guinea Bissau would appear to have curbed inflation, the current government debt is estimated at 743.1 billion CFA francs (more than US\$1 billion), which is equivalent to five times the country's gross domestic product (GDP). Meanwhile, a country like Cameroon is 5.8 billion euros in debt. In total, West Africa "owes" international lenders almost US\$70 billion, or nine-tenths the region's average GDP.

It seems that no wage negotiations at all can take place without governments deeming it necessary to consult the Bretton Woods institutions, namely the International Monetary Fund (IMF) and the World Bank. Indeed, things have now

reached the point where the advice issued by these institutions seems more like orders. What other interpretation is there for the remarks made last May by Burundi's Minister for National Education when he threatened to discipline teachers striking for a pay increase by reiterating that "Burundi is hardly likely to increase salaries at a time when the IMF is calling on our country to slash its budget by 3.5 billion Burundi francs (US\$4 million)".

It is also important to point out the fact that since the 1980s workers have not only suffered the delayed payment of their wages, but also a significant decrease in their purchasing power. For instance, a secondary-school teacher in Burundi with a university degree earns less than US\$50 a month, "an amount which is just enough to pay the rent, and even then only for a home in a run-down area of the capital", one trade unionist explained.

In Côte d'Ivoire, salary levels for public servants have been frozen since 1980, and the devaluation of the CFA franc in 1994 did nothing to improve the situation in the region. With regard to Cameroon, a report by the French Senate noted that in the wake of devaluation "Cameroon did pull off the required changes, but only at the expense of budget cuts in the civil service, a classic result of IMF intervention". The Senate report, which talks of "the incoherent policy of the International Monetary Fund, fortunately tempered by the World Bank", also notes that "far from decreasing in scope, inequalities have actually grown". In Cameroon, pay rises introduced in 2000 for civil servants were at best a "symbolic" gesture.

In Niger, the country's four trade union organizations joined together during the 1 May 2002 holiday to denounce the "ill-conceived" privatization of public utilities. They called for a social plan to tackle "galloping" inflation, a "decline" in purchasing power and "rocketing" prices for bare necessities. The same demands and unity of purpose are evident in relation to structural adjustment programmes in Burkina Faso. Last May, all the trade union organizations – right across the board – called for

strike action. Their banners read: "Power to the social plan. The Government must withdraw from the welfare sectors. Poverty has spread and will continue to do so, affecting more than half of Burkina Faso's population. In the space of just one decade, life expectancy has dropped from 52 to 46 years!"

In July 2002, the minimum wage in Burkina Faso was 25,000 CFA francs (roughly US\$38 per month). More than 45 per cent of the country's 11 million inhabitants live below the poverty line (on less than US\$109 per year). In August 2002, officials at the national telecommunications agency even refused to carry out the instructions issued by the responsible minister by not implementing the price increases planned for certain types of communication. In Togo, a senior manager can earn up to 230,000 CFA francs per month, or barely US\$12 a day, which is classed as a "very high salary". Yet as one non-governmental organization (NGO) pointed out, for most workers in French-speaking Africa, a pair of glasses costs several months' wages. The African Civil Services Observatory (OFPA) based in Cotonou, Benin, recently confirmed that morale was extremely low. According to the OFPA, an economic upturn is impossible without a healthy administration, yet African civil servants will remain unmotivated unless they have decent working conditions.

However, a word of caution: however dramatic a situation, it can hide another even more distressing one. One recent study on four French-speaking African countries (Burkina Faso, Guinea, Mali and Togo) published by the International Confederation of Free Trade Unions (ICFTU) concludes that there is "extensive evidence of discrimination against women in these countries". According to the ICFTU, the differences that continue to exist between men and women in the areas of employment and wage levels "indicate that the elimination of discrimination will require governments to implement much more pro-active, positive action programmes".

No one denies either the difficult economic situation facing African countries or

the problems that young democracies have inherited against their will (in the form of colossal debts accumulated by former dictatorial regimes, pressure from their financial backers and adjustment plans that lack an accompanying social element). But the fact remains that local trade union organizations are increasingly being led to denounce not only the priority given to repayments and servicing their debts, but also the poor management of finances and public property which is also a drain on the respective countries' meagre financial resources.

Last year at a meeting in Nyanga, Zimbabwe, representatives of the NGO Transparency International from 11 African countries reiterated that over several decades almost US\$40 billion had been corruptly and illegally appropriated from the poorest countries on the planet, most of them in Africa, and stashed away abroad by politicians, military personnel, businessmen and other leading members of society. The repatriation of these funds would certainly provide the region with just the shot in the arm it needs.

But more should also be done to change bad habits, particularly among certain political leaders who still confuse public funds with the resources of their own political groups. "Corruption is an evil, a hindrance to the development of Côte d'Ivoire," said senior civil servant, Gnamien Konan, the managing director of the country's customs administration, speaking recently in Abidjan. "Corruption has permeated the whole of society, spread throughout the administration and struck at the heart of the forces of law and order which are supposed to be setting an example," he said in a furious attack on his country's politicians. In September 2001, most managers of public companies in the Democratic Republic of the Congo were dismissed for having shamelessly dipped into their companies' funds.

At the beginning of 2002, nine magistrates were arrested in Benin, accused of accepting bribes totalling 1 billion CFA francs (US\$1.4 million). In all, 29 magistrates in Benin were charged with embezzlement between 1996 and 2000.

In Cameroon, a census of civil servants carried out in September 2000 revealed the presence (or rather absence!) of 15,000 “phantom” civil servants out of the registered total of 135,000. Their salaries were no doubt paid to those responsible for the scam.

Apart from Botswana (6.4 out of 10), no African country included in Transparency International’s Corruption Perceptions Index (CPI) published in August 2002 scored more than five points out of a possible ten. Two countries, Cameroon and Madagascar, even bring up the rear of the group of “less transparent” countries.

Looking at the situation objectively, Africa is not alone: according to Transparency International, of the 102 countries surveyed, almost 80 failed the integrity test.

In this respect, NEPAD, the New Partnership for Africa’s Development, could be good news. “NEPAD has set out some bold aims, which I applaud,” said Transparency International’s chairperson, Peter Eigen, at the beginning of September 2002 at the World Summit on Sustainable Development in Johannesburg. “Just as international institutions and donor bodies must now insist on transparency and good governance, politicians need to rise to the challenge at national level. The new CPI makes

it clear that an enormous task lies ahead of them,” stressed Mr Eigen.

Perhaps it would have been more reassuring if NEPAD’s concept had also included civil society and trade union organizations. Concerns about this omission were raised by African trade unions meeting in Durban at the end of July under the auspices of the ICFTU and the Organization of African Trade Union Unity (OATUU). Meeting in Turin, representatives in Africa of the ILO Bureau for Workers’ Activities also brought up this trade union issue. The recent proposal by South African President Thabo Mbeki to include tripartite consultations in NEPAD and to create an institutional mechanism for consultation with social partners is likely to ease the legitimate fears of trade unions and, above all, should make the NEPAD process more effective than it would otherwise have been in tackling major economic and social issues.

In the meantime, trade union organizations should become more involved and do more to find solutions to the problems facing millions of underpaid or unpaid African workers. Governments and employers will have to seize the opportunities presented to them by social dialogue to deal with an issue which is not just burning but also explosive.

Unpaid wages in Belarus: Adjusting to economic transition

More and more Belarusian wage earners are receiving their money late – or not at all. Barter and payment in kind are threatening workers' living standards. How can employers, government and the unions promote a better economic transition?

Kiryl Haiduk
Svetlana Parchevskaya
Labour Economists
Minsk

The labour market of Belarus is riddled with antagonisms, paradoxes and rigidities.

In a way, labour market developments in Belarus are path-dependent and there is a vast array of adjustment measures in place, devised by the economic actors. But these adjustment mechanisms have emerged due to a specific macroeconomic regime which the state has imposed on society.

This regime is essentially a transitional one, since the country is in the process of dismantling the old state-socialist economic institutions, albeit at a very slow pace, and introducing elements of the market economy. In Belarus, such a regime is marked by the existence of soft-budget constraints, aimed at keeping state-owned enterprise afloat, and thus securing employment within large industrial units.

This policy of soft-budget constraints has a relatively long history in post-socialist Belarus. Over the past few years, the Belarusian Government has continued to provide loss-making enterprises with credit resources and implemented cross-subsidization policies – all necessary in order to avoid painful restructuring. This is partly due to the fact that the collapse of state socialism has disrupted the economic

ties between former Soviet republics, thus resulting in the loss of traditional destinations for Belarusian exports.

It was in the aftermath of the Soviet Union's disintegration that employees first experienced wage debts. At the time, these debts were a temporary phenomenon which vanished quite quickly. Belarus has not (yet?) repeated the situation in Russia, where non-payments became a chronic disease of a demonetized economy, extensively reliant upon barter transactions. In Russia, non-payments are so widespread that they have become socially acceptable and even customary both for employers and employees (Kapeliushnikov, 2001).

Just recently, there has been some evidence of a similar trend in Belarus. This article assesses the scope of the problem, why it has happened, and the reaction of economic actors, such as workers, employers, government and trade unions. Finally, some policy recommendations are offered for resolving the problem of non-payments.

The scope of the problem

Non-payments on a significant scale are a very recent phenomenon in Belarus.

Before 2001, non-payment of wages had been infrequent and concerned just a few enterprises, mainly in agriculture. But they managed to pay off these wage debts. Over the past year, however, the problem of non-payments has become accentuated, largely due to the worsening of the economic situation and the State's direct intervention in the regulation of the labour market.

The issue also gained a higher political profile, due to the 2001 presidential elections. This resulted in rigorous government action, such as credit rationing, subsidies and giving wages first priority for payment, but these measures proved to be very short-lived. Through 2000 and 2001, wage debts ranged between 2 and 4 per cent of the country's gross wage bill, and went down almost to zero around the time of the presidential election. But by the end of September 2001, they had jumped to 7.5 per cent of the gross wage bill.

Nowadays, the situation is much worse. Non-payment is a burgeoning problem throughout the Belarusian economy. Still, agriculture remains the most problematic sector, since non-payments there have become a chronic disease.

Macroeconomic perspective on non-payments

There are several major factors behind non-payments in Belarus. First of all, *wage policy* last year was driven largely by the President's pledge to raise monthly wages to US\$100 throughout the economy. Even loss-making enterprises were obliged to pay this wage for their employees, and the same holds true for the major "budgetary sector" (teachers, medical workers and people employed in the arts and research). Most state-owned enterprises were granted *tax deferrals*, thus increasing the state budget deficit. Accordingly, the budgetary sector of the economy did not receive the resources that it needed in order to pay its employees.

Secondly, *nominal wages have been growing faster than productivity*. In 2001, productivity increased by 7 or 8 per cent, while

nominal wages doubled (IMF, 2002, p. 28). As a result, inflation remained high, while the fixed exchange rate made Belarusian exports uncompetitive on the Russian and West European markets. Due to sluggish domestic and international demand for their goods, Belarusian producers resorted to barter deals. The stockpiling of goods has reached 40 per cent since the beginning of 2002 (*Natsionalnaya Ekonomicheskaya Gazeta*, 4 June 2002).

The spread of barter transactions throughout the economy can thus be mentioned as the third cause of non-payments. Overall, the barter economy has accounted for more than 40 per cent of the Belarusian economy as a whole, while for some sectors barter operations make up 60 per cent of all transactions (IMF, 2002). Wage payments have therefore been delayed until cash finds its way back up the barter chains.

Throughout last year, enterprises also retained access to banking credits in order to pay wages, and so accumulated outstanding debts with the banks, but it is very unlikely that this situation could be reproduced again. On the other hand, credits had an adverse effect on the enterprises, since they included *debt servicing* in their costs. This further increased their prices. Moreover, the banks are simply no longer able to provide loans that have little prospect of being paid off.

Finally, there is a rather technical reason for not paying wages on time. The Central Bank ruled that the payment of electricity and tax bills had priority over wage payments. This means that companies cannot withdraw money from their accounts to pay wages until these other priority payments have been made. The only sum that companies with energy or tax debts are allowed to withdraw from the bank and pay to their employees is the government-established minimum wage.

All these features, taken together, have allowed non-payments to grow, so there is not a single cause behind this phenomenon.

Microeconomic and institutional perspective on non-payments

At the microeconomic level, key agents involved are enterprise managers and workers.

Enterprise managers are trying to resolve the problem of non-payments through various measures. These may be classified into active and passive measures. Active measures include those aimed at increasing productivity and efficiency by offering new product ranges to capture additional market share and reduce the proportion of barter transactions. Passive measures could also be labelled as inert policies of adjustment to the present economic situation, shaped by the transitional economic regime in Belarus.

The most prevalent measure is *payment in kind*. In other words, employees receive the goods produced by their enterprises, instead of being paid a money wage. Often, the market value of the goods distributed to the workers is higher than their money wages would have been. At first sight, this might look like a good deal for the workers, but they then have to put in extra working hours as retailers on the secondary market in order to convert the goods into cash. Ultimately, payment in kind has further contributed to the demonetization of the Belarusian economy.

The second inert measure of passive adjustment is to *reduce working hours* and/or to oblige people to go on *unpaid leave* – so-called “administrative holidays”. In January-April 2002, about 4.6 per cent of the active labour force worked reduced hours and about 4 per cent were obliged to accept unpaid leave (*Ekspress-informatsiya Soveta Federatsii Profsoiuzov Belorusskoi*, 1 July 2002). Further, enterprises are cutting wages and are not paying the bonuses and fringe benefits provided for in the collective agreements.

The final instrument available to enterprise managers is dismissal of redundant workers. But this is problematic because the Belarusian Labour Code obliges enterprises to provide decent severance pay,

and this is even more costly than having wage debts.

How do workers react if they are not paid on time? It might be assumed that growing dissatisfaction would eventually force people to leave their workplaces and seek out more remunerative jobs. So far, empirical evidence has not confirmed this assumption.

First of all, *the labour market does not offer new, decent workplaces*. Private-sector development remains very slow, because of the government controls on private economic activity. The lack of opportunities in the formal sector means that the *black and subsistence economies* are growing. Revenues from non-declared business and other activities (such as the subsistence economy) make up about one-third of the people's income (IMF, 2002, p. 86). Hence, wages at the major place of work do not determine disposable income, since people rely upon survival strategies, related to private horticulture, casual jobs and informal trading.

At the same time, employees prefer to stay at their workplaces (at least formally) since the *welfare system* in Belarus is *enterprise-based*. This implies that access to welfare provisions is guaranteed in case of employment. Furthermore, *expectations* play an important role. Employees usually expect that their enterprise may improve its performance in future, so delayed wage payments are perceived as a temporary occurrence. These expectations are rooted in the earlier experience of non-payments, which previously had been successfully eliminated.

In addition, some senior workers have a *psychological problem* about leaving their job, since they feel strongly attached to the enterprises where they have been working for more than a decade. For them, unemployment, albeit temporary, is a threat to their social status.

Nevertheless, as soon as non-payments became more widespread in the Belarusian economy, strikes emerged as a spontaneous reaction by workers to delayed wage payments. For instance, in June 2002, workers of the Gomel-based starting engines plant came out in support of their

demand to eliminate wage debts accumulated since February. In Lepel, machine-operators of the “Lepelskii” state farm (*sovkhos*) stopped work for several hours. The demand was the same, namely the payment of wages not received since March (www.praca.by). These two examples, along with empirical data on non-payments, demonstrate growing tension in the workers’ collectives. This may set a precedent for broader social unrest.

The Government is aware of the hardship caused by non-payments, so it has intervened to reduce wage debts. First, by special resolution, enterprises are permitted to *reserve a proportion of the total wage mass*, equal to the government-established minimum living wage (in contrast to the minimum consumption wage), in order to pay wages in “hard times”. Secondly, *coercive mechanisms*, such as penalties and fines, have been imposed on enterprise managements when wage payments are delayed.

These are very much short-term policies, aimed simply at stifling conflict through direct and coercive intervention. The outcome of such a short-term outlook is the emergence of specific passive adjustment measures at the enterprise level, aimed at hiding the scale of non-payments. This leads us to assume that non-payments are even more widespread than is recorded in official statistics. Short-term policies may seem to be less costly for the Government in both political and economic terms, but they cannot deal with the structural deficiencies of the Belarusian economy, stemming from persistent inflation, low competitiveness and barter.

Like the Government, Belarusian trade unions are deeply concerned with wage debts. There are two basic strategies advocated by trade union leaders. The first model is a so-called “active negotiating strategy”, mainly pursued by trade unions from the petrochemical, machine-building and radio electronics industries. In essence, trade unions monitor the implementation of collective agreements at the enterprise and sectoral level and then negotiate possible ways of reducing wage

debts with both the management and the workers. If the negotiations are unsuccessful, trade union representatives may even go to court to protect workers’ rights. However, such cases are still rare.

The second approach may be termed a “passive compromise strategy”. Here, trade unions act in cooperation with enterprise managers to insert changes into collective agreements. These amendments relate to shifting the terms of wage payments, supporting wage cuts and reducing welfare provisions. In contrast to their Western counterparts, Belarusian trade unions do not consider strikes as a form of resistance to existing economic pressures.

Policy recommendations

Recently, non-payment of wages has become a more urgent issue in the Belarusian economy. The low competitiveness of Belarusian enterprises, the spread of the barter economy and inflationary wage increases at a level higher than productivity are among the key explanatory variables. The Government seems to be aware of the problems, but so far no viable long-term solution has been implemented. Instead, the Government acts in a coercive manner by devising policies aimed at controlling and penalizing those enterprises which do not pay wages on time. Such a strong-arm policy can succeed only if non-payments are rather small, but in a situation of massive wage indebtedness these measures are impossible to implement, as enterprises can always find a way to adjust.

It appears that measures aimed at a substantial decrease in barter transactions are the only way to combat the dysfunctional character of a demonetized economy. Indeed, a move from a barter-dominated towards a money-based system is an important step in bringing the necessary stability into the transitional macroeconomic regime.

Tackling the non-payments issue contributes to labour market restructuring, but this has to be complemented by negotiating mechanisms. These will work if

there are strong unions and powerful employers' associations in place. To become strong, Belarusian trade unions should have a clear understanding of the existing pathologies within the macroeconomic regime of Belarus. Only then could an "active negotiating strategy" succeed, and labour interests could be organized and properly represented during the whole transitional period.

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The challenge of wage arrears in China

Unpaid wages are common throughout China – in state-owned enterprises, but also in foreign-backed companies. Meanwhile, many state firms face bankruptcy, and legal changes prompted by the World Bank will soon end wage earners' right of first call on available funds. Protests are spreading, but the lack of trade union freedom is hampering the Chinese workers' campaign.

Gerard Greenfield*

Research Officer
Hong Kong Confederation of Trade Unions

Tim Pringle

Labour Research Consultant
based in Asia

Speaking to the National People's Congress (NPC) in Beijing on 17 March 2002, Chinese Minister of Finance Xiang Huaicheng called for more rapid economic reform, while promising – yet again – national prosperity and progress. Yet the national political leadership was compelled to recognize a number of growing social crises, not least the prospect of rapidly rising unemployment, increased inequality and growing poverty. Also casting a long shadow across this vision of national prosperity was the problem of unpaid wages; a problem that has led to a wave of industrial unrest across the country and brought tens of thousands of protesting workers out on the streets.¹

In his report to the NPC, Xiang Huaicheng announced that in 2001, “extra revenue in local budgets was mainly used to pay the overdue wages and salaries of employees in government departments and institutions ...”. Yet the problem (as understated as it is in official statistics) remained unresolved, with RMB 6.5 billion (US\$793

million) in wages owing from the previous year. Outlining a series of measures for county-level governments to take over wage payments for local cadres (especially teachers) in townships, the Finance Minister exposed an underlying sense of urgency. This urgency was based not on the needs and interests of government workers, but instead reflected the Party leadership's overriding concern with social stability. Xiang Huaicheng was quick to assure NPC delegates that: “Funding for social security benefits and wages and salaries will be guaranteed to maintain social stability.”²

A similar sense of urgency concerning the growing wage arrears crisis was conveyed in Premier Zhu Rongji's report to the NPC on the previous day: “We need to ensure that wages and salaries are paid on time and in full even if for that, new construction projects have to be cancelled and things that are not urgent have to be given up or reduced in scale.”

Significantly, Zhu Rongji also alluded to “extravagance and waste” as an explanation for the shortage of state funds. Corruption was identified as a factor, though not explicitly: “Officials use public funds

* Gerard Greenfield is the ICFTU/GUF/HKCTU/HKTUC Hong Kong Liaison Officer (IHLO).

for wining and dining, extravagant entertainment and private travel abroad. This misconduct invariably consumes large sums of money, so we must resolutely stop this tendency.”³

This link between unpaid wages and corruption is significant precisely because at the very moment that Zhu Rongji was addressing the NPC, tens of thousands of workers in the north-eastern provinces of Heilongjiang and Liaoning staged mass demonstrations calling for the resignation of corrupt officials and demanding immediate payment of overdue wages. An estimated 50,000 oilfield workers held protests in Daqing City in Heilongjiang Province, and 30,000 workers from more than 20 state-owned enterprises (SOEs) rallied in Liaoyang City in Liaoning Province. The workers were demanding unpaid wages, pensions and compensation, as well as protesting against the corruption and injustice of local officials and enterprise managers. However, only hours before Xiang Huai-cheng informed the NPC in Beijing that the problem of wage arrears would be resolved through financial measures, a more decisive political step was taken. On the morning of 17 March, Yao Fuxin, a retired steel rolling mill worker and representative of the protesting workers from the local Ferro-Alloy Factory, was detained by police in Liaoyang City. Three days later, armed police were deployed to break up the protests against Yao’s detention. Three more workers were detained, and later all four were formally charged with “illegal assembly”. They remain in detention and face five years’ imprisonment if convicted.

In its attacks on the workers’ protests, the Party leadership clearly demonstrated its narrow view of the wage arrears problem as a threat to “social stability”. Also clear is the divide between rhetoric and reality. Ultimately, the Party leadership’s recognition of the problem is ritualized in Beijing, while workers’ collective action to resolve the problem is criminalized.

Like the wage arrears problem itself, workers’ action to demand unpaid wages and end corruption is not new. In May 2000, over 5,000 workers protested in Liaoyang

City over wage arrears. At that time, 2,000 workers still working at the Ferro-Alloy Factory had not been paid for 16 months, while 2,000 *xiagang* (“off-duty”) workers and 1,000 retired workers had not received their living allowances and pensions for three to six months. Then, as now, 900 armed riot police were deployed to break up the protest and three workers’ representatives were detained. In response workers marched through the streets with banners that read “Being owed wages is not a crime!”.

The scale of the problem

The Finance Minister’s reference to RMB 6.5 billion (US\$793 million) in government-sector wage arrears reflects an attempt to contain the problem by recognizing it, then seriously understating its size.

Though incomplete, existing nationwide data give us a useful insight into the true scale of the problem. According to an oft-cited report released in December 2001, the total wage arrears across the country amounted to RMB 36.7 billion (US\$4.4 billion) in 2000.⁴ This is marginally higher than the figures published by another official source, the All China Federation of Trade Unions (ACFTU). The ACFTU data show that 13.9 million workers in 79,000 work units were owed RMB 31.9 billion (US\$3.9 billion) in wages in 2000.

These data are revealing in that there is a strong correlation between the number of workers owed wages (and the amount owing) and the sites of recent mass protests. The largest number of workers facing wage arrears is concentrated in Liaoning Province, with Hunan in second place, followed by Heilongjiang and Henan provinces.

However, these figures must be revised upward to take into account the increase in wage arrears over the last two years, especially with increased bankruptcies and closures of SOEs. Also, unpaid wages should be more broadly defined to include all forms of remuneration owed to workers. Off-duty SOE workers themselves refer to their monthly living stipend as their “off-duty wage”. Thus, they consider that they

have just as much *right* to these wages as does any worker still employed in the workplace. Furthermore, unfair wage deductions, unpaid insurance and pension premiums that were deducted from workers' wages, but not paid into appropriate funds, are key issues in workers' protests and strikes.

It is difficult to estimate the scale of wage arrears owed to retired SOE workers. In June 2000, Zhang Zuoji, the Minister for Labour and Social Security, stated that arrears in pensions during the period from January to May 2000 *alone* totaled RMB 1.4 billion (US\$174.6 million) in 19 provinces and autonomous regions. Similarly, data on the late payment or non-payment of off-duty SOE workers' living allowances are incomplete. However, localized surveys may reveal the heavy concentration of "off-duty" SOE workers owed wages within certain cities. For example, according to a survey of off-duty workers in ten cities by the China Economic Research Centre, released in March 2002, 57 per cent of workers were owed wages averaging RMB 3,634 (US\$443) each.⁵ The task of estimating the amount of wage arrears for migrant workers is even more difficult, given the lack of wage records and the prevalence of informal employment, though one lawyer involved in defending the rights of migrant workers put their total wage arrears at RMB 36.69 billion (US\$4.47 billion) in 2000.⁶

Regardless of what these figures do or do not say, it is clear that the non-payment of pensions and living allowances and of migrant workers' wages is an integral part of the wage arrears crisis – not least because of the role of these workers in escalating protest actions, strikes and labour disputes.

SOE bankruptcies and wage arrears

In many ways, the references by Zhu Rongji and Xiang Huaicheng to the urgency of wage arrears were directed not at the current problem, but at a far greater problem in the near future. Both empha-

sized the need to speed up privatization, involving the forced bankruptcy and closure of SOEs, despite the central role that corruption and unpaid wages play in this process. Over the next five years, the Government will use RMB 290 billion (US\$35 billion) to write off the debts of 2,900 SOEs before declaring them bankrupt. Last year alone, RMB 50 billion (US\$6 billion) was used to write off the bad debts of SOEs, and this year it will be increased to RMB 80 billion.⁷

However, the Government faces a dilemma. While it is allocating billions for SOE liquidation in order to bail out the banks, the existing bankruptcy law requires that workers' wages take priority in the liquidation process. In response, the Government is revising the bankruptcy law to give priority to the rights and interests of creditors, especially banks. This is a revision the World Bank and Asian Development Bank have long insisted be made. The result will be that under future SOE bankruptcies, workers' wage arrears claims will be considered only after the banks and other creditors have taken their share. As such, they will not only lose their jobs and wages, but their legal right to claim unpaid wages, including off-duty wages and pensions, will be seriously undermined.

The significance of these rights for workers cannot be overstated. Many off-duty SOE workers have refused to take on new jobs because breaking formal ties with their work unit renders it impossible to pursue wage arrears claims. Workers also suspect that corruption – and not merely inefficiency and unprofitability – underpins SOE bankruptcies. In Liaoyang City, over 30,000 workers from 20 SOEs joined the "Bankrupt and Unemployed Workers" in linking the loss of wages, allowances and pensions, forced factory closures and redundancies to corruption among management and local officials. That is why demands for unpaid wages were tied to calls for the resignation of key local officials and demands that the central Government intervene to investigate local corruption.⁸

Unpaid “off-duty” wages and pensions

In addition to intensified SOE bankruptcies, the end of the *xiagang* (off-duty) system will exacerbate the problem of wage arrears. Off-duty status will be abolished by 2003, ending the payment of monthly living allowances to workers after they are “stood down” from SOEs. The current system allows workers to maintain their existing ties to their work unit for up to three years or until they find new employment. During that time they receive a monthly stipend, of which a third is paid by the work unit, a third by the unemployment insurance fund and a third by local government. When the off-duty system is abolished, SOEs will instead pay a one-off “economic compensation fee” calculated on the basis of a month’s salary for every year of employment.

Although SOE workers, retired workers and off-duty workers are treated as distinct categories governed by very different regulations and laws, for workers themselves the distinctions are often blurred. This is especially so when workers are drawn to protest over unpaid wages. Protests by retired and off-duty workers expose SOE workers to the prospect of hardship ahead, prompting them to question whether ongoing wage deductions are really going into pension and social security funds. Similarly, protests by SOE workers over unpaid wages place a question mark over the viability of the enterprise and highlight the risk that late pensions and living stipends may never be paid. In fact, protests over social security or labour insurance funds are widespread and in practice are often inseparable from the problem of wage arrears.

Mismanagement and even embezzlement of labour insurance funds by company managers have been widespread, causing great anger among workers. Some enterprises’ unwillingness or inability to pay labour insurance premiums has led to protests by laid-off and retired workers – many of the latter have been forced into early retirement and are far short of the

official retirement age of 55, some even as young as 35.⁹

The issue of social security benefits and pensions is also tied to former employers’ compliance with the retrenchment agreements that workers signed – or were compelled to accept – when they were laid off from SOEs. For example, the failure of the Petroleum Administration Bureau in Daqing to comply with its retrenchment agreements led to protests by 50,000 workers in March and April 2002 – an action which saw the formation of an independent union to pursue workers’ demands.

Similar mass protest actions also resulted when workers received retrenchment packages, but were still owed several months’ wages. Again, the “break” with the work unit weakens their ability to lay claim to unpaid wages and often leads to militant action. Mine workers in Liaoning Province clashed with police and soldiers when the miners were given severance packages, but were still owed 18 months’ wages.

Another phenomenon worth noting is the illegal attempts by SOE managers to pay wage arrears in kind. In May 2001, over 200 workers from the Dengkou County Chemical Fertilizer Factory blocked the Baotou-Lanzhou railway line for over an hour. An official from the Dengkou County complaints office reported that the Government decided to distribute chemical fertilizer for the workers to sell in lieu of wages. They also ordered local police to find out who had organized the demonstration. In a telephone interview conducted by *China Labour Bulletin*, a worker from the factory said he received five tons of fertilizer in lieu of three months’ wages. The report notes that: “He was pessimistic over the chances of receiving anything for the remaining five months’ wages owed to him.”¹⁰

Failure to pay local government workers

In March 2002, the Chinese People’s Political Consultative Conference (CPPCC) General Office released the results of a nine-month research project showing that

local government employees in 26 out of the country's 31 provinces and autonomous regions are owed wages.

Despite this, the central Government continues to order salary increases for government employees in an attempt to maintain social stability, stimulate consumer spending and reduce the level of corruption. However, as Yang Rudai, vice-chairperson of the National Committee of the CPPCC pointed out: "If the problem of these overdue salaries cannot be solved, encouraging a policy of 'rational salary preventing corruption' can hardly be implemented."

The central Government, however, claims that enough funds are transferred to provincial and county governments to alleviate the problem. At the NPC session in March, Finance Minister Xiang Huaicheng reported that the central Government transferred RMB 89.2 billion (US\$10.9 billion) to local governments in 2001 to pay off wage arrears and RMB 98.2 billion (US\$12 billion) for social security programmes, including basic living allowances for off-duty SOE workers. This was then used to justify another pay rise for government workers in the coming year.¹¹ Only a month later Xiang Huaicheng acknowledged massive debt levels in county governments. The financial daily, *Shichang Bao* (Market Daily), estimated this debt to be as high as RMB 3 trillion (US\$366 billion).¹² The central Government puts the figure at RMB 10 billion (US\$1.22 billion) in hidden government debt at the county level, most of which is owed to state-owned banks.

An important part of this tension between central and local governments over the handling of wage arrears concerns the local tax revenue base. Local officials argue that the overdue wages of government employees are linked to a drop in tax revenue caused by unpaid taxes and declining farmers' incomes. This is the result of falling agricultural prices since 1997 – a problem exacerbated by China's accession to the WTO. The diminished tax base of local governments has led to the imposition of additional taxes and levies on farmers, worsening their situation and leading

to widespread rural unrest. Thus the wage arrears of local government workers become highly politicized in local-central government relations.

Among those affected by this problem are rural teachers. In January 2000, over 1,000 teachers from 38 schools in Huangkou Township, Anhui Province, went on strike to protest against the non-payment of wages for the previous eight months. One of the teachers explained: "The government has repeatedly promised that they would issue the pay. However, eight months passed like that and we still haven't received anything. It was inevitable that the teachers would erupt like this and organize a collective action. They have also yet to give us the raises promised back in 1997." The teacher also criticized the official trade union for failing to protect their rights: "We went to the provincial union office and they said they couldn't do anything, so we decided to act on our own."¹³

Wage arrears as a "local custom"

On 8 January 2002, seven migrant workers from Sichuan climbed a 40-metre-high crane at a construction site in Shenzhen, Guangdong Province, and threatened to jump if they were not paid back wages. Over 100 workers employed at the state-owned construction company – also migrant workers from Sichuan – protested below while police tried to talk the workers into coming down. A similar incident occurred on 30 August 2001, when the leaders of a team of carpenters from Chengdu scaled a 30-metre-high crane, demanding payment of several months' wages owed to them. While the workers swung from the crane 30 metres overhead, dozens of workers held protest actions below.¹⁴

Protest actions like these exemplify the extreme measures workers are forced to take in their fight for unpaid wages. In Shenzhen such cases are proliferating, as wage arrears become an integral part of work and life in the Special Economic Zone. In December 2001 alone there were

19 major labour disputes concerning unpaid wages. According to Xie Zhiwei, at least half of the private companies in Shenzhen, including foreign-invested companies, owe wages to their employees.¹⁵ The problem is so rampant that the Government established the Shenzhen Labour Dispute Mediation Department in January 2002, and in Shenzhen's Baoan District a campaign called "Get Your Money Back!" was launched.

A sample survey of 220 collective actions dealt with by Labour Inspectorates in Guangzhou revealed that 90 per cent were wage arrears cases. An economist specializing in foreign investment in southern China argues that:

According to informed officials and factory managers, the illegal retention of workers' wages for between one and three months exists in 80 per cent of foreign-financed firms. This phenomenon exists despite the fact that the firm is liable to pay 1 per cent interest on the overdue wages from the sixth day of the following month onwards as compensation for workers. Article 14 of the *Guangdong Regulations on Workers Rights 1994* also stipulates that workers can claim RMB 5,000-50,000 in compensation if their wages are overdue by more than three consecutive months.¹⁶

There are additional regulations stipulating compensation for wage arrears in the Special Economic Zones. Article 40 of *Labour Regulations Governing the SEZs in Guangdong* states that: "An employer unit shall issue wages at least once a month. A date shall be fixed and the issue of wages on that date shall be strictly implemented. If payment is not made by the stipulated date, the employee shall be rewarded compensation equivalent to 1 per cent of the wage owed for each day after the sixth day in arrears."¹⁷

Local regulations such as these determine actual penalties and compensation rates within the general provisions for wage arrears in the national Labour Law. In practice these regulations, at both national and local levels, fail to protect workers in their struggle to claim unpaid wages.

Legal cases are long drawn out, making it impossible for migrant workers in particular to sustain their livelihood while waiting for an outcome.

Violence against workers seeking wage payments is also common. Ties to state officials and the police strengthen the ability of employers to threaten and intimidate workers.

Another common practice that exploits the vulnerability of migrant workers and institutionalizes wage arrears is the deliberate retention of wages in foreign-invested enterprises as a means of imposing labour discipline. As one specialist on labour issues in southern China commented: "Keeping wages in arrears for three to six months in an attempt to halt high staff turnover is common at the low end [of the manufacturing industry]. By leaving a factory without the required management permission, workers risk losing owed wages as well as personal files and the security deposit that most migrants are required to pay."¹⁸

So prolific are wage arrears problems in Guangdong Province that an article in *Gongren Ribao* (Workers' Daily) describes it as a "local custom". As Xie Zhiwei points out, wage arrears are often the result of "deliberate negligence", where loopholes in the law are exploited.¹⁹

The proposed "Wage Law"

As labour disputes over wage arrears proliferate, and workers are compelled to take more desperate measures in the struggle to obtain their wages, there are growing calls among journalists, researchers, academics, policy-makers, trade union officials and others for the introduction of more effective laws to stop the deliberate retention of wages by employers. Of course, such calls are not new, especially among workers.

There now appears to be some progress in this direction. One of the reasons for this is that the wage arrears crisis has reached such a scale that it threatens to become unmanageable. While the details of a proposed national Wage Law remain undis-

closed, a number of local regulations on wage arrears are under investigation as possible models for the new law. Among these are the *Zhongshan City Regulations on Wage Payment by Enterprises* introduced in Zhongshan, Guangdong Province, on 1 January 2002. According to Xie Zhiwei, the Zhongshan regulations have proved successful – though no evidence is provided to support this claim.²⁰ It is most likely that at this early stage the measure of “success” is simply the fact that tough regulations governing the payment of wages have been legislated.

Although the proposed Wage Law represents a positive move towards alleviating the wage arrears crisis, its effectiveness will be severely limited by existing legal-institutional and political arrangements. Part of this concerns workers’ access to legal representation in a form that permits them to pursue their genuine rights and interests. In the absence of freedom of association, workers are subordinated to the trade union monopoly of the All-China Federation of Trade Unions (ACFTU) and its branches. While local trade union officials express concern over the wage arrears problems faced by workers – an issue regularly reported in trade union publications – the fact remains that the trade unions are embedded in the political structures of the Party and State, and as such are entrusted with *containing* labour unrest, not articulating it.

There is a general tendency for wage arrears to build up for several months before workers lodge formal complaints with labour departments. This is often explained in press reports in terms of workers’ lack of knowledge of the law. While this may be true, it is equally true that workers – particularly workers in SOEs – often suffer delays as they wait for trade union officials to act on their behalf. Only after it is clear that the union is failing to act in their interests do workers lodge complaints themselves or take industrial action. That is why protest actions by SOE workers often involve criticism of the official unions. In the case of the oilfield workers’ protest in Daqing, the local trade union office was among those buildings attacked by angry workers.

The official trade unions do not only undermine workers’ demands for unpaid wages through inaction. In many cases, they actively intervene to prevent workers from fighting against wage arrears. In March 2002, *Nanfang Gong Bao* (Southern Workers’ Daily) described a case in which 131 workers dismissed from Heng Bao Industrial Company in Guangzhou fought a legal battle for unpaid wages of RMB 840,000 (US\$102,440). Although the local Labour Disputes Arbitration Committee (LDAC) ordered the payment of wage arrears and compensation to the workers, the enterprise management appealed the ruling. The deputy chairperson of the enterprise trade union represented the management in the LDAC and cross-examined the workers. The newspaper article reporting this case carried the following sub-heading: *Workers Take Wage Arrears Claim to Arbitration – Deputy Chair of their Trade Union Defends the Company Against Workers!* Accompanying the article was a cartoon showing a trade union official sitting on the lap of the boss in the employers’ chair, leaving the workers’ chair empty.²¹

The official trade unions’ role in the “deliberate negligence” that underpins wage arrears should not be attributed to incompetence, lack of resources or a lack of understanding of the role of trade unions in a market economy. It is not simply a matter of inaction, but their active role in pursuing the Party’s and the State’s political agenda.²² As Article 4 of the revised *Trade Union Law* (27 October 2001) clearly states, trade unions must “... take economic construction as the core, uphold the socialist road, uphold the people’s democratic dictatorship, uphold the leadership of the Chinese Communist Party, uphold Marxist-Leninist-Maoist-Deng Xiaoping Thought, uphold reform and opening up ...”.²³

Conclusion: “Free our workers’ representatives!”

In the absence of freedom of association, workers who organize independently to

fight for unpaid wages face political persecution. The likelihood of political repression is heightened by the fact that self-organized workers rarely limit themselves to unpaid wage claims, often extending their struggles to attacking corruption and the abuse of power.

Numerous cases involving the political persecution and detention of workers have prompted strong criticism of the Chinese government by the ILO Committee on Freedom of Association. Just recently, the International Confederation of Free Trade Unions (ICFTU) lodged a new ILO complaint against the Government of the People's Republic of China concerning violations of freedom of association. This specifically deals with the suppression of workers' protests in Liaoyang and Daqing. Submitted on 27 March 2002, Case No. 2189 focuses on the arrest and detention of Yao Fuxin, Pang Qingxiang, Xiao Yunliang and Wang Zhaoming for organizing "illegal demonstrations" – a charge that carries a prison sentence of five years.

The continuance of such political repression today shows that the legal and administrative measures take by the Government to alleviate the wage arrears crisis will remain ineffective as long as workers are denied the right to genuine, self-organized representation. The Government's response to the recent workers' protests in Liaoyang City is a sobering reminder of this fact. It also recalls an earlier protest by workers in Liaoyang, when they marched with banners that read "Being owed wages is not a crime!" and "Free our workers' representatives!". These two slogans, and the issues they represent, must be treated as inviolable and inseparable when facing the challenge of wage arrears in China today.

Notes

¹ For a more detailed discussion, see Tim Pringle, "Industrial Unrest in China: A labour movement in the making?" in *Asian Labour Update*, Issue 40, July-Sep. 2001, pp. 5-8. This article is available online at: <http://www.amrc.org.hk>

² Xiang Huaicheng, Minister of Finance. 2002. *Report on the Implementation of the Central and Local Budgets for 2001 and on the Draft Central and Local Budgets for 2002*, Fifth Session of the Ninth National People's Congress (NPC), Beijing, 17 March.

³ Zhu Rongji, Premier of the State Council. 2002. *Report on the Work of the Government*, Fifth Session of the Ninth National People's Congress (NPC), Beijing, 16 March.

⁴ *Beijing Wanbao* (Beijing Evening News), 17 December 2001.

⁵ *Zhongguo Jingji Shibao* (China Economic Times), 14 March 2002.

⁶ The lawyer, Guan Huai, was interviewed in the Guangzhou-based *Nanfang Zhoumo* (Southern Weekend). *China Daily*, 6 February 2002.

⁷ *Zhongguo Jingying Bao* (China Business), 1 March 2002.

⁸ See *Is social security the "solution" to labour protests in north-eastern China?*, a report prepared by Gerard Greenfield for the ICFTU/GUF/HKCTU/HKTUC Hong Kong Liaison Office, Hong Kong, April, 2002. The report is available online at: <http://www.ihlo.org>

⁹ Tim Pringle, op. cit.

¹⁰ *China Labour Bulletin*, 11 July 2001.

¹¹ *Shenzhen Ribao* (Shenzhen Daily), 11 March 2002.

¹² *Shichang Bao* (Market Daily), 4 June 2002.

¹³ *Zhongguo Funu Bao* (China Women's News), 6 February 2001.

¹⁴ "Zhui tao gong qian – yuan he lu niang beiju (Reasons for the unfolding tragedies behind pursuit of wage arrears)", *Zhongguo Laodong Bao* (China Workers' Daily), 11 November 2001. On 1 November, three migrant workers climbed to the top of a crane on a building site in the western suburbs of Xian. On 20 May 2002, *Xinkuai Bao* (News Express) reported another case of a worker who climbed a 120-metre-high crane to demand unpaid wages.

¹⁵ Xie Zhiwei, "Zhili qianxin huhuan 'gongzi fa' (Appeal for a 'Wage Law' to deal with wage arrears)", *Gongren Ribao* (Workers' Daily), 9 February 2002.

¹⁶ Godfrey Yeung. 2001. *Foreign investment and socio-economic development in China: The case of Dongguan*. Basingstoke, Palgrave, p. 171.

¹⁷ Labour Regulations Governing the SEZs in Guangdong.

¹⁸ Interview with the Asia Monitor Resource Center's Research Coordinator, Stephen Frost, in Gwyneth Roberts, "Legal vacuum keeps factory floors volatile", *South China Morning Post*, 7 July 2002.

¹⁹ Xie Zhiwei, op. cit.

²⁰ Xie Zhiwei, op. cit.

²¹ "Trade Union Official Represents Bosses at Guangzhou Labour Tribunal", *Nanfang Gong Bao* (Southern Workers' Daily), 4 March 2002.

²² For a more detailed discussion of the role of the ACFTU, see Tim Pringle, “The Chinese working class: Fiction and reality”, *China Rights Forum*, No. 1, 2002, pp. 12-21.

²³ See IHLO, *The revised trade union law in mainland China: Progress or regression for worker and trade union rights?* Hong Kong, November 2001. The report is available online at: <http://www.ihlo.org>

Wage trends in Central and Eastern Europe

Has pay kept up with productivity in Central and Eastern Europe? How big is the wage gap between the present EU Member States and the candidate countries? Do unions in the new market economies need to change tack?

Béla Galgóczi
Social Researcher
Hungary

When discussing wages in Central and Eastern Europe, the specifics of the Eastern European transition must be borne in mind. It is well known that wages had a different function in state socialism than they have in market economies. At that time, wages were not intended to cover the whole cost of the reproduction of labour. They were seen as one form of compensation for work, alongside several others. The State and also the companies bore certain of the employees' living costs. Besides free health care and education, housing was virtually free and a wide range of consumer price subsidies compensated for low wage levels. Various social services were supplied by the employer (kindergartens, housing subsidies, free holiday resorts, etc.).

With the transition to a market economy, the overwhelming majority of these non-wage subsidies were discontinued and the role of the State was extensively cut back. However, wages did not rise sufficiently to compensate for the loss of these subsidies. Rather, the real value of wages began to decline during the first period of transition. This resulted in a massive drop in living standards. Even after wages caught up substantially in the second half of the decade (in the more fortunate countries of the region), pay did not take on all

the functions that would be normal in developed market economies.

Thus, it must be emphasized that cost structures in Central and Eastern Europe (CEE) are still quite different from Western ones. Many of these differences can be attributed to the low cost levels of services that appear in the calculations of purchasing power parities. Some of the cost advantages of CEE employees do not appear in these calculations, however. It is certainly true that housing costs for most CEE citizens are still much lower than those for their Western counterparts, as the previously obtained cheap housing facilities constitute a rather light financial burden. The majority of CEE employees would not be able to finance market-based housing, which is normal in the West.

As a consequence of this, even purchasing power parity wage calculations result in lower wage estimates than would be the case for the equivalent of Eastern wages in a Western environment. It should also be noted that wages in CEE account for a lower proportion of total incomes than in the West.

Two other phenomena should be mentioned when discussing wages in Eastern Europe. There are some countries, even among those in line to join the EU, where the problem of wage arrears still plays

a role. As a consequence of delayed and distorted structural change and the lack of proper legal control, hundreds of thousands of people are the victims of non-payment of wages due to bankruptcy crimes or other fraudulent business manoeuvres. This is still a massive problem in Bulgaria and Romania, and to a lesser extent in Latvia. Fortunately, in other EU candidate countries, the same situation does not apply.

However, a common anomaly throughout the region is a form of tax evasion under which only the minimum wage is declared on the payroll, while the rest is paid directly or indirectly to the employee. Not only does this violate the principle of sharing public burdens proportionately, it also leaves a great number of employees without labour protection.

Bearing in mind all these specific features, we turn to a more detailed analysis of “regular” wage developments in Central and Eastern Europe in the last decade.

Wage levels in CEE countries

When examining wage developments in CEE countries in the past decade, we should be aware of several difficulties. As price and cost structures in transitional economies still show substantial differences to those in developed market economies, direct comparison of wage levels in nominal terms expressed in euros can be misleading. It is also true that unequal and disproportionate transformational developments in individual countries can lead to substantial shifts in certain economic indicators year by year. The impact of inflation and changing currency regimes, such as stabilization measures, can produce sudden changes from one year to another. It is important to examine wage developments for the whole period, as data from one particular year are not necessarily characteristic.

In attempting to analyse wage developments in ten Eastern European countries, two basic approaches will be applied. Comparison with EU countries will be made both in nominal terms and also by

taking purchasing power differences into account. When comparing subsistence levels, purchasing power parity figures will be examined. These relative figures can express differences in living standards and can be of use in estimating potential migratory pressures. On the other hand, nominal wage levels are also significant, since these determine competitiveness and also investment decisions.

But if we focus our interest on the immanent development features of transition countries, then the comparison of wages with other economic indicators, such as the gross domestic product (GDP) and productivity, becomes decisive. The development of wages relative to other indicators of economic performance can help us to estimate how employees participate in the economic wealth produced in the country.

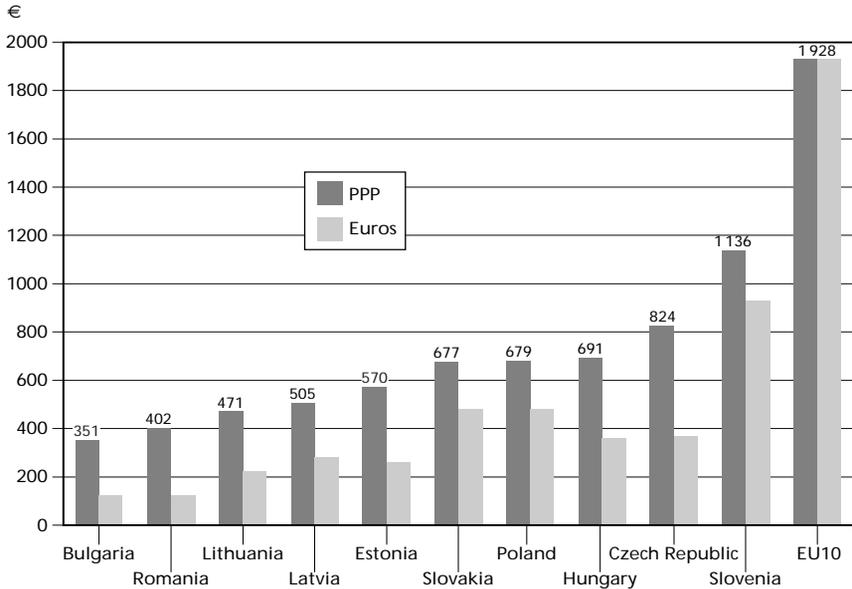
Figure 1 shows the levels of average gross industrial wages in CEE countries, calculated in euros at official exchange rates. For a better comparison, wages are also shown at purchasing power parities, also expressed in euros.

Monthly average gross nominal wages throughout the transition countries (light grey columns in the graph) range from 123 euros in Bulgaria and Romania through 480 euros in Poland to 925 euros in Slovenia, resulting in an average of 345 euros. Monthly average gross wages throughout the European Union range from 606 euros in Portugal to 2,997 euros in Denmark (1998 data), resulting in an average of 1,928 euros, which is indicated in the graph for reference value.

These figures seem rather shocking, although wage levels at purchasing power parity (PPP) show a somewhat less dramatic view (dark grey columns in the graph).

The average of the industrial wages at PPP of the ten Eastern European countries is 634 euros, which compared to the 1,928 euros for the ten EU countries gives a more balanced distribution. This indicates that the gap in living standards is not as big as the nominal data imply. Thus, the danger of social dumping is not as great as it might seem at first sight.

Figure 1. Wage levels, current euros vs. PPP



Source: WIIW database, own calculations.

Wage characteristics of CEE countries compared to their economic performance

Also important, however, is the way in which wages in transition countries relate to their economic performance. Below, an attempt is made to show how employees participate in the wealth produced in their countries and how this is distributed. These findings are then examined in relation to the corresponding figures for EU Member States.

Wages and GDP

The share of wages in the GDP of the ten Central and Eastern European countries is 40.5 per cent on average, while the same value for the 15 EU Member States is 59 per cent. The lowest level is shown by Hungary at 31 per cent, and the highest by Poland at 52 per cent. Low wage content of GDP is also characteristic of Bulgaria (33 per cent), Slovakia (34 per cent) and

the Czech Republic (39 per cent). Along with Poland, Latvia has a rather high wage ratio, at 49 per cent.

Employment ratios are not significantly different among the various transition countries. The ratio of the total of employed persons to the population as a whole ranges from 38 per cent in Hungary to 43 per cent in Estonia, and only Latvia and the Czech Republic show significantly higher values, at 47 per cent. As these figures comprise both demographic characteristics and economic activity ratios, each factor alone may show higher discrepancies when examined separately. It is certainly true that demographic and employment characteristics have their part to play in explaining why wage shares in CEE are lower than in developed market economies. These figures also show, however, that the importance of wages in transition economies is smaller than in Western economies. Moreover, this is also an indication that wages in CEE are depressed, even when compared to their economic performance.

Development of wages, productivity and GDP

A worthwhile exercise is to track the productivity development of transition countries and then to compare it with the development of real wages.

As regards the relation between real wages and labour productivity developments in industry, data for most countries are available from 1992. A full overview will therefore be given for this period.

The most important lesson of the data in table 1 is that the development of real wages in the period between 1992 and 2000 lagged substantially behind labour productivity developments, and in most countries also behind GDP growth. Exceptions are Lithuania, Latvia and Estonia, where wages increased almost as much as productivity and much more than GDP over the eight-year period. In these latter countries, wage increases in this period seem to have been beyond economic performance. Lithuania is the only CEE country where wage increases substantially outstripped both productivity and GDP growth. The trends in all three Baltic countries show that wages grew faster than productivity in the first half of the period and the tendency was reversed only in the last couple of years.

In the Czech Republic, Slovenia, Slovakia and Poland wage increases follow productivity developments to some extent and correspond to or even surpass GDP growth. In the Czech Republic, productivity in the eight-year period grew 10 per cent faster than wages. Apart from the Baltic states, the Czech Republic is the only CEE country where wages grew substantially more than GDP.

In Slovenia and Poland, wages and economic performance seem to have been more or less evenly matched.

The same can by no means be said for Romania, Bulgaria and especially Hungary. In these countries, wages lagged far behind economic performance. In Romania, the relative level of productivity was twice as high as that of wages in the period 1992-2000. Wage dynamics have also lagged behind GDP developments.

In Hungary, however, wages were most depressed in comparison with economic performance. There, the level of productivity is almost 2.5 times higher than that of wages, if 1992 is taken as the base. Wages are also roughly 20 per cent behind GDP growth.

However, the situation in Romania and Bulgaria gives the greatest cause for concern. Not only is the relative position of wages very low, but pay is also very low in absolute terms.

Not to put too fine a point on it, it may be said that:

- strong productivity gains in Hungary were not rewarded by wage increases at all;
- in Romania and Bulgaria, productivity increases were punished;
- in Poland, strong productivity gains were rewarded quite ungenerously;
- in the Czech Republic, Slovenia and Slovakia, weaker productivity increases were rewarded generously;
- in the Baltic states, minor gains in productivity were rewarded overgenerously.

Shortcomings of industrial relations in CEE countries

As we saw above, wages are depressed and their uneven development is not in line with economic performance in most CEE countries. This is a clear critique of the functioning of industrial relations and interest representation strategies. It is quite obvious that present-day industrial relations in CEE are quite far removed from the patterns in the EU countries. In CEE, trade union activity is overpoliticized and tripartite structures are given too much weight, while industrial relations at the sectoral level are still underdeveloped. Industrial relations are less organic in CEE, as they are not rooted in the socio-economic development of the particular countries. It should be remembered that the prevail-

Table 1. Development of labour productivity, real wages and real GDP in CEE countries (cumulative index, level of 1992 = 100.0)

		1993	1994	1995	1996	1997	1998	1999	2000
Bulgaria	Productivity	99.8	115.9	124.4	133.1	129.3	124.3	125.2	145.7
	Wages	91.3	72.6	68.6	53.9	45.0	54.3	58.1	62.3
	GDP	98.5	100.3	103.2	92.7	86.4	89.4	91.5	96.8
Czech Republic	Productivity	98.8	103.8	114.8	124.7	136.2	142.6	145.7	157.4
	Wages	103.7	110.4	119.9	130.4	132.8	131.2	139.1	142.7
	GDP	100.6	103.8	110.4	114.7	115.9	112.8	112.3	115.6
Estonia	Productivity	95.2	96.7	91.6	98.9	120.7	127.9	130.6	n.a.
	Wages	102.3	101.9	108.3	110.6	118.9	126.9	132.3	139.7
	GDP	91.0	89.2	93.0	96.7	107.7	112.1	111.3	118.9
Hungary	Productivity	113.4	131.2	144.6	158.2	179.8	201.2	222.4	259.5
	Wages	99.5	104.5	95.2	92.7	95.8	99.2	102.8	106.3
	GDP	99.4	102.3	103.8	105.2	109.8	115.5	120.4	126.6
Latvia	Productivity	92.9	97.6	99.3	110.4	121.5	136.2	135.2	n.a.
	Wages	105.0	117.6	117.1	109.8	123.2	130.7	135.1	139.7
	GDP	85.1	85.6	85.1	87.9	95.5	98.9	99.9	106.5
Lithuania	Productivity	87.0	83.2	87.6	96.4	99.5	104.9	110.9	n.a.
	Wages	75.0	85.6	88.3	91.9	103.4	116.7	123.0	124.3
	GDP	83.8	75.6	78.1	81.7	86.7	90.5	87.0	89.9
Poland	Productivity	109.7	123.9	131.7	143.7	159.8	167.4	189.2	212.2
	Wages	99.6	100.6	103.6	109.3	116.0	120.0	154.0	158.0
	GDP	103.8	109.1	116.8	123.9	132.4	138.7	144.4	150.2
Romania	Productivity	109.0	125.0	142.1	152.7	150.0	138.9	148.8	170.6
	Wages	86.5	85.6	100.2	109.6	85.4	86.1	85.1	85.8
	GDP	101.5	105.4	112.9	117.3	109.2	105.5	102.1	103.7
Slovakia	Productivity	101.8	109.1	113.5	116.3	121.9	133.0	132.0	148.7
	Wages	96.1	100.6	104.6	112.0	119.4	121.4	117.7	111.9
	GDP	96.2	100.9	107.8	115.0	122.4	127.8	130.2	133.1
Slovenia	Productivity	105.8	119.7	127.3	139.0	145.1	152.9	157.7	170.9
	Wages	111.2	116.4	121.4	127.3	131.3	133.4	137.8	140.0
	GDP	102.8	108.2	112.6	116.6	122.0	126.8	133.4	139.6

n.a. = not available.

Source: WIIW 2001. Eurostat 2001. European Training Foundation 1999. own calculations.

ing pattern of industrial relations was established by laws imposed from above at the beginning of the 1990s, and to a great extent it was matched to the economic structure of that time (with a dominant role for the State).

Fundamental changes are needed at the core of industrial relations in CEE countries. On the one hand, this relates to the basis of interest representation, namely to the workplace union strategies. If they are to genuinely represent employee interests, trade unions need solid roots in the workplace. These are missing nowadays. It is most important that unions develop strategies for increasing their workplace presence, adapted to the new structure of the economy. If present trends continue, effective employee representation may soon be restricted to the public sector.

There is a second, closely related, sphere in which trade union strategies need to be reformulated – namely national-level policies.

The most characteristic union attitude in CEE has been self-restraint, union quiescence and a supportive approach to the painful but necessary reforms. This behaviour was justifiable during the most difficult period of the transition. In fact, it could be seen as a necessary element in a successful transition and the preservation of social peace. But now the situation has changed. The bulk of the economic transition is over in the most advanced CEE countries, and their economies are developing dynamically.

For employees to benefit from the results of the transition, trade unions need to become much more dynamic and to take the initiative. Unions must be much bolder in exploiting the opportunities arising from the economic growth in order to further workers' interests. This is also vital from the point of view of social inclusion. Otherwise, only a thin layer of society will profit from the achievements of economic transition.

Collective bargaining and income equality in an integrating world

Countries with strong collective bargaining institutions, including trade unions and employers' organizations, also have better income distribution. They enjoy more equitable and socially sustainable integration. Attempts to erode and weaken these institutions have been short-sighted and may even delay adjustment processes.

Susan Hayter

Integration Department
ILO

Much of the recent debate on globalization has focused on the distributional consequences. Critiques of globalization argue that the benefits are unevenly distributed. There has been renewed emphasis recently on the role that institutions play in promoting successful integration into the global economy and more equitable patterns of development. Analysis of the potential benefits to be gained by globalization needs to include analysis of the institutions underlying growth and distribution. *Labour institutions* are among the many institutions that are important for growth and distribution.¹ The way in which labour participates in the production process, and the way in which the labour market is organized to determine the wage for that participation affects, amongst other things, distributional patterns.

The term *labour institutions* refers to those institutions that underpin labour markets and production. These include trade unions, employers' associations, collective bargaining practices, human resource practices, statutory regulations such as protection against unfair dismissal and labour market policies on training, minimum wages, etc. They vary in the degree to which they are formalized within law and policy. But whether their existence is

formally recognized or *de facto* the norm, these institutions shape the way in which workers participate in the labour market and in the production process. They may promote productivity, growth and more equitable patterns of participation and distribution, or reinforce patterns of exclusion and inequality.

The approach to these institutions and labour market policy in general during the 1980s and 1990s was one of deregulation and decentralization. Labour institutions, in particular trade unions, labour laws and wage-setting institutions, were blamed for creating rigidities and distortions in the labour market, ultimately slowing adjustment and putting a break on employment creation and economic growth.

Policy formulation was dominated by a strong neoliberal agenda that stressed the *allocative* function of labour markets (matching supply and demand) – a somewhat narrow view of the way in which labour markets function. There was little consideration of the role that labour institutions play in promoting *dynamic efficiency* (increasing the quality of labour and their participation in the production process) or in ensuring *social justice* through, for example, facilitating the equitable distribution of income.²

This article focuses on the role that *collective bargaining institutions* (both collective bargaining systems and trade unions) play in promoting more income equality in an integrating world.³

What is so important about collective bargaining?

Much of the debate in the 1980s and early 1990s focused on the performance of different *levels* of collective bargaining: centralized, decentralized or intermediate industry-level bargaining. Centralized or decentralized levels of bargaining were held to be superior to industry-level bargaining, in terms of employment, economic performance and equality.⁴ One of the weaknesses in the research was the specification of the variables used to measure the relationship between collective bargaining institutions and other variables.⁵ What emerged was that decentralized systems of collective bargaining could also be highly *coordinated* and thus also internalize the externalities of their actions – a key characteristic associated with centralized systems.

It is important here to clarify what is meant by *coordination*, and which “externalities” are taken into account in collective wage setting. The *coordination of collective bargaining* refers to the degree to which trade unions and employers’ associations coordinate wage agreements across the economy so that wages are non-inflationary, the wage bargain accommodates the macroeconomic implications of the wage settlement – such as inflation, unemployment and national competitiveness – and wages and profits are in line with competitiveness.

Thus, a key issue for the relationship between collective bargaining institutions, economic performance and income distribution is this institutional capacity to organize or *coordinate collective bargaining*. The most institutionalized examples of bargaining coordination are “social pacts”, where there is commitment to non-inflationary wage settlements in the context of a specific macroeconomic strat-

egy which includes benefits for labour in terms of employment creation, skills upgrading, social security, economic stability, and with growth, rising incomes. For example, in Ireland a series of national-level agreements have linked agreement on wage increases to agreement on economic and social policy.

Centralized bargaining systems (with centralized trade union and employer confederations) can be important coordinating institutions, in that they have greater influence over the level of wage settlements in the economy as a whole. But as noted above, multi-tiered, industry or decentralized plant-level bargaining systems may also function as coordinating institutions (internalizing the externalities of their settlements).

The actual coordinating mechanism in each system may differ. It may be formal or informal. Wages may be negotiated at an intermediate sectoral level, but with sufficient linkages across the economy (perhaps through a peak trade union or employers’ organization) to coordinate the level of wage settlements. Alternatively, one industry may be so dominant in an economy that it acts as a “lead bargainer” and signal for economy-wide settlements.

In decentralized bargaining systems, employers’ organizations, such as those in Switzerland or Japan, that operate through dense networks can be important institutions of coordination. Thus, the key variable to consider is not the level at which collective bargaining takes place, but the *degree of coordination* in any system. Of course, centralized systems also tend to be highly coordinated – but this is only one institutional manifestation of a highly coordinated system.

Promoting income equality

An important characteristic of collective bargaining institutions is that they can promote equitable patterns of income distribution. Countries with strong collective bargaining institutions, including

trade unions and employers' organizations, are also those countries with better income distribution (measured by the Gini ratio). Preliminary research using a sample of 41 countries for which data are available shows that the following categories of country all have better income distribution:

- countries where collective agreements cover more than 60 per cent of the population (see figure 1);
- countries where there is a high degree of collective bargaining coordination (see figure 2);
- countries with higher trade union density (see figure 3, sample size expanded to 69).

The relationships are also statistically significant (for collective bargaining coverage and trade union density) at the 5 per cent level. This is consistent with the literature that finds that highly coordinated centralized systems of collective bargaining are associated with less wage dispersion.⁶ For example, an OECD (1997) study found the relationship between cross-country differences in earnings inequality and bargaining structures to be robust and significant. That is, more centralized/coordinated economies have less earnings inequality than uncoordinated ones.

Globalization and economic integration do present external constraints to distributive policies in that increased competition makes it more difficult to either change prices or raise taxes. But this does not preclude redistributive strategies that rely on increasing productivity gains or redistributing income more equitably. Collective bargaining institutions can facilitate more equitable pay bargains, but they also can be productivity-enhancing, expanding the product available for distribution.

These labour institutions provide firms with the capacity to encourage participation in the workplace. The literature on the value of participation has examined benefits related to the ability to secure trust and commitment in employment relations and thus improve productivity and

efficiency.⁷ Indeed, there is a large body of evidence to show that participation at the workplace enhances company performance and that firms with higher degrees of worker participation outperform other firms.⁸ Participation at the workplace also reduces monitoring costs, with benefits in terms of efficiency. The potential to enhance efficiency and productivity raises other possibilities for distribution in the context of external pressures that place constraints on the wage bargain.

Some, however, argue that trade unions and collective bargaining institutions have a negative impact on income equality. According to this view, by negotiating a wage mark-up (the difference between union and non-union wages) trade unions increase income inequality. But in a more integrated world, the openness of economies and the intensification of product market competition have significantly reduced the possibility for firms simply to pass increases in labour costs (caused by unions' negotiating a wage mark-up) on to consumers by raising prices. However, there is also a need to address incentives in product and labour markets. This is considered in more detail in the next section.

Implications for the design of policy

In some countries, trade unions have been strong in activities enjoying significant rents, such as protected manufacturing sectors and the public sector. Product and labour market distortions have given rise to what economists call "rent-seeking" behaviour by trade unions. Firms or the public sector readily passed these increases in wages on to consumers.

In considering reforms in labour and product markets, it would be important to look at the institutional environment and incentives in product and labour markets. Policy measures may be required, aimed at changing incentives in product and labour markets so as to align the different institutions with a country's development priori-

Figure 1. Gini ratio in relation to collective bargaining coverage

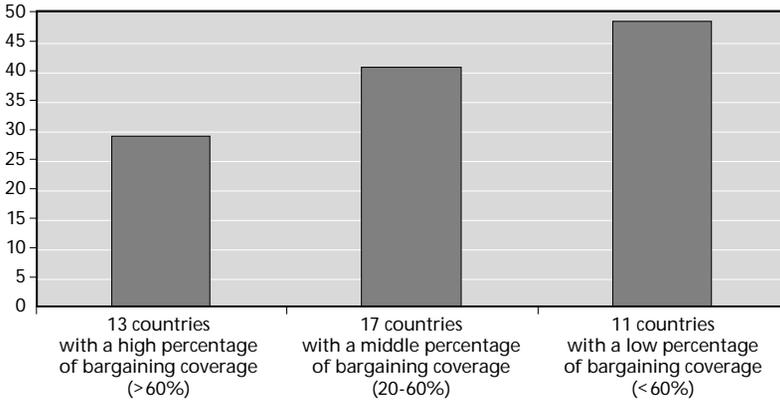


Figure 2. Gini ratio in relation to bargaining coordination

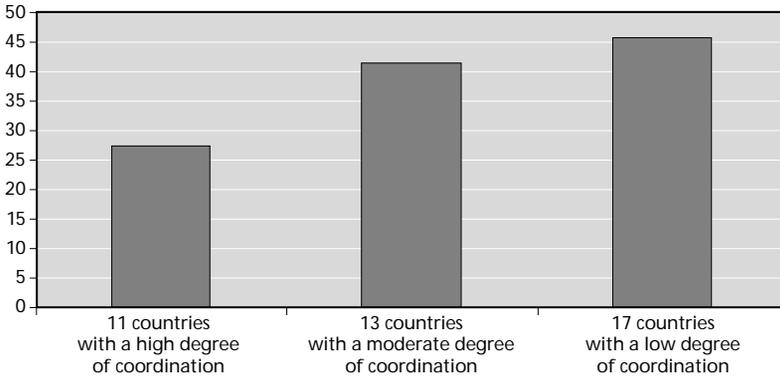
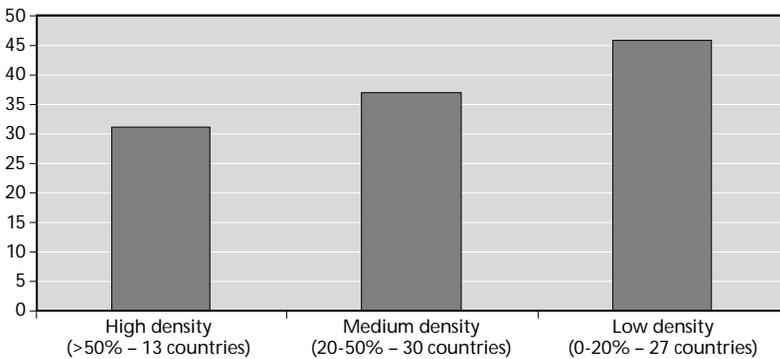


Figure 3. Gini ratio in relation to trade union density



Note: The Gini ratio (or index of income concentration) is a statistical measure of income equality ranging from 0 to 100. A measure of 100 indicates perfect inequality; i.e. one person has all the income and the rest have none. A measure of 0 indicates perfect equality; i.e. all people having equal shares of income. The lower the Gini ratio the higher the equality in income.

ties, and to facilitate smoother adjustment and more equitable development.⁹

Encouraging greater competition in product markets and removing anti-competitive product market regulation can diminish the ability of some unions (and enterprises) to pass wage increases on to consumers. Rather, it may encourage a cooperative stance and productivity-enhancing strategies for increasing pay.¹⁰ This highlights the central role that incentives play in determining the potential effects of trade unions.¹¹

The implied policy response is therefore to promote pro-equity developments in the institutional environment in which trade unions and employers operate rather than to take the fatalistic view that trade unionism is automatically harmful for equity.

Changing the incentives by reforming public-sector employment and liberalizing product markets would provide a more effective route to improving labour market performance than seeking to weaken these institutions:

Labour market reforms should be approached with great humility. [...] restructuring the public sector and changing incentives faced by union [in this case to extract rents] may yield higher payoffs than changing the labour code. (Rama, 1995)

In some developing countries where strong labour institutions have spearheaded political change, the approach to date has been to see strong trade unions as obstacles to development. This has led to attempts to erode and weaken these institutions. The result has all too often been delayed and difficult adjustment processes, as social instability and conflict between various interests begin to escalate.

To ensure that economic reform has the greatest potential for success, it is important to ensure greater degrees of economic democracy by involving trade unions and others in the design of policy reforms.¹² This is an important part of the process of making economic change and adjustment more acceptable. Tripartite and so-

cial dialogue can play an important role in building trust and consensus around reform. This will ultimately lead to policy choices that promote equity and ensure socially sustainable integration. Institutions of social dialogue and of dispute resolution are important complements to policies that promote greater openness.

In the reform and design of policy, deregulation, which has been the leitmotif of the last two decades, is not the answer. Rather, it is important to ensure greater degrees of economic democracy by involving trade unions and others in the design of policy reforms and promoting pro-equity and pro-efficiency incentives in the institutional environment (of product and labour markets).

In other countries where organizations of labour and employers are absent, the challenge is one of providing an environment that fosters the development of these institutions, together with complementary institutions such as those that provide dispute resolution services (mediation and arbitration) and sources that can provide labour market and price information. As labour institutions underpin the way in which labour participates in production and the distribution of the returns, their absence leads to growing social exclusion, from production and from the (formal) economy. Strong organizations of workers and employers are a precondition for effective collective bargaining institutions, and promote social inclusion and cohesion.

Conclusion

Preliminary findings reveal that there appears to be a favourable conjuncture in many countries between the presence of collective bargaining institutions, more equal distribution and smoother adjustment as countries integrate into the global economy. Efforts to undertake liberalization and adjustment by focusing on allocative efficiency in markets and deregulating and weakening collective bargaining institutions may not have been the

best strategy. In certain countries, this has no doubt undermined the role that these labour institutions are able to play in facilitating more equitable development and more successful integration.

The assumption that labour institutions automatically impede economic development and cause rigidities and barriers to adjustment is flawed. Labour institutions appear to play an important role in facilitating more equitable and socially sustainable integration. The outcome depends on the broader configuration of institutions and incentives in product and labour markets. Decision-makers need to take these factors into account when designing policy.

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Annex 1: Samples of countries used

	Figures 1 and 2 Collective bargaining and inequality	Figure 3 Trade union density and inequality
Australia	×	×
Austria	×	×
Azerbaijan		×
Belarus	×	×
Belgium	×	×
Bolivia	×	×
Brazil		×
Bulgaria		×
Canada	×	×
Chile	×	×
China	×	×
Colombia		×
Costa Rica		×
Czech Republic	×	×
Denmark	×	×
Dominican Rep.		×
Ecuador		×
Egypt		×
El Salvador	×	×
Estonia		×
Finland	×	×
France	×	×
Germany	×	×
Ghana	×	×
Greece	×	×
Guyana	×	×
Honduras	×	×
Hungary	×	×
India	×	×
Indonesia		×
Ireland	×	×
Israel		×
Italy		×
Japan	×	×
Kenya	×	×
Korea, Rep. of		×

	Figures 1 and 2 Collective bargaining and inequality	Figure 3 Trade union density and inequality
Luxembourg		×
Malaysia	×	×
Mexico		×
Morocco		×
Netherlands	×	×
New Zealand	×	×
Nicaragua	×	×
Nigeria	×	×
Norway	×	×
Pakistan		×
Panama	×	×
Paraguay		×
Peru		×
Philippines	×	×
Poland		×
Portugal		×
Romania		×
Russian Fed.		×
Senegal		×
Slovakia		×
South Africa	×	×
Spain	×	×
Swaziland	×	×
Sweden	×	×
Switzerland	×	×
Thailand	×	×
Tunisia		×
Turkey		×
United Kingdom	×	×
United States	×	×
Uruguay	×	×
Venezuela		×
Zimbabwe	×	×
Total sample of countries	41	69

Notes

¹ See Rodgers, G. 1994.

² In considering new insights on labour markets and income inequality in a post-Washington Consensus era, Hoesven, van der, R., 2000 emphasizes at least three functions of labour institutions and labour policy: *improving allocative efficiency* (matching supply and demand in the labour market); *improving dynamic efficiency* (increasing the quality of labour and their participation in the production process); and *improving or maintaining equity and social justice* (a distributional function that also promotes social cohesion). He concludes that by focusing on the allocative aspects, the Washington Consensus overlooked institutional options for dynamic innovation, social cohesion and equity – all important components of growth and redistribution policies.

³ For arguments concerning the role of collective bargaining institutions in promoting greater macro-economic stability and reducing the potential for a trade-off between employment and inflation, see Hayter, S., 2002.

⁴ In the early 1980s, analysts argued that corporatist labour-management relations (centralized system of collective bargaining) produced a better inflation-unemployment trade-off, see Bruno, M. and Sachs, J., 1984, and Metcalf, D., 1987. In the late 1980s, analysts argued that either centralized or decentralized bargaining was superior to industry-level bargaining, see Calmfors, L. and Driffil, J., 1988. There was some

critique of this finding, see Layard, Nickell, and Jackman, 1991; and Soskice, 1990.

⁵ See Flanagan, J., 1999.

⁶ See Flanagan, J. 1999; Freeman, R. 1995; and Aidt, T. and Tzannatos, S., 2002 for a review of the literature.

⁷ In particular the classic works of Hirshman, A., 1970; and Freeman, R. and Medoff, J., 1984.

⁸ See Blinder, A., 1990; Kruse, D., and Blasé, J., 1995; Levine, D., 1995; and Tyson, L. and Levine, D., 1990, who survey 43 empirical studies, and find that the effect of worker participation on productivity is usually positive but almost never negative.

⁹ See ILO, 2000.

¹⁰ See, for example, Layard, R. and Nickell, S., 1998.

¹¹ The field of institutional economics is instructive here. It highlights the role that incentives play in shaping the behaviour of organizations. If the pay-offs (incentives) are highest from rent-seeking activities, then we can expect organizations to maximize those margins. On the other hand, if the pay-offs are from productivity-enhancing activities, then we can expect economic growth. The broader institutional environment (including laws, property rights, etc.) together with other economic constraints affect economic outcomes by affecting incentives. See, for example, North, D., 1997.

¹² See Stiglitz, J., 2000; Rodrik, D. 1999; and Forteza, A., and Rama, M., 2001.

A first step towards fixing Europe-wide wages?

Belgian legislation is forcing social partners to take a look at what is going on in the country's three main neighbours before taking a decision on raising wages. This has not gone down well with workers, who are trying to build up alliances with the unions in those countries...

Jonathan Equeter
Journalist

In 1996, the Law on Employment Promotion and the Preventive Safeguarding of Competitiveness was adopted, opening up a completely new aspect of the social situation in Belgium. Preparations for joining EMU were in full swing (in 2000, 12 European Union countries adopted the euro as their single currency) and the Belgian Government, saddled with significant public debt, wanted to signal to its European partners in no uncertain terms that its economy was in good shape. One defining factor in the context of the Belgian economy is its trade with neighbouring countries and some feel that it cannot afford to increase wages dramatically in comparison with its main neighbours and competitors. So, the new law decreed that every two years – when the social partners sit down together to negotiate the maximum possible wage rise for the next two years – they must take into account the forecast rise in wages in Belgium's three main trade partners – Germany, France and the Netherlands.¹

The result is a technical report by the Central Economic Council (CCE-CRB), a joint, national body bringing together unions, employers and experts, all of whom predict potential wage rises in the three countries based primarily on forecasts by the OECD. It then averages out the predicted wage rises in each, weighted according to their respective GDPs (gross domestic product). In view of its high GDP, it

goes without saying that Germany has the greatest weighting within the average. The technical report by the Central Economic Council is published annually in late September. Every other year, it is followed up by negotiations between unions and employers to try and draw up an intersectoral agreement on a variety of issues, in particular the maximum margins for increasing wage costs during the next two years. During the two-year period between any two negotiations, the technical report by the Central Economic Council will be able to determine the actual wage increase in Belgium as compared with the three other reference countries. If wages rise or fall too quickly, the report will influence negotiations the following year and the standard rate may then be lowered.

**If there is no agreement,
then the decision is taken
by the Government**

The authors of the 1996 law set out a very strict timetable for negotiations. Where the social partners reach an agreement before 31 October, the standard-wage figure is agreed and is taken as a reference value for all subsequent wage negotiations both in professional sectors and in companies. On the other hand, if no agreement has been reached by 31 October, the Belgian

Government intervenes and mediates with a view to reconciling the standpoints of employers and unions. If this step is successful, the standard is fixed in an agreement. If not, the Government may impose by Royal Decree and before 31 December a maximum wage increase for the next two years. Indeed, this was the case in 1996 when the Government imposed a 6.1 per cent maximum standard after the social partners failed to reach an agreement. However, the Belgian Government does not have a completely free rein to fix the wage standard: regardless of the forecast wage increase in neighbouring countries, the 1996 law stipulates that the maximum margin for increasing wage costs must at least reflect increases linked to automatic index-linking of wages² and incremental wage increases.³

For the unions, the adoption of this law was a bitter pill to swallow. "We feel that the 1996 law makes us look incompetent and irresponsible because we are looking at what's going on in other countries before deciding what to do in our own," says Luc Voets, head of research at the Belgian General Federation of Labour FGTB-ABVV, one of Belgium's leading trade unions.⁴

The FGTB-ABVV realises that in the context of monetary union it is important to be aware of what our competitors are doing, but that should be just one of many elements to be borne in mind when conducting wage negotiations. We also have to factor in predictions as to the situation of Belgium's domestic economy and take account of things like the level of unemployment, rise in prices and productivity. That way we would be less dependent on developments in our three neighbouring countries and forecasts that never fully correspond to the actual situation since OECD forecasts, however reliable they might be, cannot predict precisely what the terms of wage negotiations in the three reference countries will be one or two years down the line. What's more, we are no longer at a point where we are getting ready to enter monetary union which, after all, was the backdrop against which the 1996 law was introduced.

Belgian-style compromise

So Belgian unions are calling for the standard fixing of a maximum wage increase to be scrapped but employers hit back with the response that if that were to happen, automatic index-linking of wages would also have to go since Belgium, along with Luxembourg, is the only country in Europe to operate such a system. "What Mia De Vits forgot to mention when she said that no country in Europe had a wage standard, was that neither did any country have a system of index-linking wages," points out Tony Vandeputte, CEO of the Federation of Enterprises in Belgium (FEB-VBO) in the Belgian economics daily *L'Echo* on 2 July 2002.⁵ "As far as we are concerned, the two are inextricably linked."

Although unable to scrap the standard altogether, Belgian unions have managed to negotiate modifications making it somewhat more flexible. "The union militants don't accept the fact that at a time when the share of wages in the national revenue is becoming smaller, this kind of standard is imposed, whereas no provisions are imposed on, say, profits," says unionist Luc Voets. "When negotiating an intersectoral agreement, we try to broaden the discussion to include a wage standard and make employers aware of their responsibilities. They ask us to fix wages at a sensible level, but in return we want them to promise to hire more workers and provide training opportunities at the same rate as in the three reference countries."

The lack of vocational training is also a strong argument for making employers face up to their responsibilities when there is a shortage of workers in certain professions in Belgium, as was recently the case with long-distance lorry-drivers. "A wage standard won't help solve this kind of shortage," says Luc Voets. "We need to develop training programmes that will help avoid this situation and that in time will attract workers to sectors where there is a labour shortage." Other factors can also come into play when negotiating intersectoral agreements: for example, unions are trying to negotiate extra days of leave

or an increase in the minimum wage while employers are more inclined to make concessions when the Government has taken some favourable step like cutting employers' charges.

Broadening the scope of wage negotiations to include other issues enables Belgian unions to "limit the damage" as it were, in spite of the 1996 law, even if after the event it has turned out that the wage increase in Belgium was greater than the recommended norm (a situation that can easily occur given how difficult it is to monitor whether the maximum standard is being observed). As such, the standard agreed by the social partners for the period 1999-2000 was a 5.9 per cent increase, but in 2000, the increase ultimately reached 7.2 per cent in Belgium as compared with 4.4 per cent in the three reference countries. A close analysis has revealed that this reassessment was due mainly to individual wage increases and increases in two quite mixed sectors with poorly structured wage negotiations (real estate and business services on the one hand and transport and communications on the other). Other factors unrelated to wage negotiations also played a part in the increase, such as the conversion of temporary contracts into open-ended ones, which often provide higher remuneration.

Positive growth pacifies employers

Negotiations are clearly much easier for unions during periods of positive economic growth. In 2000, when the social partners met to set the maximum wage-standard increase, workers cited Belgium's 4 per cent growth and the rise in fuel prices (an issue that is not included in the health index upon which calculations for index-linking wages are based) to win concessions from employers. "The figure published in the technical report by the Central Economic Council is not necessarily the figure agreed after negotiations," points out Luc Voets. "The last intersectoral agreement was drawn up during a period of major growth. Although the CCE-CRB

figure was 6.4 per cent, for example, we were able to secure an additional one-off (and so basically for a limited period) wage increase of 0.4 per cent in sectors where the economic situation was good. We also won an agreement that the cost of measures included in the intersectoral agreement (such as an increase in the number of days' leave), which accounted for 0.2 per cent of overall wage bill, would not be factored into the negotiable margin in these sectors and as a result some sectors experienced an increase of 7 per cent."

Belgian unions are well aware that there are other groups in civil society who oppose the 1996 law for reasons that have nothing to do with workers' well-being. Some are calling for the standard to be scrapped since they would like to see increases in the highest wages or those in specific sectors only: this sort of campaign for wage inequality is not at all what the unions advocate. And in the specific context of a federal state such as Belgium, maintaining a wage standard throughout the country is a hindrance to those who are demanding less solidarity between the different communities by means of holding regional wage negotiations. So unions are very careful not to create any counterproductive alliances for workers.

The "Doorn group"

In the face of the 1996 law, the Belgian unions FGTB-ABVV and CSC-ACV⁶ decided to bring together the German, French, Dutch and Luxembourg unions to speak with one voice at negotiations held in each country. They are known as the "Doorn group" after the Dutch town in which one of their first meetings was held. "We have tried to find a way of working towards the same goal without making wild demands in terms of wages," says Luc Voets. "We ask that during negotiations between social partners, each union does everything in its power to gain wage increases that at the very least are in line with both evolution of prices (inflation) and an increase in labour productivity." This commitment

by the members of the Doorn group does not mean that they will succeed in integrating these two elements but rather constitutes a guarantee that no one acting on the workers' behalf will play the wage restraint card in order to gain market share in a rival country. Every year when the Doorn group meets, the unions compare what concessions they have gained in negotiations, and explain to the others why they have or have not been able to achieve one of the two objectives of the "Doorn approach".

The Doorn group is not seeking to compete with the ETUC (European Trade Union Confederation), far from it. Instead it sees itself as a sort of laboratory, a small-scale environment in which theories are put to the test which could perhaps ultimately be extended to other European countries. The ETUC's Executive Committee has also adopted a guideline for collective bargaining incorporating the two elements of the group's principle. "If this Principle of 'wage increase in line with both inflation and increase in labour productivity' were one day extended to all wage negotiations throughout Europe, then wages would no doubt rise more rapidly in southern European countries than in those in the north since the increase in productivity in the south should be much greater over the coming years," says Luc Voets who, on behalf of the FGTB-ABVV, is now calling for dialogue between European unions in a bid to avoid a wage-restraint course between European Union Member States: "It is important that we work together because on the one hand

the European Central Bank's primary concern is price stability and a balanced budget in each of the Member States, while on the other there is still no European government that is able, if necessary, to stimulate growth and employment. So wages are the variable upon which the different countries gamble in order to boost their economies, which gave rise to the 1996 law in Belgium and wage-restraint pacts signed in other Member States of the European Union. In my opinion, to avoid competition between European wage earners we now need to develop cooperation between European unions in terms of wage policy. That is where the value of an initiative such as the Doorn group lies."

Notes

¹ Under Belgian law, the increase in the wage bill represents an increase, in nominal terms, of the average wage bill per worker in the private sector expressed as a full-time equivalent.

² In Belgium, all wages and social benefits are automatically adjusted according to the rise in retail prices calculated on the basis of a health index which takes into account the rise in prices of a range of basic goods. Alcohol, tobacco and a number of energy products are excluded from the index.

³ Under Belgian law, "incremental wage increases" is taken to refer to wage increases granted according to seniority, age or any promotions or changes in individual status provided for by a collective agreement.

⁴ FGTB-ABVV is the Belgian General Federation of Labour, which currently has almost 1.2 million members.

⁵ Mia De Vits is President of the FGTB-ABVV.

⁶ Confederation of Christian Trade Unions, which has some 1.5 million members.

Pay equity at last in Quebec?

A recent law in Quebec aims to end wage discrimination against women (and men) who work in predominantly female job groups. Unions are playing a vital role in getting the new rules applied.

Roland Côté

Coordinator, Faculty of Human Sciences
University of Quebec (Canada) in Montreal

It is more than 50 years now since the General Conference of the International Labour Organization adopted the Convention on equal remuneration.¹ This drew on various proposals concerning the principle that male and female labour should receive equal pay for work of equal value. It was followed a few years later by the Discrimination (Employment and Occupation) Convention,² which promotes respect for the rights set out in the Universal Declaration of Human Rights. So what is the situation today, half a century on?

The issues

Discrimination against women is nothing new. All human beings, regardless of race, beliefs or sex, ought to have the right to pursue material progress and spiritual development in freedom and dignity, with economic security and equal opportunities. But for women the reality is often very different, particularly as concerns remuneration.

For a long time, it never even occurred to men that lower pay for women should be questioned. It was seen as “normal”. And yet women, and not only in the western developed countries, have enormous family responsibilities.

Women often raise children on their own. Fathers as sole providers seem to be an endangered species. At the same time,

more and more women are entering the labour market, and not only in traditional female occupations. On the other hand, more and more men are to be found in traditionally female jobs.

In Quebec, human rights have developed along the same lines as for the world in general. During the 1970s, the Quebec Provincial Government adopted a Charter of individual rights and liberties. The right to work, and hence to a fair wage, is often unequally applied to men and to women.

Moreover, for several decades now, the pay gap between men and women has not really narrowed, and women as well as the trade union movement have called for the State to intervene in order to end discrimination. For equivalent work, women currently earn about 70 per cent of what men do. This state of affairs is unjust – women have the (basic) right to a fair wage.

The pay equity principle

Invoking, amongst other things, the principle of respect for basic rights, women have demanded – both within society at large and within the trade union movement – the right to be paid the same as men for doing the same job. Not everyone has taken the point. Prejudices against women die hard, even in the unions. Similar prejudices come to light when pay rates for predominantly female occupations are com-

pared with those for predominantly male ones. Lo and behold, so-called women's jobs often pay less than so-called men's jobs. This is what has to change.

Trade unions must commit themselves to this struggle to get a basic right respected. In Quebec, the unions have done so and have hammered home the principle of "equal pay for work of equal value". The Quebec Workers' Federation (FTQ – Fédération des travailleurs et travailleuses du Québec) was particularly involved in a long lobbying effort that led to the adoption of a law on pay equity.

The FTQ is Quebec's biggest trade union centre. It has almost 500,000 members, a third of whom are women. *[Its French name includes the feminine word for "workers", as well as the masculine one – translator.]* In 1989, the FTQ held a major forum entitled "Pay equity – no more, no less! A question of solidarity". This forum enabled the federation to develop common viewpoints, leading on to a policy declaration by one of its congresses. Since then, pay equity has been a big topic at every FTQ congress.

Like other trade union centres, the FTQ also carried this debate into the political sphere by demanding that the Government adopt proactive legislation on pay equity. "Pay equity is a matter of social justice and plain common sense. It is about women workers' right to a fair and just wage for their labour. But prejudices die hard and the 'innate characteristics' of women's work (for instance, caring for people, manual dexterity, simultaneous service to several people, etc.) are not always accorded their true worth. This non-recognition helps to keep their pay low and has an impact on the wage gap between men and women."³

If we want the pay for a job usually and predominantly performed by women to be equal to the pay for a job usually and predominantly performed by men, these two jobs have to be compared. How are we to judge if the two jobs are of equal value? Naturally, good criteria for comparison have to be established. At first sight, comparing different jobs might seem prob-

lematic. In Quebec, we were told that you can't compare apples and oranges. But if you are looking at calories or vitamin content, these two fruits may certainly be compared. So what has to be found is a basis of comparison between jobs, in other words, factors that are common to all jobs. Four factors appear to be universally valid here. They are the qualifications required, the responsibilities, the (physical and mental) effort demanded and the conditions under which the work is performed.

Qualifications are the education levels, diplomas and permits or skills certificates required in order to hold a particular job. Responsibilities can be varied – responsibility for supervising other staff, responsibility for other people's health and safety, responsibility for budgets, etc. Criteria of physical and mental effort make it possible to compare job requirements in terms of physical capacities (the capacity to lift weights or adopt postures) or mental capacities (concentration capacity or the ability to perform tasks simultaneously). Finally, the conditions in which the work is carried out should be considered (ambient temperature, noise levels, dust, etc.)

By the way, application of the pay equity principle does not lead to a devaluation of men's work. On the contrary, men who perform jobs where women are in the majority will also see an improvement in their wage rates. Equality is for everyone. The point of pay equity is not to compare women with men but to compare predominantly female occupations with predominantly male ones. Jobs found to be equivalent deserve equal pay.

Economic justification

As well as the trade union arguments in favour of pay equity, there are various other ones. Beyond basic rights and the search for social justice, economic justifications may also be invoked. Here, we consider three of these.

First, the main result of implementing equal pay is undeniably that many women are able to break out of poverty.

The growing number of one-parent families (i.e. where just one parent, generally the mother, is present) has led to a rise in poverty. In some districts of Quebec's metropolis, Montreal, almost 40 per cent of families are one-parent. The majority of these families currently live below the poverty line. Many survive on state social assistance or other social programmes (unemployment benefits, retirement pensions, etc.). The pay rates and the types of work on offer to women (part-time, seasonal or otherwise precarious jobs) encourage them to rely on social assistance rather than seeking paid employment. Often, it is not worth working for a wage, because the net take-home pay will be scarcely any higher than the state welfare benefits. An upward revision of these women workers' pay will have a direct impact on an important section of the population, thus radically reducing social costs. Moreover, once they reach retirement age, many women find themselves reduced to poverty. If they had been earning a fair wage, they would have been able to pay more into public or private retirement schemes. This consideration alone amply justifies a drive for progress on this issue.

Secondly, given women's growing participation in economic life, the appropriate wage adjustments will serve to stimulate demand for goods and services – in short, they will “keep the economy moving”. Thus, one of the first effects will be to improve the living standards of women workers and their families. There may well also be a positive impact on productivity, at least in the short term. Employers will have nothing against that.

Finally, the State also stands to gain, because an increase in the wage mass will bring in more taxes. So the increased revenues will improve the financial resources of the State.

Quebec's pay equity law

After women mobilized and the unions lobbied, the Quebec Government brought in a law that obliges employers to achieve

and maintain pay equity within their enterprises. This is not a universal system, of course. The law is not intended to bring about uniform wage rates. Equal pay is to be achieved and maintained on an enterprise-by-enterprise basis, and the obligations vary somewhat according to the numbers on the payroll. The State did not wish to impose the same requirements on a small-scale enterprise (less than 50 employees) as on a big one (more than 100). The law includes a precise timetable, but does give employers some leeway about compliance dates.

Not everyone is happy with this law, of course. The employers have not exactly welcomed it with open arms, and all the trade union centres have gone to court over some parts of it. But an imperfect law is better than an injustice to women.

“Although far from perfect, this law nonetheless constitutes an important trade union gain and incorporates the basic principles that we have always demanded – including recognition of trade union participation in the pay equity process, a recognition that we dragged out of the Government before the law was adopted. It is now up to us to get it applied in our workplaces and to improve it through trade union action, as we did for other laws (on occupational health and safety, the minimum wage, standards, etc.).”⁴ Without going into the details of the law, it should be noted that it aims to correct wage gaps that are due to systemic discrimination against people in predominantly female jobs.

The procedures for achieving pay equity at the workplace level, as required by the law, include trade union participation. This recognition of the union role is important, because it enables us to highlight our experiences and achievements as practitioners. After all, we trade unionists have considerable expertise when it comes to negotiating wages, social benefits, job assessment schemes and so on.

Under the law, all enterprises with 50 or more employees must draw up a pay equity programme. This must consist of four stages. Initially, the predominantly female and predominantly male job catego-

ries within the enterprise have to be identified. Secondly, the method and tools for assessment (of the job categories) have to be described. The third stage is to assess the job categories, compare them, estimate the wage gaps and calculate the necessary pay adjustments. Finally, the last stage is to determine how the wage adjustments are to be paid.

Quebec's experience with this law is too short to be able to draw any hard-and-fast conclusions yet. The process is moving along and, depending on the courts' decisions, could end systemic discrimination based on sex. We are, however, convinced that our aim is just, from a social and a trade union point of view. Equal opportunities must be more than just a pious wish. They must become a reality. Trade unions

have always fought for justice for all, be they men or women.

Notes

¹ International Labour Organization, Equal Remuneration Convention, 1951 (No. 100).

² International Labour Organization, Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

³ Fédération des travailleurs et travailleuses du Québec (FTQ), *Mémoire sur le projet de loi sur l'équité salariale*, submission to the Quebec Parliamentary Commission on Social Affairs, Montreal, 19 August 1996.

⁴ Service de la condition féminine de la FTQ (Women's service of the FTQ), *L'équité salariale: Maintenant à nous de jouer*, Montreal, November 1998. This awareness-raising and action-building document has greatly influenced the present author.

Social partners: Collective bargaining in Austria

A big advantage of Austria's institutionalized collective bargaining system is its calculability. Most pay settlements are within a few per cent of the average wage. But could current government policies pose a threat to the consensus?

Martina Krichmayr
Bureau for Workers' Activities
ILO

Austria is well known for its system of social partnership, which has secured continued political and social stability since 1945 and has remained largely intact even in recent years. By international standards, Austria can be regarded as one of the countries in which institutionalized structures are most highly developed.

Collective bargaining represents one of the key areas of institutionalized industrial relations in Austria. It can still be characterized as a highly elaborated, stable and centralized system of fixing the working conditions of the vast majority of the workforce in the private sector. This is mainly due to the centralized and inclusive nature of the main actors, the Austrian Trade Union Confederation (ÖGB) and the Austrian Federal Economic Chamber (WKÖ). They act independently without any government intervention – except where the Government is the employer, as in the public-service sector.

Since the early 1960s, collective agreements have become the most important trade union instrument for the development of labour relations in Austria. Since that time, the ÖGB has traditionally operated a productivity-oriented wages and incomes policy with the objective of general wage and income development.

Collective agreements can be negotiated at the federal, provincial or sectoral

level, but not at company level. The majority of the roughly 500 collective agreements concluded apply to the whole federal territory, about 150 are regional in scope and about 50 are valid at the company level. Additionally, there are some homeworking agreements, minimum pay scales or regulations for wage compensation.

This summary emphasizes sectoral collective agreements. These prevail throughout the country, thus giving rise to some characteristics of collective bargaining in Austria:

- Wage policy is primarily decided by trade unions and not by works councils.
- The ability to make collective legal arrangements between employers and works councils at the company level is subordinated to the regulation of collective agreements at inter-company level.
- In particular sectors, standardized guidelines are the rule in setting the most important working conditions.

Due to the specific Austrian structure of professional self-administration and the highly institutionalized system, another peculiarity has to be mentioned:

- Almost all collective agreements are concluded on behalf of employers by

their legal representative, the Austrian Federal Economic Chamber and its sectoral substructures, and on behalf of employees by their voluntary professional association, the Austrian Trade Union Confederation.

- An existing independent trade union organization for white-collar workers is responsible for concluding separate collective agreements on behalf of blue- and white-collar workers.

Capacity to conclude collective agreements

In Austria, the capacity to conclude collective agreements is based on legal or administrative recognition by the Federal Conciliation Board in the Ministry for Economy and Labour.

By law, the following are permitted to conclude collective agreements:

- legal bodies representing the interests of employers and workers (the chambers of business and of labour, as public corporations by virtue of special laws);
- legal personalities, under public law, unless they are within another collective bargaining entity.

Upon request, the following are entitled to conclude collective agreements by virtue of their recognition by the Federal Conciliation Board:

- voluntary trade associations of workers and employers, on condition that they fulfil certain criteria such as appropriate statutes and suitability as a body representing professional interests (as is the case for the ÖGB, with its 13 trade unions, on the employee side);
- associations, on condition that they fulfil the stated criteria but are not part of any collective bargaining entity.

There is no provision for company-level agreements in Austria. Individual legal entities such as the Austrian Broad-

casting Corporation, the Federal Chamber of Labour or the Federal Employment Service are, by special laws, given formal competence for collective bargaining solely as concerns those actually employed by them.

Workers' right to conclude collective agreements

Formally, the authority to conclude a collective agreement negotiated by a trade union is vested in the ÖGB. Since September 1947, the ÖGB has the exclusive entitlement to conclude collective agreements for employees and workers. Although formally the ÖGB has the entitlement, the 13 trade unions take the responsibility for setting up collective agreements. As empowered organs of the ÖGB, they can also conduct negotiations with the competent sectoral subdivisions of the employers. Therefore, collective bargaining policy is implemented both by the 13 trade unions and their branches and professional committees, but the legal responsibility is borne by the umbrella organization (ÖGB). By recognizing the autonomous wage and income policy of the trade unions, the ÖGB rejects central wages and incomes guidelines.

The Chamber of Labour, the legal representative of workers' interests, transferred the right to collective bargaining to the trade unions and does not exercise this right in any of the areas where workers are organized in unions.¹ Nevertheless, the Chamber of Labour has considerable significance in the formulation of laws, as it provides technical expertise during the bargaining process.

Employers' right to conclude collective agreements

In contrast to the situation for employees, voluntary associations of the employers, like the Federation of Austrian Industry, do not have general responsibility for collective bargaining. This task was assigned

to the Federal Economic Chamber (WKÖ), through their legally enshrined role as a professional representative of interests. Since all independent companies in Austria are legally obliged to be members of the WKÖ, and its legal obligations include collective bargaining, labour relations are more or less comprehensively regulated by collective agreements.

Scope of collective agreements

Normally, collective agreements apply for 12 months. After that, they are generally not fully renewed or replaced, but are amended by supplementary agreements. They remain legally applicable until a new agreement comes into force. The traditional standard scope of these agreements includes the setting of minimum wages, as well as pay scales, special payments (annual entitlements roughly equivalent to two extra months' pay – the "13th and 14th month"), additional payments and bonuses, expense allowances, working hours and piece-work, sick leave, terms of notice and termination dates.

The scope of collective agreements was substantially increased by the Labour Constitution Act in 1973. They may now also determine the following: collectively agreed pension and retirement benefits, consultation and co-determination rights of the workforce concerning the implementation of works agreements about redundancy programmes and decent work, joint facilities of the social partners and matters which are referred to collective agreement by law.

Effects of collective agreements

Provisions of collective agreements are directly legally binding for all contracts of employment in the professional, local and personal area of validity of the agreement. Employees can assert their rights directly vis-à-vis the employer and if necessary sue on this basis in the labour and social security court.

The standard provisions laid down in the agreement are minimum rights. Collective agreements concluded by the ÖGB apply not only to trade union members but to all workers (the so-called "non-member effect"). A collective agreement, once concluded, is therefore valid for all employees of an economic sector or industry.

The standards set by a collective agreement are minimum rights, which must not be undercut even with the employee's consent. Any waiver of these minimum rights is null and void.

At the company level, works councils can conclude workplace agreements relating to wage structures and wage scales. These are valid only if they contain better wage provisions or conditions for the employee than do the collective agreements, or if they relate to matters not covered by collective agreements. In no case may the terms of a collective agreement be undercut.

Which collective agreement applies to which employees will be determined by the sectoral subdivision of the WKÖ to which their employer is assigned.

Practical experience

In Austria, collective bargaining is limited to the private sector. In the public sector, there is no formal bargaining, but negotiations take place between public-sector trade unions and government representatives. Within the private sector, more than 98 per cent of all employees are covered by collective agreements negotiated at the sectoral level and more than 500 collective agreements are concluded each year. While bargaining coverage in industry is 100 per cent, it is lower in some private services, such as insurance, real estate and community, social and personal services. While some of the groups without coverage grew in the 1990s (e.g. employees of non-profit organizations), unions have made some successful attempts to widen the coverage of collective bargaining.

The reason for the high density of coverage is that entrepreneurs are organized

by law in the Austrian Federal Economic Chamber and, based on this fact, sectoral subdivisions of the WKÖ engage in negotiations with the corresponding sectoral nationwide union. As a result of the social partners' high capacity for problem-solving, strikes are very infrequent in Austria by international standards. Annual downtime due to strikes (including all employees) amounts traditionally to only a few seconds per head. However, major industrial action has occurred in the public sector and in aviation.

In general, and as long as they are not political, strikes cannot give rise to court actions. Legal regulation is disliked by the trade unions, because it is considered as an interference in trade union autonomy.

The sectoral bargaining system is differentiated according to employee category (blue-collar workers and white-collar workers) and also to industry and small-scale enterprises. Most of the sectoral agreements cover the whole national territory. Company agreements are an exception.

Traditionally, the collective agreements for blue- and white-collar workers in the metal industry are the first to be negotiated each year, in early autumn. The metalworkers set the pace for the other unions (including the public sector), which enter into these bargaining processes in the ensuing months. This leading role is shared between the Metalworking and Textile Union (GMT), representing the highly unionized blue-collar workers in the metalworking industry, and the Union of Salaried Employees (GPA).

Generally, all agreements are within just 2 or 3 per cent of the average wage increase. There are no wage guidelines, and the Government never intervenes in the bargaining process. If negotiations reach deadlock, the presidents of the central associations (the Trade Union Federation and the Economic Chamber) usually step in as intermediaries.

In 2001, Austria's "leading" metalworking agreements were negotiated for about 105,000 waged and 95,000 salaried employees. Negotiations were formally

opened with an exchange of basic bargaining positions by the social partners in September and collective bargaining proper was due to start in October. For the first time, the Metalworking Union and the Union of Salaried Employees jointly decided on the issues to be put on the negotiating table for both blue-collar and white-collar workers in the industry. This year, negotiations became very difficult and contentious, as the unions were seeking to compensate employees for their loss of purchasing power resulting from the Government's expenditure-cutting reforms. Under the deal, minimum wage rates increase by 3 per cent and the new minimum monthly wage is thus 1,187.92 euros.

Fritz Verzetnitsch, President of the ÖGB, asserts that a big advantage of the Austrian collective bargaining system is its calculability. However, he also recognizes that negotiations may possibly become more difficult over the next few years, due to political circumstances.

The industrial sector is by far the most important level of wage bargaining. However, collective agreements concluded for the industry as a whole do not always entirely exhaust the scope for wage increases. Hence, depending on the situation of the individual enterprise, workers' representatives at the company level may bargain for additional wage increases.

Finalized collective agreements are binding for all members of the signatory parties. By law, they are automatically extended to an employer's non-unionized workforce. Collective agreements may also be extended to unaffiliated businesses within the domain of a signatory voluntary organization. When some territorial subunits of the WKÖ do not join a nationally negotiated collective agreement but others do so, extension is also possible.

New forms of work

In Austria, a growing number of jobs can no longer be described as based on a standard employment contract. More than 30 per cent of the total workforce is involved in

atypical employment relationships, with a yearly rate of growth of 12 per cent. The reasons for this development are changes in demand for labour, e.g. extended opening hours in commerce. Part-time work is growing constantly, since part-time work is more common in the service sector than in industry. It is mainly performed by women.

The spread of temporary employment has been limited; therefore, it is not regulated by collective agreements. In 1997, a collective agreement was concluded for the first time on teleworking in the mineral oil industry. A typical worker is salaried; in contrast, the more common term for a teleworker is "external employee". The agreement is important for several reasons. It was a first attempt at negotiating agreements covering activities in the field of new technologies. As a precedent, it will ease negotiations in other significant industries with external employees such as services, commerce, banking, etc.

When new sectors emerge, unions try to achieve collective agreements. For instance, employees in computers and information technology were covered by a collective agreement that was not sector-specific and deals with working time and flexibility.

As collective agreements are valid for employees only, the small but growing group of self-employed persons is not covered. In 1999, the union succeeded in concluding a binding agreement with the voluntary association of Austrian newspapers, fixing minimum fees for self-employed journalists. The ÖGB opposes non-inclusion of certain groups of employees into collective bargaining coverage, because as a consequence these groups often cost less and wherever possible employers try to substitute covered employees by non-covered. Therefore, when groups without coverage emerge or grow, unions try to achieve a collective agreement for them. Regarding the self-employed, the ÖGB would like as many of them as possible to have employee status (especially those whose work situation is the same as that of employees). Unions realize that

such forms of self-employment are not going to disappear, so they would like to contain this phenomenon and be able to set a framework for remuneration and working conditions, such as was achieved for journalists in 1999.

Generally, the ÖGB demands that the Government includes new forms of employment within the insurance system.

Future trends

At the national level, since a new coalition Government of the populist Freedom Party and the conservative People's Party came to power in February 2000, the traditional consensual atmosphere of public policy-making has been greatly disrupted. In particular, organized labour has been forced on to the defensive by the Government's policy of limiting social partnership. The Government was implementing a variety of reform measures and initiatives, covering a wide range of economic and political issues. It did not consult with social partner institutions on important economy policy decisions, such as social benefits reform and balancing the budget. The reform package included lots of measures in the social and employment field such as shifting inter-company co-determination down to the company level in relation to working hours or the right to collective bargaining.

That Government was undermining the system of social partnership, which is in fact very strong. Thus, political tensions between the Government and the trade unions have continually increased.

There is widespread consensus among social partners that strikes and other forms of industrial action should be prevented. However, debates about the Government's measures have resulted in warning strikes and other action by the ÖGB and its affiliates. Demonstrations and a very successful membership ballot in 2001 have indicated notable discontent with social and employment policy.

Whereas in other European countries, such rhetoric is a usual part of labour dis-

putes, at least as carried out by left-wing unions, the established Austrian model is not really prepared for such a conflict. The neo-liberal shift implemented by the Government challenges the economically successful Austrian model of industrial relations, all the more so since the Freedom Party has never been an integrated part of the model and has thus opposed it for political and ideological reasons.

In early September 2002, the coalition Government collapsed due to the resignation of ministers of the Freedom Party as a result of internal rows. Now it seems likely that the Government will dissolve soon and elections will take place this year.

A big challenge for collective bargaining is the growing internationalization and European integration. Generally, more flexibility in collective bargaining is demanded in order to meet the requirements of stronger competition. Efforts are concentrated on issues of working time, which is regulated by legislation. More flexible working time benefits employers, who no longer have to pay for overtime and who see their labour costs reduced. Employers are urging further liberalization (e.g. Sunday working and prolonged opening hours), while the ÖGB wants employees to have more control over their working time and is in favour of working time reduction. Flexible worktimes should, the unions say, be implemented within the existing framework, i.e. by law, collective agreements or company agreements, whereas the employers want to leave this issue out of collective bargaining. It is not certain that the Government will try to

change working time legislation in order to meet the employers' demands.

The Austrian system of collective bargaining has not undergone large-scale structural changes. Some of the challenges have been resolved firstly by the extension and modification of provisions, particularly the inclusion of non-covered groups of employees and, secondly, by increasing flexibility in organized decentralization.

Collective bargaining as an instrument of wage settlements is an indispensable tool for the attainment of trade union targets in future. Collective bargaining can achieve the complex balance between operational decentralization and general legislation. Thus, social partnership must maintain its autonomy vis-à-vis the State.

Collective bargaining plays a crucial role in establishing labour relations not only in the European Union, but also in the globalized economy of the twenty-first century.

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Note

- ¹ The Chamber of Labour represents all employees vis-à-vis the Government and the European Union. Membership is compulsory. The Chamber of Labour, like the ÖGB, is a social partner.

How to get the maximum out of the minimum wage

Establishing a minimum wage may positively affect employment and industrial peace and is a means of fighting poverty. States have a major role to play in this and certain conditions have to be met. One of them is social dialogue.

Catherine Saget *

Employment Strategy Department
ILO

Minimum wage regulation prohibits the payment of wages below a specified threshold. The main aim of such legislation is to sustain the living standards of low-paid workers. Empirical evidence (minimum wages have been in operation for years in most countries of the world) shows that other objectives are also invoked when setting up a minimum wage system. While supporting a minimum wage, governments, employers, workers and trade unions may indeed pursue different objectives.

For the workers, the minimum wage represents a basic requirement and a good way of improving or maintaining the standard of living of the low-paid and their families. The minimum wage is, furthermore, a way of protecting vulnerable workers who are not able to organize and thus prevents exploitation. It is also a means of redistributing income from capital to labour. Finally, negotiations around the minimum wage promote social dialogue.

At first sight, it might seem surprising to state that employers, for whom wages mainly represent a cost of production, have

any interest in the introduction of, or increase in, the minimum wage. However, from the employer's point of view, paying a minimum wage may increase productivity in three main ways: by minimizing shirking, reducing labour turnover and contributing to social peace. Firstly, the minimum wage is a way of raising productivity by motivating workers. Secondly, uniform wages, such as the minimum wage, contribute to reducing labour turnover, which can be very costly for firms. Thirdly, the minimum wage strengthens social cohesion and is a way for employers to ensure social peace by avoiding conflicts.

For governments, a major purpose of the minimum wage is certainly to contribute to alleviating poverty. The minimum wage can act as a social safety net in countries where social security is as yet little developed. Governments have also used the minimum wage to redistribute income in society, to promote productive employment and to enhance demand-driven growth.¹ In developing countries, the minimum wage is often at the core of social dialogue. Removing it may amount to seriously damaging the quality of social dialogue.

Furthermore, in countries where waged employment is developed, increasing the minimum wage might lower wage inequality and thus help to reduce income

* The views expressed in this article do not necessarily represent the views of the ILO, but those of the author herself. The author is very grateful to D. Campbell, S. Dasgupta, Ph. Egger and R. van der Hoeven for commenting on an earlier draft.

inequality.² In these countries, coordinated wage bargaining also acts as an important tool to achieve low inflation combined with a low level of unemployment when the growth of the economy leads to pressure on wages to increase (ILO, 2000).

In a period of high demand (high growth), firms tend to hire more people to meet the demand and unemployment tends to reduce. People have more wages, they spend more, enterprises also buy more input and inflationary pressure develops. In short, the higher the employment, the higher the inflation.³ Higher employment is good, but higher inflation is not. To avoid this dilemma, as inflation is the continuous increase of prices (price of output and price of labour), one way to keep inflation low without reducing demand is to control wage increases. How? The best way to adjust wages seems to be to look at real wages (the increase in the purchasing power of wages) and the other sources of inflation such as budget deficits.

Another function of the minimum wage is to ensure a better match between workers' skills and job requirements. The minimum wage, by increasing the expected earnings from a future job, provides a feeling of security to workers, and gives them more time to find the job corresponding to their qualifications. Promoting a better match between workers' skills and job requirements is an important and underestimated role of the minimum wage. This is especially so in developing countries, where there is no unemployment benefit system to play such a role, but also in industrialized countries, where some groups of the population such as first-jobseekers are often not covered.⁴

Finally, the minimum wage is an incentive for employers to provide training for workers. This could contribute to increasing the quality of the labour force.

The objectives of social partners overlap, but not completely. Precise objectives are imperative in determining the minimum wage system. If the State's objective is to relieve poverty, the questions that have to be answered are: Where do the poor work? Are they in waged employ-

ment? What kind of work do they do? Do they need training or not? Depending on the answers, it might be that the minimum wage is not the appropriate tool for alleviating poverty, though it might still be able to achieve other objectives.

Problems in determining the minimum wage system

In practice, problems arise as to the determination of the right level and coverage of the minimum wage system, if it is to fulfil the functions outlined in the previous section.⁵

There are several criteria to consider in the determination or the adjustment of the level of the minimum wage. The ILO's Minimum Wage Fixing Convention, 1970 (No. 131) identifies four of them: the needs of workers and their families, the capacity of firms to pay, the level of incomes and other wages in the economy, and the requirement of the economic development of the country. These criteria, though, might be contradictory and priorities therefore have to be established.

In some developing countries, it is unlikely that the minimum wage can cover basic needs. It might be useful to define what is meant by the "basic needs" of workers, and by the word "family", when setting mid-term or long-term objectives for a minimum wage policy in terms of basic needs. Once basic needs are defined, the automatic adjustment of the minimum wage to the increase in consumer price index, which seems logical, might not be such a good idea in countries where waged employment is developed, because of inflationary pressure. In such countries, minimum wage agreements now refer to changes in the purchasing power of the minimum wage in relation to the macro-economic situation, rather than just the consumer price index.

As to the second criterion, firms' capacity to pay might be estimated from the average growth in the economy, or in the sector, and from data on labour productivity when available. Other indicators such

as the size of enterprises and/or the structure of production costs in the sector (e.g. whether firms use a lot of capital or not) may be useful.

Defining the minimum wage in terms of other incomes and wages in the economy, which is the third criterion in the ILO Minimum Wage Fixing Convention, might raise another problem of data availability. It draws attention to income inequality in society, and to income generated from alternatives to minimum wage jobs such as subsistence agriculture, informal employment, unemployment benefit, etc.

The final criterion to determine the level of the minimum wage, “the necessity of economic development”, refers amongst other things to the constraint of remaining an attractive destination for foreign investment, which is an important channel of development.

The main dilemma in choosing the level of the minimum wage can be summarized as follows.

On the one hand, a high level of minimum wage is an effective way of protecting low-paid workers from poverty, but it might cover few such workers because of job losses, or non-compliance following the introduction of the high minimum wage. On the other hand, a low minimum wage might cover more workers but offer a weak protection against poverty.

To help us in judging what is a high or a low minimum wage, we might compare it with another wage. Comparing the minimum wage with the average wage has three advantages: the average is readily understandable and easily available, and it represents more or less the wage of skilled labour, while the minimum wage is often aligned on the wages of unskilled labour. There is a wide variation across countries with a very similar level of development. For example, the minimum wage represented more than 70 per cent of the average wage in El Salvador, Italy and Venezuela in the 1990s, while it was close to half the average wage in France, Poland, Sweden, Switzerland and Thailand in the second half of the 1990s. The proportion was relatively stable, at around 40 per cent,

in Botswana in the 1990s. Finally, it is now less than 35 per cent in Brazil, Chile and Spain and above 30 per cent in Bulgaria and Hungary.

These figures are taken at one point in time. The minimum wage, which in theory should preserve the standard of living of the lowest-paid workers, in practice often varies more than economic activity, and more than the average wage.

There is a big problem in comparing the minimum with the average wage: the average is extremely sensitive to very low and very high wage values.⁶ It has therefore been suggested that the minimum wage should be compared with the median wage, defined as follows: 50 per cent of workers receive less than the median wage and, of course, 50 per cent receive more. In this case, a relatively low minimum wage would be something like 30 to 40 per cent of the median and a relatively high minimum wage would be more than 70 per cent of the median. Above a certain threshold, which is difficult to estimate because it depends on the structure of skills in the industry, the minimum wage no longer acts as a threshold for unskilled and inexperienced workers, but becomes the maximum wage that even experienced and semi-skilled labour can expect in their professional life. A maximum wage may lower the incentive to acquire skills and deter the employment of new entrants to the labour market, i.e. cause unemployment.

The impact of a minimum wage on the economy and on society

The international evidence of the effect of the minimum wage on employment, industrial peace and poverty can be summarized as follows (Saget, 2001). Many recent studies have concluded that for a relatively low value of the minimum wage, small and regular increases in the minimum wage have no negative effect on the level of (formal) employment. This is because there are several ways an employer and the economy as a whole can react to an increase in labour costs, not all leading to redundan-

cies. A modest increase in the minimum wage can be compensated by a decrease in profits. This represents a redistribution of national income away from profits towards wages. There might also be an increase in the price of goods. In this case, the cost of the minimum wage to the employer is passed on to the consumer.

Another possibility for the employer, especially in the case of more substantial increases in the minimum wage, is to increase productivity, for example by making work more efficient and avoiding waste, by substituting capital for labour and by substituting skilled for unskilled labour.

In the case where increases in the minimum wage lead to the dismissal of some workers, at least some displaced workers may be able to find another job if external or internal demand is growing, or they may not be able to do so and become unemployed. The closure of some firms may follow a more substantial increase in the minimum wage.

This fact highlights, once again, the role of the State in setting a growth-friendly policy and providing the social partners with good forecasts on the state of the economy.

If increases in the minimum wage are offset by increases in labour productivity, demand will probably increase.⁷ Finally, an increase in the minimum wage may *increase* the level of employment if the wage paid previously was also below the competitive wage.⁸ In some rarer cases, even sizeable increases in the real minimum wage (15 to 20 per cent) did not result in higher unemployment. This depends on the initial value of the wage and the capacity of the economy to absorb any displaced workers.

A growing economy, which creates jobs, is able to absorb the small losses in employment which may possibly be caused by the adjustment of the minimum wage.

There are indications that the growth of the informal economy in the first half of the 1990s in Latin American countries was not mainly due to the level of the minimum wage, but rather was linked to the

decrease in gross domestic product (GDP) per capita (see Saget, 2001; van der Hoeven and Saget, 2002). The informal economy thus seems to result from a macroeconomic problem rather than from the rigidity of the labour market. However, in some countries, growth and informal-sector development coexist, so institutional factors cannot be completely ruled out.

In countries where the minimum wage was low, such as Mexico in the 1990s, virtually no workers in the formal sector received the minimum wage. Yet the minimum wage played an important role in the determination of wages in the informal economy, with a potential benefit for the poor.

A few studies also conclude that, amongst similar countries, those with a higher minimum wage have a lower rate of poverty (Lustig and McLeod, 1997; Saget, 2001). For at least two industrialized countries, there is evidence on the role of the minimum wage in explaining the level of wage inequality. The study by Lee (1999) concludes that most of the growth in inequality between the lower categories and the median of the US wage distribution was attributable to erosion of the real value of the minimum wage during the 1980s. The impact of the minimum wage on inequality was also confirmed by data on the Netherlands (see Teulings, Vogels and van Dielen, 1998).

Besides the traditional concerns about its effect on the level of employment, poverty, productivity and social dialogue, the minimum wage has many other social and economic effects which tend to be ignored. In some developing countries, particularly in Africa, a high proportion of employees in the public sector receive the minimum wage. A low minimum wage (and low wages in general) may, therefore, cause professionals and skilled workers to leave public employment, with negative effects on the quality of work performed and on service delivery.

While keeping the level of total employment constant, the minimum wage can have a different effect on the relative employment of various groups of work-

ers (men/women, youth/older workers). For example, a decrease in the minimum wage may cause a shift away from older workers towards younger workers, as appears to have happened in Mexico in the 1990s. A decline in the minimum wage in this country was also found to have a positive effect on the employment of women. The skill profile of minimum wage workers may also shift away from those with more formal education towards those with little education. Similarly, a differential impact of the minimum wage by sex and age was also found for the United States, together with an adverse effect on the employment of younger workers.

Best practices

The previous arguments outlined the potentially beneficial role of the minimum wage in the economy and society as a whole, as well as the problems encountered in determining the level and coverage of the system. Certain conditions have to be met if a country is to enjoy the benefits of a minimum wage system while avoiding negative consequences such as unemployment, widening income disparities and inflation.

Social dialogue is a prerequisite. As mentioned, coordination of wage bargaining could be used to reduce inflation arising from expectations of wage inflation. The quality of social dialogue at the enterprise level is also crucial in ensuring that wage increases translate into productivity increases through changes in work organization. At the national level, more objective discussions on the distribution of national income and in particular on the share of wages in national income are needed. It is well-documented that the share of wages has been declining in most developed and developing countries for which data are available. What are the consequences of this trend on people's well-being, social cohesion and long-term economic development?

Changes in work organization which are the main factors responsible for the in-

crease in productivity in France after it legislated for a 35-hour week are a complex and costly process requiring the support of both workers and managers. According to Islam and Nazara (2000), consultations with unions and business organizations in Indonesia helped to ensure that minimum wage increases did not damage employment between 1990 and 1998. The authors compared the level of waged employment in several areas of that country when the ratio of the minimum to the average wage was low and when it was high, and growth was constant. They found no evidence that the increase in the ratio of minimum to average wages damaged waged employment. Finally, the participation of social partners in the setting up of the minimum wage system is a good way of ensuring compliance with wage regulations in developing countries where only limited resources can be spent on labour inspection. The necessity of reaching a compromise between the interests of workers, employers and the State may ensure that the minimum wage is the "right minimum wage".

Small and regular increases in the minimum wage are better than brutal adjustments following years of stability in nominal terms. In some cases though, even sizeable increases in the minimum wage were estimated to have no negative effect on the level of employment.

Linking wage increases, including the minimum wage, to productivity at a time of sustained growth is in principle a good idea. In practice, it raises numerous problems due to the difficulty of measuring labour productivity at the sectoral, national, workplace and individual level (see, for example, United Nations, 1995).

Minimum wages and more generally labour costs are not the main variables that investors compare. At least, they are not what investors should be comparing. Foreign investors should compare many factors before investing in a given country, including political stability, exchange rates and unit labour costs, which are the cost of labour per unit of output, rather than just labour costs. Trends in labour productiv-

ity and the transparency of the minimum wage system seem crucial, particularly at a time of renewed emphasis on sound managerial practices.

ILO Convention No. 131, which can accommodate very different systems of minimum wages, provides a good framework for best practices. Ratifying the Convention implies three obligations: the obligation of consulting the social partners, the four criteria to consider in fixing the minimum wage discussed above, and the binding nature of the minimum wage.

The Convention, although rather old (1970), contains all the elements for making minimum wage policy a successful tool of labour market policy. The Convention makes references to the participation of social partners, the state of the economy, the economic activity of the poor, etc. It also contains implicit references to all the elements that go to make up decent work. Social dialogue has already been mentioned. Social security is another determinant in the fixing of the minimum wage. As the Convention was born before the years of hyperinflation of the 1980s, it is much less explicit as to the potential role of wage bargaining in fighting wage inflation. The Convention was also formulated at a time when there was less stress on human resource development and changes in work organization as a way for employers to adapt to the minimum wage rise.

Conclusion

The potential benefits of the minimum wage for the economy and society are undeniable, provided some conditions are met. The State has a major and triple-layered role to play in ensuring that bargaining on minimum wages is successful. First, it has to establish and maintain an institutional framework for minimum wage setting and collective bargaining. Second, it has to provide the social partners with good-quality, up-to-date information, so that both parties can decide on their position and bargain on the basis of accurate

information. In many cases, plenty of information is available, but not discussed. Third, the State should decide whether agreements reached by means of collective bargaining should be extended or not to other sectors or groups of workers.

Coming back to the first and second points, there is no magic formula for calculating the value of the minimum wage on the basis of economic and social data. The absence of sophisticated data, while always regrettable, is not the main obstacle to the success of the minimum wage system. Extensive discussions and debate within society on such a complex and potentially conflictual issue can produce a solution.

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Notes

¹ This is because low-income families tend to consume more and save less, in proportion, than do higher-income families.

² Most economists would agree that inequality affects growth of the economy through a combination of inequality of access to credit markets, asset inequality and human capital inequality.

³ This is a conventional explanation of inflation.

⁴ One of the main arguments in favour of an unemployment benefits system is that it gives recipients time to find the appropriate job, which matches their qualifications, instead of taking any job just to survive. It therefore contributes to higher productivity. The minimum wage acts in a similar way: jobseekers know what to expect and do not have to accept just any job. They can afford to look for a suitable job.

⁵ This paper ignores the problems that might arise in the determination of the right minimum wage fixing machinery; whether by statute, wages boards or councils, labour courts, etc.

⁶ A country where a small proportion of the population receives very high wages shows a high average

wage. The value of this average wage, which is driven by a small group of the population, will mean very little to most workers.

⁷ People benefiting from the rise in the minimum wage consume more and, providing they consume domestic goods, employment will increase if there is no constraint on the supply side of the economy.

⁸ Imagine a situation where a major employer in a given area deals with workers who are not very mobile: wages will be very low, lower than if the workers could easily move. In this case, introducing the minimum wage will actually increase employment. The agriculture sector in Morocco in the 1980s is often given as an example of such a situation. In Morocco, there is a minimum wage specific to agriculture, which is substantially below the minimum wage payable in other sectors and seems to have been more or less enforced at that time. At a constant market price for wheat and other cereals, an increase in the real minimum wage in agriculture is found to increase wheat production and therefore the demand for labour. The minimum wage thus increases employment and, as the agricultural labourers are amongst the poorest workers, contributes to alleviating poverty.

Wages, employment and prices

Cut real wages and you will create more jobs. So say the neoclassical economists who are behind the current push for more “flexible” labour markets. But are they contradicting themselves? Could wage rigidity be our main bulwark against deflation? And what happens if this barrier is breached?

Hansjörg Herr

Professor

Berlin School of Economics

Germany

The labour market and its reform are at the centre of theoretical and political discussions about how to achieve high employment. There are two basic approaches. The neoclassical paradigm – the present mainstream approach – assumes that cuts in real wages will increase employment. Reforming labour markets in order to make them more flexible is thus one of the key recommendations for improving employment and growth.

The Keynesian paradigm rejects the neoclassical view. According to Keynes, there is a hierarchy of markets. Economically, the most important is the capital market (including the banking system). In this market, the portfolio decisions of households, banks and enterprises and credit demand and credit supply are analysed. The capital market determines the interest rate and, together with profit expectations, the investment demand. Also, consumer demand can be affected, for example via changes in stock prices. Investment is the most important element of demand and at the same time the most important link between the capital and the goods markets. As long as there are free capacities in the goods market, demand determines supply.

The labour market is at the bottom of the hierarchy of markets. Demand for labour depends on the volume of production and

the technology. The latter depends on technological improvements and the distribution of income and is not predictable. This means that, on a theoretical level in the long run, there is no clear relation between the volume of production and the demand for labour. Labour demand will equal labour supply only by chance. Thus, unemployment is a normal state of affairs in a capitalist economy. Most importantly – in contrast to the neoclassical approach – in the Keynesian model, the labour market has no mechanism to create higher employment by itself. Capital and goods markets can be in equilibrium and at the same time the labour market can be in a stable situation of unemployment (Heine and Herr, 2002).

Wage levels and prices in the Keynesian model

In the Keynesian approach, the wage level does not determine employment, but it is an important factor in determining the price level.¹ In explaining inflation/deflation, Keynes distinguished between cost inflation/deflation and demand inflation/deflation.

In the case of cost inflation, a mark-up pricing is assumed. If costs increase at the macroeconomic level, enterprises will in-

crease prices. They are able to do so as all enterprises are affected by the same cost increases. If costs decrease, the competition between enterprises leads to falling prices. It follows that even in a situation of low capacity utilization, increasing costs lead to higher prices. Unit-labour costs – i.e. the nominal wage rate divided by productivity – are an important cost factor. When the nominal wage rate increases by the same percentage as productivity, unit-labour costs do not change and have neither an inflationary nor a deflationary effect. When nominal wages increase by more than productivity, unit-labour costs increase and lead to an inflationary push.

There are other cost factors which are covered by prices. If, over a longer period, the level of interest rates increases, prices must increase. Given the interest rate, capital intensity determines interest costs.² In addition, cost-push inflation can occur if taxes increase (for example, value-added tax), if import prices increase (as the result of a devaluation), or if prices of natural resources increase.

Demand-driven inflation takes place if capacities are fully utilized and aggregate demand exceeds aggregate supply. In this case, the enterprise sector achieves an extra profit. A lack of demand not only reduces the quantity produced, it can also reduce the price level. In such a situation enterprises are confronted with losses.

In equilibrium and in the long term, the price level is determined by productivity, the nominal wage rate, the interest rate, capital intensity and some other cost factors. Productivity and capital intensity can hardly be controlled by economic policy. Also, the central bank is not completely free to set the interest rate. This means that nominal wages are of paramount importance for the price level. Unit-labour costs become the *nominal anchor* of a monetary economy.

At the centre of Keynesian wage theory is the recommendation of *productivity-oriented wage increases*.³ Most of the world's central banks have a positive target inflation rate. If, for example, the target inflation rate is 2.0 per cent and the increase

in productivity 2.5 per cent, the nominal wage rate has to be increased by about 4.5 per cent in order to achieve the target inflation rate and thus become the nominal anchor of the price level.

According to Keynes, a typical inflation process develops as follows. Let us assume there is a long period of high investment which drives demand. If capacities are fully utilized and higher demand cannot be met by higher production, demand inflation will result. This leads to falling real wages. If workers do not accept a reduction in real wages and successfully increase nominal wages, both demand inflation and cost inflation will increase the price level. It is very likely that demand inflation and cost inflation will stimulate each other and lead to an accelerating wage-price spiral and a cumulative inflationary process. In such a situation, sooner or later a central bank will push up the whole interest rate structure. This leads to a fall in investment and demand deflation. At the same time, the stabilization crisis caused by anti-inflationary monetary policy reduces the growth rate and employment. Higher unemployment changes the situation in the labour market. Nominal wages do not increase as much as before and the cost inflation fades out.

For smaller countries in particular, external cost factors are important. If a country devalues its currency, import prices and the domestic cost level increase. As higher prices reduce real wages, it is very likely that a devaluation will trigger a wage-price spiral. The higher the inflation, the higher the likelihood of further devaluation. In such a situation, a country is caught in a devaluation-inflation spiral which is combined with a wage-price spiral (cp. Herr, 1997; Herr and Priewe, 2001).

Wages and positive macroeconomic regimes

It is the function of central banks to guarantee a stable currency. Central banks potentially always have the power to reduce inflation rates by a policy of high interest

rates. But the problem is that the short-term costs in reducing inflation may be very high. Restrictive monetary policy will create a collapse in investment, a lack of demand, demand deflation and enterprise losses. The stabilization crisis leads to low or even negative growth rates and increasing unemployment.

If there is no inflationary pressure, there is no need for restrictive monetary policy. This is the point where a labour market and *incomes* policy becomes very important. In a market economy, it serves to establish a nominal wage anchor. If an incomes policy establishes a productivity-oriented wage development, the central bank does not have to implement a restrictive monetary policy in order to stabilize the price level. There is no guarantee that a productivity-oriented wage policy will lead to higher growth and higher employment. But such a policy improves the macroeconomic conditions and increases the probability of higher growth rates and higher employment.

Especially in a situation of high employment, it can become difficult to follow a productivity-oriented wage policy. In such a situation, the bargaining power of unions is high and this may lead to higher nominal wages. Even if unions accept moderate nominal wage increases in a situation of high employment, high demand in the labour market can lead to wage drift and cost inflation. The more a country can stabilize wages in a situation of high growth and high employment, the higher is the likelihood of continual long-term growth. A successful interaction between nominal wage development (unions) and monetary policy (central bank) is of paramount importance for a prosperous economic regime.

A functional interrelation between nominal wage developments and monetary policy is only one element of a successful economic regime. As wages can never be a compensating factor for other destabilizing sources, incomes policy can be a force for stabilization only when the other macroeconomic markets are in a stable constellation. This shows the limited role of labour markets in the hierarchy

of markets in the Keynesian paradigm. If inflationary pressure comes from other sources, for example from a high budget deficit financed by the central bank, a functional wage policy is not possible. In such a situation, nominal wages have to be increased in order to prevent an erosion of real wages. Furthermore, nominal wages cannot normally be kept stable when the domestic currency is devalued by a high percentage and imported goods make up a large part of wage goods.

It has become very fashionable to calculate a so-called NAIRU (non-accelerating inflation rate of unemployment). The NAIRU is the unemployment rate that keeps the inflation rate at a certain level, for example at a low percentage target inflation rate. In some respects, the NAIRU concept fits into Keynesian thinking, as a certain rate of unemployment may be necessary to prevent an inflationary wage-price spiral.⁴ The better an incomes policy functions, the lower the NAIRU. It should be clearly understood that not every empirically measured unemployment rate is identical with NAIRU. In the Keynesian model, capital and goods markets can create unemployment rates which are much higher than the unemployment rate necessary to prevent a wage-price spiral. In Europe, for example, unemployment rates since the 1970s cannot be explained by excessive wage pressure. The problem was that growth rates were too low because demand – and especially investment demand – was too low. It would be particularly misleading to use the NAIRU concept to explain the high unemployment rates in developing or transitional countries.

The power of central banks to control the price level is asymmetric. So far, we have pointed out that central banks (at least potentially) can always successfully fight against inflation. For central banks, it is much more difficult to prevent, or fight against, deflation. The limited power of central banks to stop deflation becomes obvious if low interest rates do not stimulate investment demand and fail to increase the money supply. If expectation and the state of confidence are negative,

there may be no interest rate low enough to stimulate investment and prevent a permanent lack of demand. The crucial barrier against cumulative deflation is the nominal wage anchor. If this dyke breaks and nominal wages start to fall, a deflationary wage-price spiral and a deflationary demand constellation will stimulate each other and lead to a cumulative deflationary process. Any sharp deflation leads into a deep depression. Labour market institutions which help to establish a productivity-oriented wage development and especially prevent wages from falling are extremely important for the stability of a market economy. Rigidity of wages is desirable in order to stabilize the price level and it is not a disruptive factor which prevents full employment. If the central bank is responsible for preventing inflation, then unions or labour market institutions are responsible for preventing deflation.

Minimum wages

Where unions are weak, minimum wages become important. Minimum wages that can be enforced can prevent a deflationary wage-price spiral. They set a floor for nominal wage cuts and compensate for weak unions and an underdeveloped system of wage negotiations. If the level of minimum wages is substantially lower than the nominal wage of low-paid workers, it cannot prevent the general nominal wage level from decreasing. On the other hand, if a minimum wage is so high as to increase the wages of the group of low-paid workers, they may compress the wage structure. As a rule, minimum wages should not be much lower than the wage level of the least-paid groups of workers. As the wage level is different in different industries, minimum wages should be defined for each industry. In an inflationary situation, fixed minimum wages quickly become ineffective as the general wage level increases and a considerable gap develops between the wage level of low-paid workers and the minimum wage. Minimum wages should be adjusted in line with the

general wage level. Changes in minimum wages according to this rule will not set off a wage-price spiral. At the same time, they will prevent a growing gap between low-paid work and the minimum wage. On the other hand, if average nominal wages fall, the level of minimum wages should be kept unchanged.

Different wages in the same industry – an example of changing the wage structure

There are many ways to make the wage structure more flexible. Here only the effects of different wages in the same industry are discussed. The basic law of one price dictates that all companies in an industry have to pay the same prices for all inputs – for oil, computers, pencils, drilling machines, etc. and also for labour. Let us analyse what happens if the law of one price is violated and labour inputs have different prices for different companies.

At least in the short term, perspective wage differentiation within one industry can protect employment. This is the case if less productive companies can survive by paying lower wages. The price of this is lower nominal and real wages for employees in companies with lower productivity. For an economy, this employment strategy amounts to a policy of reducing average productivity in order to protect employment. The big disadvantage of such a policy is the reduced incentive to restructure firms and to innovate. Lame ducks are subsidized by labour and innovative enterprises are punished, as they have to pay higher wages and are not permitted to expand in accordance with their competitive power. One of the most dynamic elements of capitalism is the quest for extra profits through innovation, new management methods, etc. Wage differentiation within one industry hinders the process of creative destruction, as Schumpeter (1942) called it, which is a basic element of capitalism.⁵

For market economies, wage negotiations on the basis of the same wage level for all firms in an industry are functional, as

they enforce the law of one price which in general should also hold for labour. Only in special cases and for a limited period of time should the law of one price for labour be violated. It can make sense to reduce the wage costs for individually underperforming companies for a certain time in order to support restructuring. This may be desirable if the bad performance of a company does not lead to an immediate expansion by other companies and the development of an industry is path-dependent.

Shortcomings of the neoclassical model

The neoclassical model usually applies a smooth labour supply function which increases with higher real wages and a smooth labour demand function which decreases with higher real wages. Flexible real wages lead to market clearing – as in a normal goods market – and full employment.

One conclusion of the Keynesian approach is that real wages do not depend on nominal wages. “The traditional theory maintains, in short, that the wage bargains between the entrepreneur and the workers determine the real wage” (Keynes, 1936, p. 11). But: “There may exist no expedient by which labour as a whole can reduce its real wage to a given figure by making revised money bargains with entrepreneurs” (Keynes, 1936, p. 13). Reductions in wages do not lead to higher employment, they lead to deflation and to a destabilization of the economy.

There are more problems with the neoclassical analysis of the labour market. The smooth functions are not based on neoclassical microeconomics, they are assumed. In complete harmony with the neoclassical model, a more differentiated supply function for labour is possible. When real wages become very low, any further reductions in real wages may increase the supply of labour. In this case, people have to work more to survive. This phenomenon could historically be noticed during the industrial revolution. In many transitional and devel-

oping countries we can see a similar development. The phenomenon is also known in developed countries in the group of low-paid workers. On the other hand, increasing real wage rates do not in any case increase labour supply, as leisure time becomes more and more precious for households.

The smooth demand function for labour is based on dubious methodical grounds. It depends on a macroeconomic production function. Such a function suggests that the enterprise sector of a country can be boiled down to one large company using labour and one capital good for production. The striking fact of this function is that it implicitly assumes that there is no interaction between companies and no interaction between different markets. A lengthy discussion since the Second World War has shown that the inverse relation between real wages and labour demand in the neoclassical model depends on the existence of only one capital good. Two or more capital goods destroy the relation between lower real wages and higher labour demand. It is a scandal that many – though not all – neoclassical writers suppress this debate.

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Notes

¹ The analysis follows Keynes (1930).

² It could be argued that wages make up only a small part of total costs and thus the price level does not change by the same percentage as unit-labour costs change. This argument is false as higher unit-labour costs increase the price level of capital goods. In the simple case when only wage costs and capital costs exist it can be shown that a certain percentage change in unit-labour costs leads to the same percentage change in the price level (cp. Heine and Herr, 2002).

³ Statistically, productivity drops during recession as companies cannot immediately dismiss

people, and it increases during an upswing as companies use the existing stock of workers to produce more. Thus productivity-oriented wage policy should follow the medium-term trend of productivity changes.

⁴ NAIRU is often and wrongly identified with the natural rate of unemployment. The latter is the employment rate that the real sphere (real wage rigidity, low mobility of labour, mismatch of labour demand and supply, etc.) in the neoclassical world creates. The neoclassical model explains inflation by excessive money supply and not by nominal wage increases. But nominal wage increases are behind the NAIRU concept.

⁵ Karl Marx also stressed this point.

Minimum wages and employment: The positive UK experience

Prior to its introduction by the Labour Party in 1999, the minimum wage raised many eyebrows in the United Kingdom. Conservatives predicted that massive unemployment would result. It did not happen. The evidence suggests that the move has benefited the country in general and the poor in particular.

Damian Kyloh
Economics Student

In the mid-1990s, the Labour Party in the United Kingdom made it clear that they would introduce a national minimum wage (NMW) if they won the next election. Their objective was to use an NMW to help reduce poverty and income inequality. This led to much political and economic debate about the likely impact of an NMW. Much of this focused on the employment impact. For example, in 1995 a former Conservative government minister, Iain Lang, said that a minimum wage set at £4.15 an hour would cost at least 950,000 jobs.¹

Yet by March 2001, nearly two years after the introduction of an NMW (in April 1999), the Low Pay Commission was able to conclude: “We were especially concerned about the possible negative employment effects of the minimum wage. Employment has continued to grow strongly since the introduction of the minimum wage, and there were no discernible adverse effects at the aggregate level.”² In fact, total employment increased significantly during the first two years after the introduction of the NMW.

A brief history of the minimum wage

Wage Councils were first established by Winston Churchill in 1909 to protect the pay of workers in the so-called “sweated

industries”. At their peak in the 1960s, the Wage Councils set minimum wages in some 60 sectors. After this, the number of sectors covered fell and in the early 1990s there were 26 remaining Wage Councils. But in 1993, the Trade Union Reform and Employment Rights Bill abolished all of these. Thus, from 1993 there were no minimum wages in operation in the United Kingdom, except in agriculture.

In 1997, the Low Pay Commission (LPC) was established to recommend to the Government a level for the initial rate of the NMW. The LPC did a lot of research and spent a lot of time talking to trade unions and employers before making recommendations to the Government. At the start, there were large differences of opinion about the introduction of the NMW and about what level it should be. In fact, up until the mid-1980s, the Trades Union Congress (TUC) had been against a minimum wage because they felt it might damage collective bargaining. But they changed their mind and in the mid-1990s were arguing for an NMW of over £5.

The head of the LPC, George Bain, points out that employers also changed their minds about the NMW. In 1995, the Confederation of British Industry (CBI) argued that “even a low minimum wage would reduce job opportunities and create major problems for wages structures in a

wide range of companies”.³ But by 1997, Bain says, the CBI had accepted the idea of an NMW and was concerned only about the level of the wage floor. It would seem the LPC was pretty successful in bringing employers and unions closer together, demonstrating that social dialogue does work. In its initial decision, the LPC recommended a fairly modest NMW. It suggested a rate of £3.60 with a lower development rate for workers aged 18-20 and for those aged 21 and over but starting a new job or undertaking training. It also suggested that workers under 18 and apprentices should not be covered by the NMW.

In April 1999, the Labour Government led by Tony Blair implemented most of the LPC’s suggestions, but decided to introduce an even lower rate for young people. They decided on an NMW of £3.60 an hour for workers aged 22 and over, with a lower rate of £3.00 for those aged 18-21. Since that time, there have been some slight increases in the NMW and in October 2001, the main national wage for adults aged 21 and over was adjusted to £4.10 per hour.

The LPC and the Government deliberately adopted a careful approach. As Bain said: “We believe that by taking a cautious approach, the NMW can be introduced without significant extra cost to business. Nor in our judgment should its impact on the wage bill adversely affect employment or lead to any substantial increases in inflation.”⁴ The LPC estimated that the wage bill would increase by only 0.6 per cent and inflation by 0.2 per cent.

The union movement and many low-paid workers were rightly disappointed with the LPC recommendations, and somewhat disillusioned with their Labour Government. Nevertheless, after decades of Conservative attacks, this was seen as a small step towards providing much-needed protection for the low-paid.

The labour market impact

When the Low Pay Commission issued its third report in March 2001, it was pleased to note that the rate of unemployment

stood at 5.3 per cent in the final quarter of 2000. It said this was the lowest level since the UK adopted the ILO system of measuring unemployment in 1984. The LPC said: “On the basis of this measure over the period since the minimum wage was introduced unemployment had fallen by just under 235,000.”⁵

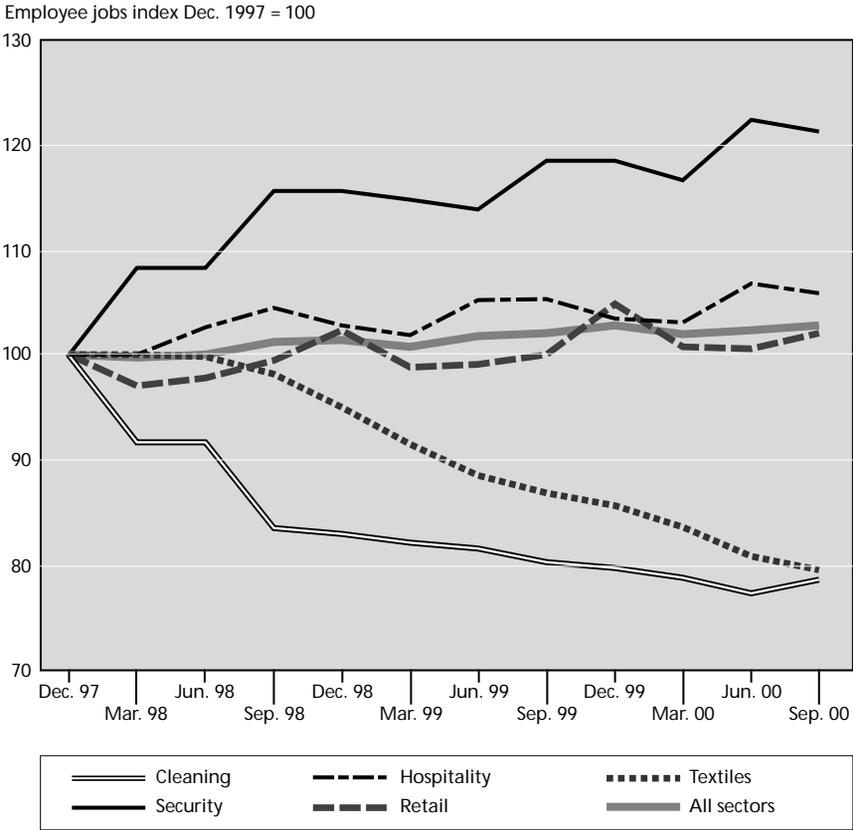
Consider the updated figures. Standardized unemployment figures from the OECD show that UK unemployment fell from 6.3 per cent in 1998 to a low of 5.0 per cent in the second quarter of 2001. Since then, there has been a very slight increase to 5.2 per cent in August 2001. This might be due to the downturn in the US and global economies which commenced in 2001. Despite this, the OECD data show that in mid-2001 UK unemployment levels compared very favourably with the OECD average of 6.8 per cent and the Euro-zone figure of 8.4 per cent.

These aggregate unemployment data strongly suggest that the UK labour market was not adversely affected by the introduction of the NMW. If anything, there may have been a positive effect. However, before drawing any sweeping conclusions, it is necessary to go further and carefully examine the implications in those segments of the labour market where the low-paid workers are concentrated. If anyone had stood to lose their jobs as a result of the NMW, it would have been workers in marginal low-productivity sectors of the economy.

Figure 1 shows changes in employment levels in some low-paying sectors of the economy, namely cleaning, security, hospitality, retail and textiles.

It may be seen that employment in the security sector has risen relatively quickly while employment in the hospitality and retail sectors has increased in line with the national average. On the other hand, employment in textiles and cleaning has declined dramatically. However, the LPC has argued that employment in the textiles and the cleaning sectors has declined in accordance with longer-term trends and structural changes in these sectors.

Figure 1. Employment change in low-paying sectors, 1997-2000



Source: Employee jobs series, CNS, 1997-2000.

The LPC commissioned a survey of firms affected by the NMW in Northern Ireland. This found that textiles and clothing firms accounted for 73 per cent of the reported direct job losses and employers in this sector were generally unable to raise prices in adjusting to the minimum wage. The results of this survey would suggest that, in particular sectors and in particular regions, there have been some negative employment effects from the minimum wage. However, the long-term employment decline in the textiles sector is probably also due to reduced international protection as well as to the movement of textile production offshore.

Other evidence suggesting that there have been some negative employment ef-

fects is an LPC survey of firms affected by the NMW. The results of this survey are summarized in figure 2. This shows that about 13 per cent of firms said they had made significant reductions in their staffing levels as a direct result of the NMW, while almost 40 per cent of firms claimed either a significant or slight decline in employment.

What is clear from figure 2 is the extent to which some industries have been affected. According to this survey, 65 per cent of hairdressers and 56 per cent of businesses in the hospitality sector have made some staff reductions as a direct result of the NMW being introduced.

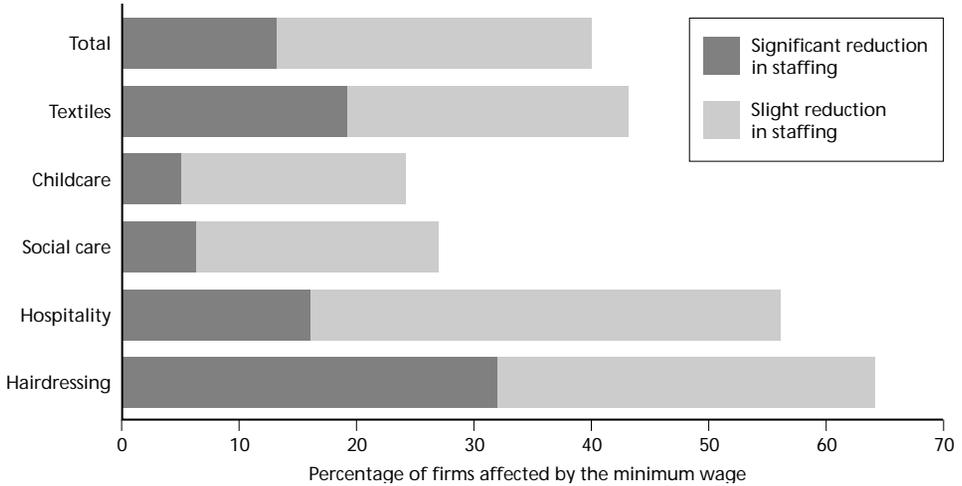
Figure 3 demonstrates exactly why hairdressers have been so dramatically af-

affected. It shows the impact on the wage bill after the introduction of the NMW.

It may be seen that the hairdressing sector experienced the greatest increase in the wage bill, about 7 per cent. This evidence suggests that in certain sectors and occupations, namely hairdressers and textiles in Northern Ireland, there has been a slight negative employment effect.

If the NMW were to have negative employment effects on the low-paid, an increase in youth unemployment might be expected. However, figure 4 shows that unemployment is now lower than in the previous trough, in 1990, across most age groups. There are two exceptions, namely 16-17 year-olds and 22-24 year-olds. For the former group, the rise in unemployment-

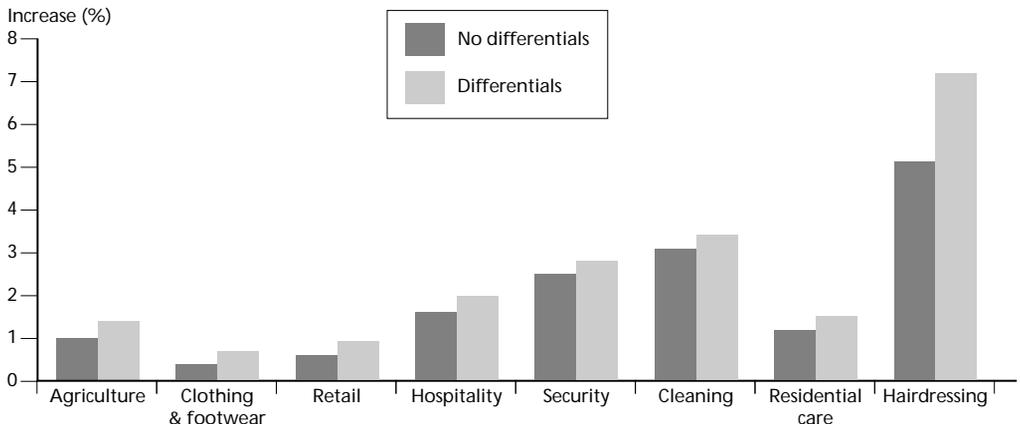
Figure 2. Reductions in staffing levels as a result of the National Minimum Wage



Note: Base, all firms affected by the National Minimum Wage in any way.

Source: Low Pay Commission Survey, September-November 2000.

Figure 3. Impact on the wage bill of the introduction of the National Minimum Wage in low-paying sectors



Source: LPC Calculations Grossed NES data, April 1998.

ment was concentrated among those in full-time education. For the latter group, the increase between spring 2000 and autumn 2000 appears to be related to those who left full-time education.

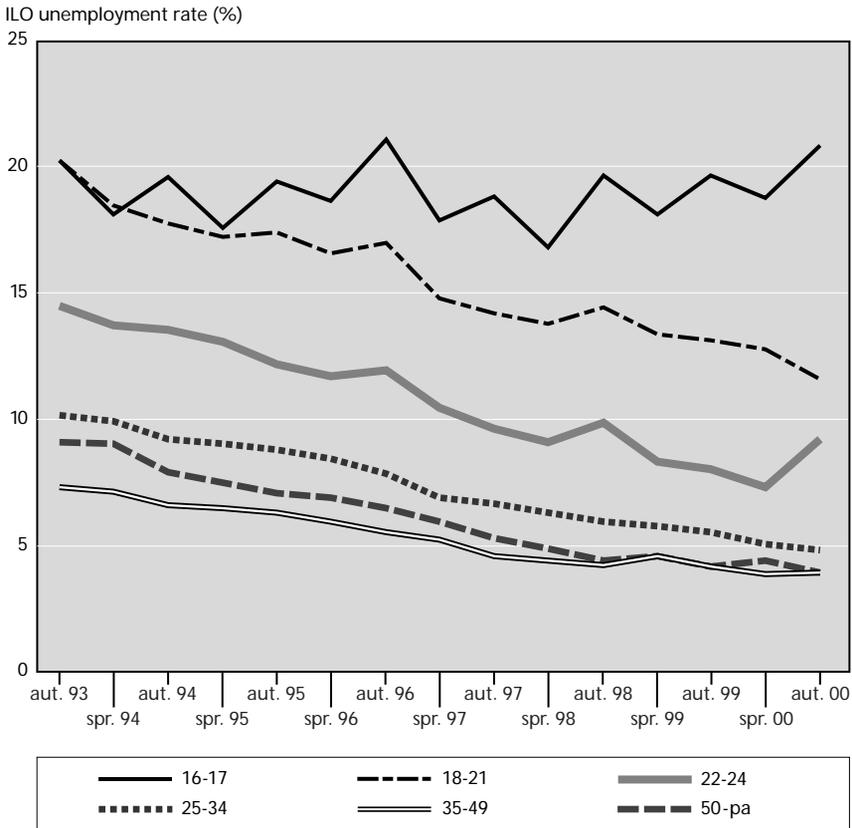
Ethnic minority groups are disproportionately represented among low-paid workers. If there were a negative employment effect for the low-paid, we might expect a rise in the number of people unemployed from these ethnic groups. But it may be seen from figure 5 that the number of unemployed people from these ethnic groups has continued to fall.

In fact, the number of unemployed from minority ethnic groups has fallen faster than for the majority population. If anything, this suggests that the introduc-

tion of the NMW may have had a small positive employment effect. From figure 5, it can be seen that between spring 1999 and autumn 2000, the unemployment rate for whites fell by 0.6 percentage points. In the same period the unemployment rate for black, Indian and Pakistani/Bangladeshi workers declined by between 1 and 1.3 percentage points.

Another group in society that is concentrated among the low-paid is disabled people. In the 18-month period after the introduction of the NMW, there was a fairly significant fall in the number of people unemployed who had a work-limiting disability. Their unemployment rate fell by some 1.6 percentage points over this period.

Figure 4. ILO unemployment rates by age, 1993-2000



Source: LFS data, spring and autumn 1993-2000.

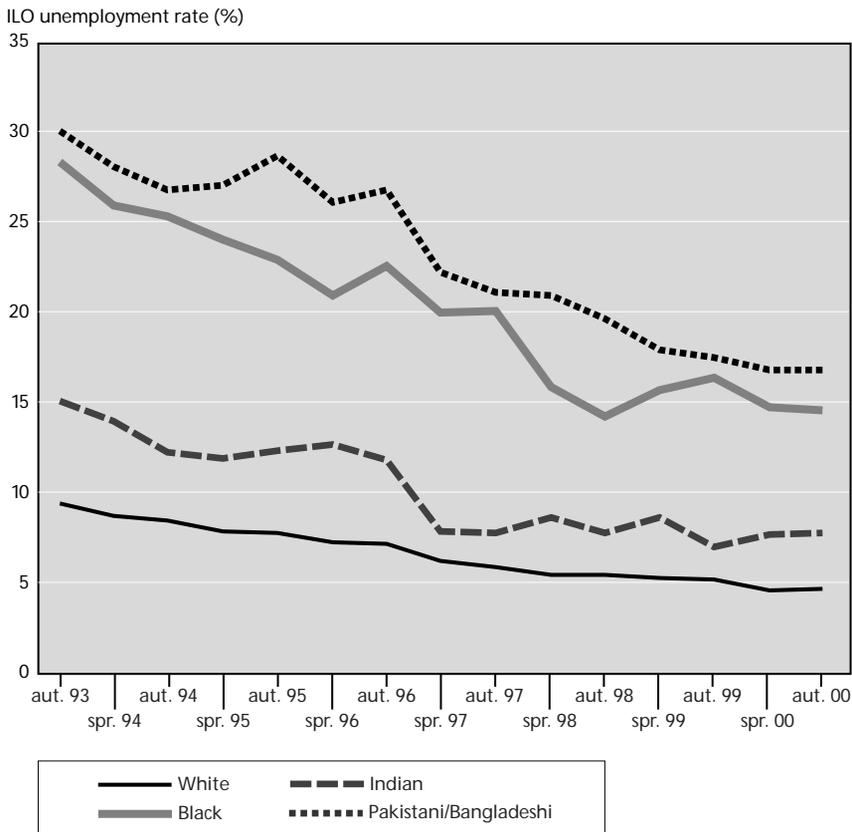
If there were to be a negative employment effect resulting from the introduction of the NMW, we would expect there to be a rise in unemployment in lower-paid regions. But again this was not the case. In fact, the lowest-paying region, the North-East, had the largest increase in employment and the largest fall in unemployment post-minimum wage.

The labour market trends for youth, ethnic groups, disabled people and workers in low-paid regions are consistent with the view that the introduction of the NMW had a small positive impact on employment for some low-wage groups. Of course, this evidence alone does not prove that the NMW definitely caused these reductions in unemployment. They could

have resulted from some other factor, such as the retraining and other help that the Government provides to disadvantaged groups in order to find employment. In fact, the Government has introduced a number of “New Deals” to help young people and the long-term unemployed get jobs over the last few years. It has also made changes to the system of social security benefits, in order to discourage unemployment. These changes probably help explain the good employment outcomes for low-paid workers in recent years.

However, the evidence collected by the LPC is also consistent with the view that the NMW helped boost incomes and consumption spending by poor workers. This might suggest that an economic multiplier

Figure 5. ILO unemployment rates by ethnic group, 1993-2000



Source: LFS data, spring and autumn 1993-2000.

effect occurred after the introduction of the NMW. But this is possible only if, after that introduction, the real income for the low-paid rose – despite fears of a poverty trap or the potential for heightened inflation. In fact, the Government took steps in the March 1998 budget to ensure that a potential poverty trap was avoided. They altered the tax and benefits that applied to low-paid workers, in order to ensure that the benefits of the NMW were not lost in higher taxes. As a result, the LPC was able to conclude that “for many employees in receipt of in-work benefits, the NMW will not only substantially increase their earnings, but also increase their total income”. This would support the idea that the NMW could have boosted consumption, aggregate demand and employment.

One of the reasons why there appear to be only very minor negative employment effects is that firms faced with the rise in their wage bill took direct action to make their businesses more productive. A survey of employers by the LPC found that about 40 per cent of firms said they had made some increase in investment and training as a response to the NMW. This information is presented in figure 6.

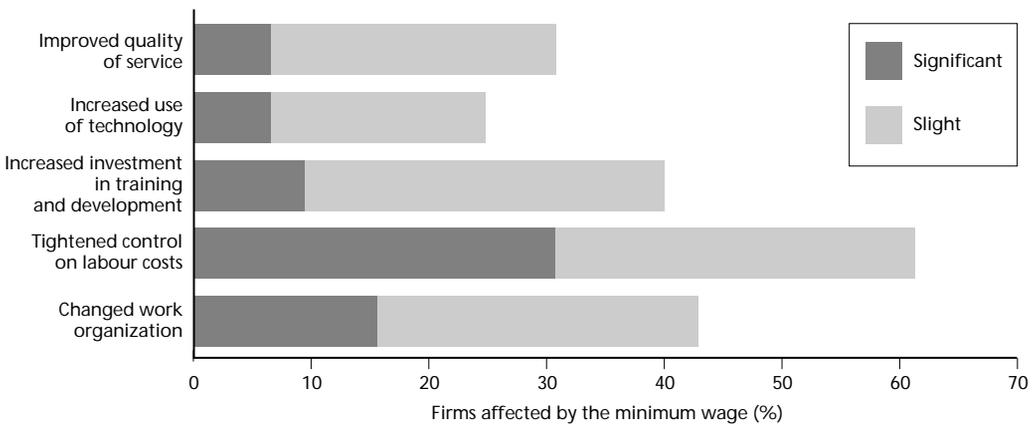
It may be seen from figure 6 that firms made many changes to improve produc-

tivity and offset the increase in their labour costs after the NMW was introduced. These include improving the quality of service, increasing the use of technology, boosting investment in training and changing their work organization. Figure 7 also shows that many employers reduced labour costs by cutting absence from work, paid breaks, staff meals and overtime rates. Thus, this evidence suggests that, rather than laying workers off, firms have tried to raise productivity.

Figure 7 is based on a survey of small and medium-sized enterprises conducted for the LPC. It attempts to show the impact of the NMW on staff motivation, staff turnover and filling of vacancies. According to this survey, over 20 per cent of firms had higher staff motivation, 10 per cent reported lower staff turnover and 8 per cent said they could fill vacancies faster.

All these factors would have either lowered labour costs or increased productivity. For example, lower staff turnover means firms do not waste the time and money they put into training workers. Based on this survey, it would seem the NMW has helped firms to retain their experienced and more highly productive workers. This evidence would strongly support the theory of efficiency wages and the notion that

Figure 6. Action taken to improve productivity as a result of the National Minimum Wage



Note: Base, all firms affected by the National Minimum Wage in any way.

Source: Low Pay Commission Survey, September-November 2000.

minimal labour standards make sound economic sense.

There is also some evidence to suggest that rather than firms laying off workers, they have increased prices to protect profit margins. This is especially true in low-paid sectors, as figure 8 demonstrates.

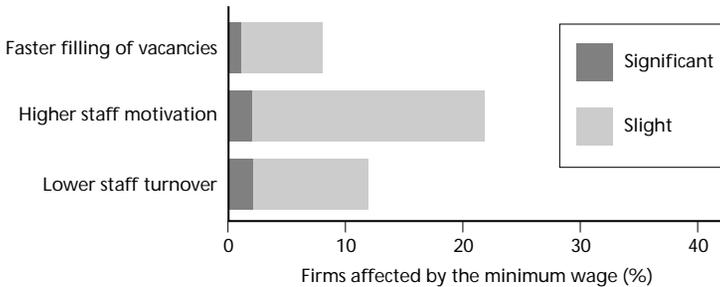
Here, it may be noted that in the hair-dressing sector – which, as we saw earlier, experienced a big increase in its wage bill – 85 per cent of firms increased their prices as a direct result of the NMW. It seems fairly clear that in several low-paying sectors, prices have risen as a re-

sult of the NMW. This suggests that economic conditions were good enough to allow firms to raise their prices in order to protect their profit margins, instead of laying off workers. Importantly, however, despite the increases in prices in some sectors, overall inflation in the UK has stayed low.

Conclusion

In any economy, employment levels are determined by many factors. Wages, because

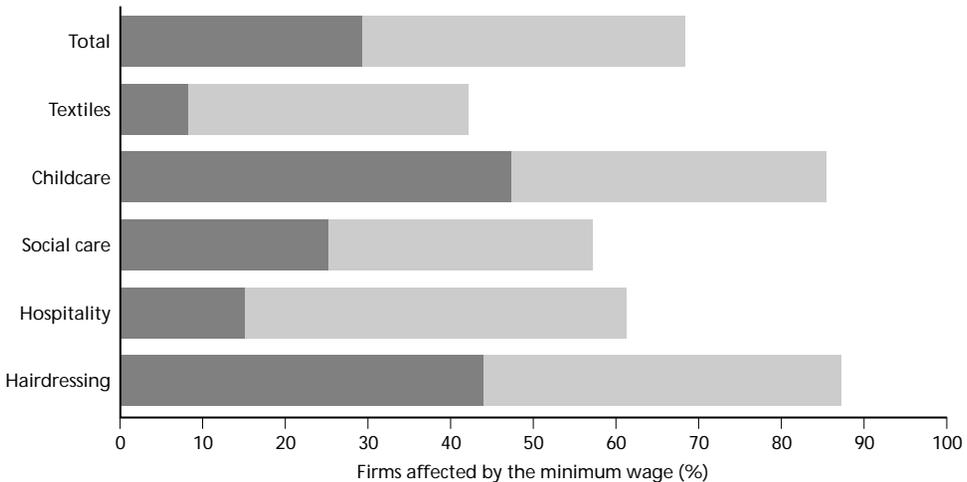
Figure 7. Benefits to business as a result of the National Minimum Wage



Note: Base, all firms affected by the National Minimum Wage in any way.

Source: Low Pay Commission Survey, September-November 2000.

Figure 8. Firms raising prices as a result of the National Minimum Wage



Note: Base, all firms affected by the National Minimum Wage in any way.

Source: Low Pay Commission Survey, September-November 2000.

they are a major component of labour costs, are clearly one important factor. But they are definitely not the only one. For example, the levels of aggregate demand, productivity and labour skills, plus changes in the costs of other factors of production, will also have an impact on employment levels. It is therefore difficult to isolate the impact of the NMW on the employment opportunities of the low-paid.

Yet, on the basis of the available evidence, it would seem fair to conclude that there have been no major negative employment effects for the low-paid as a result of the NMW in the UK. The predictions in the mid-1990s that an NMW would lead to massive job losses have proven incorrect. As the UK *Pay and Benefits Bulletin* noted: "A surprising consensus has now emerged, with government, business, unions and academics all sharing the view that there has been no significant adverse impact resulting from the statutory wage floor ... Almost eight in ten firms ... back the principle of a statutory wage floor. Just 4 per cent oppose the idea."⁶

Even the OECD, which was originally sceptical about the employment implications of the NMW, recently conceded that "while the minimum wage covers over 1.5 million workers, it is too early to assess its impact on employment although, as yet, there are no discernible adverse effects".⁷

But why have there not been increased unemployment and a fall in job opportunities for the low-paid? Neoclassical theory clearly predicts this. One particularly important reason was the strong emphasis placed on social dialogue and steps taken to promote tripartite consensus. As noted previously, the initial level of the NMW was fairly modest and most employers accepted it as being fair. As the OECD said in their Economic Survey of the UK for 2000, "the minimum wage was introduced at a prudently low level, and its planned adjustment is limited".⁸

The LPC deserves considerable credit for this outcome. They talked a lot with both unions and employers, and to a large extent the level of the NMW was a compromise between employers and un-

ions. Although many unions complained that the level was too low, it was probably viewed as fair by most employers. As one reporter recently stated, "30 months after it [the NMW] was introduced, it is generally seen as a success by both employers and workers".⁹ This was decisive, as it meant that employers did not think their businesses would be adversely affected in such a way that they needed to sack workers.

The LPC took into account the wider economic implications of an NMW, and the decision to have a lower level for young workers was probably important. The Commission believed what was needed for the United Kingdom was a "Plimsoll line for labour as well as for ships ... a line to limit ... the extent of peril and suffrage to which the worker is to be liable."¹⁰ The level to be set was to be a "Plimsoll line". It was to be a low level, to keep low-paid workers' heads just above water.

The evidence in this article gives considerable support to efficiency wage theories. The information concerning improvements in recruitment, retention and worker motivation after the NMW was introduced would suggest that paying wages at about the market clearing rate can make good economic sense, because it encourages higher productivity.

Now that an NMW has been operational for several years, and conclusive evidence has emerged that minimum wages can have positive effects on employment and productivity, it is time to push on with this experiment. It is time to raise the NMW to a level that will make a greater contribution to reducing poverty and creating decent work. The "Plimsoll line" needs to be adjusted so that more families will have their heads above water. Providing the LPC continues to promote social dialogue, and care is taken to explain the positive experience to date, it should be possible to raise the real value of the NMW in years to come without adverse labour market implications.

Notes

¹ *The Independent*, 13 September 1995.

² Low Pay Commission, *Third Report*, March 2001, Executive Summary, para. 8.

³ Bain, G. *The national minimum wage: Further reflections*, p. 16.

⁴ *ibid.*, p. 18.

⁵ Low Pay Commission, *Third Report*, Vol. 1, p. 43.

⁶ *Pay and Benefits Bulletin*, Industrial Relations Services, March 2001.

⁷ OECD, *Economic Survey, United Kingdom, 2000*. Executive Summary p. 17.

⁸ OECD, *op. cit.*

⁹ *Guardian*, "Yes, it's a wage that works", 21 October 2001.

¹⁰ Bain, *op. cit.*, p. 23.

Uganda: Minimum wages or minimizing wages?

Uganda's minimum wage was last set in 1984 and has since lost much of its purchasing power, with workers officially entitled to less than one dollar a month. Discussions initiated in 1995 about adjustment have yet to deliver the goods. And prospects suggest Ugandan workers will be only slightly better off. Unless decency gets the upper hand...

Martin Wandera

Member of Parliament

General Secretary

Uganda Hotels, Food and Allied Workers' Union

Mohammed Mwamadzingo

Regional Specialist on Workers' Education

ILO Harare

Uganda is one of the countries that are in the forefront of implementing economic reforms as prescribed by the Bretton Woods institutions. Since the late 1980s the Government, with the support of donors, has rehabilitated and stabilized the economy by undertaking currency reform, raising producer prices on export crops, increasing prices of petroleum products and improving civil service wages. Inflation came down to 5.3 per cent from double digits, and the overall fiscal deficit (excluding grants) was reduced to 6.5 per cent from 11.2 per cent of national income. The country has also made a strong economic reform effort in recent years, including in the areas of trade liberalization, tax administration and public enterprise reform. In 2001, Uganda completed a poverty reduction strategy involving a participatory process.

Substantial improvements have also been recorded in social indicators, the most notable being the area of primary education where enrolment reached 6.5 million children in March 1999 from 2.3 million in December 1996, and the net enrolment

rate increased from 56 per cent in 1995-96 to 94 per cent in 1998-99. The share of the population living in poverty declined to 44 per cent in 1996-97, from 56 per cent in 1992-93.

Yet Uganda remains one of the poorest countries in the world. The cost of living has dramatically increased, as has the number of unskilled workers. As a result, working and living conditions have deteriorated.

The minimum wage odyssey

In 1963, Uganda joined the ILO and, in the process, acceded to 17 ILO Conventions ratified by the colonial administration. One of these was the Minimum Wage-Fixing Machinery Convention, 1928 (No. 26). Article 1 of this Convention states:

Each member of the International Labour Organization which ratifies this Convention undertakes to create or maintain machinery whereby minimum rates of wages can be

fixed for workers employed in certain of the trades or parts of trades (and in particular, in home working trades) in which no arrangement exists for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low.

The provisions of this Convention were translated into national law, through the Minimum Wages Advisory Board and Wages Councils Act adopted in 1964. In effect, Uganda has had a statutory minimum wage since then. It was last adjusted in 1984.

In 1995, a Minimum Wages Advisory Board was established, in consultation with the Federation of Uganda Employers (FUE) and the National Organization of Trade Unions (NOTU). The Board included representatives of government, employers and workers. Its terms of reference were as follows:

- Inquire into wages of unskilled labour throughout Uganda and submit recommendations having regard to the existing social and economic conditions of the country.
- Recommend differentials, if any, which should apply as between different areas.
- Consider, in accordance with the powers under Section (5) of the Minimum Wages Advisory Board and Wages Councils Act, the need for a special minimum wage rate and other attractive conditions of work for the large agricultural estates as an inducement to labour.
- Consider the need for payment of a separate minimum rate for earners other than apprentices and make recommendations.
- Make recommendations relating to part-time workers so as to ensure that an employee who is employed for four or less consecutive hours each day is paid at an hourly rate.

The Board held extensive and intensive consultations with a representative number of lawyers and workers, including

local government authorities. The recommendations of the Board were widely discussed and underwent all the systematic procedures required by the law. Its report was studied by the then Minister responsible for labour affairs. He submitted it to the Government, which authorized him to gazette the report in accordance with Section 64 of the law under reference. The report was gazetted in April 1997.

The Board was reconvened in May 1997 to reconsider its report in the light of public comments. The report was then resubmitted to Cabinet. Cabinet made its recommendations to President Yoweri Museveni in 1998. The 1964 Act gives the President the prerogative to announce the statutory minimum wage. He may accept the Board's proposals as they stand or hold consultations as he sees fit and amend the proposals accordingly, prior to implementation. At this stage, the President is still reportedly pursuing consultations with the stakeholders. And to date, there has not been any end in sight to the process, much to the chagrin of Ugandan workers.

The workers' arguments

In fact, despite the Minimum Wages Advisory Board's taking all factors into consideration and undertaking wide consultations with all the stakeholders, the Government has, up to now, been hesitant to put the proposals into effect. Workers, through their representatives in Parliament, have pleaded for the reinstatement of the wage-fixing machinery, but to no avail.

For workers, the main arguments in favour of a minimum wage have been that it ensures that the worker is adequately rewarded for his/her services and enables him/her to attain a decent standard of living through the provision of the basic necessities of life. A minimum wage is taken as a wage sufficient to cover the worker's normal material, moral and cultural needs and to enable him or her to carry out his or her duties as the head of a family. Workers were propagating the value of minimum wages on the following grounds:

- as part of preventing the exploitation of workers;
- as an assurance of fair or decent remuneration;
- as a potential means of improving income distribution (without making those at the lower end over-dependent on state benefits);
- as a way of increasing economic efficiency;
- as a means of determining pay where collective bargaining is absent or weak; and
- as a means of preventing competitive tendencies between workers from forcing wage rates down to very low levels.

For workers and their trade unions, where the economy is governed by market forces, there is a need for standards, for laws to protect certain categories of people and for basic rules under which the market forces should all operate. With a minimum wage set at the 1984 rate of Ugandan shillings (Ush) 60 (new shillings, following the currency reform),¹ there is little that can be done towards sustainable development.

The Government's failure to come up with a minimum wage has made the numerous previous reviews inconsequential to the workers of Uganda. This failure has no doubt adversely affected the workers and it has far-reaching implications for the Ugandan economy.

Failure to define the minimum wage has sent out the wrong signals to the business community. Investors from Asia, in particular, have sadly become known for paying Ugandan workers peanuts and subjecting them to inhumane treatment. In 1998, an Asian businessman was accused in media reports of having grabbed his employee by the neck and forced her to clean the carpet with her tongue. He was paying her only Ush35,000 (old shillings – less than US\$20) per month.

Uganda's hard-nosed employers ask why they should pay their workers and treat them well when the Government does not seem to value their contribution.

For workers, a minimum wage is not meant to be a burden to investors as some may argue. But, yes, it is meant to be a bottom checkpoint against worker exploitation.

A mini household survey carried out in 1998 revealed that a low-income worker spends Ush36,000 per month in order to have shelter and a few basic necessities.² At a take-home package of Ush35,000, this means that each worker spends Ush1,000 more than what he or she actually earns a month. (All values here in old shillings.) The implication is that most workers are either perpetually in debt or have been forced to resort to informal or more dubious methods to make ends meet.

The government attitude

For the Government, the minimum wage is perceived as having serious implications for employment, investment and the economy in general. The argument is that "extensive consultations" are hoped to be good for the workers and the country as a whole. Furthermore, the Government stated that it is very sensitive to the plight of the workers, and, therefore, it is doing everything possible within its limited resources to ensure the protection and promotion of good employment conditions in Uganda.

While the President is reportedly pursuing consultations with stakeholders on adjusting the minimum wage, discussions between trade unions and officials from the Ministry of Finance suggest that the latter is advising the Ugandan authorities against the move.

The impasse

The minimum wage in Uganda was last set in 1984 and has not been reviewed. In the 1984 review, the minimum wage was set at Ush6,000, and owing to the subsequent devaluation and conversion of the shilling, the minimum wage stood at 60 (new) shillings per month by April 1999.

On 14 April 1999, Parliament expressed concern over the repeated adjournments. It recalled that it was close to a year since the Board's proposals were passed to the President, yet nothing had happened.³ The minimum wage for workers stood at the equivalent of 3 US cents per month. Parliament thus resolved that the President be required to expedite the process of consultation in order to give effect to the recommended proposals for the minimum wage to unskilled labour by the Minimum Wages Advisory Board.

The Board originally recommended a minimum wage of Ush75,000 (old shillings). This was reluctantly accepted by workers, under the circumstances, as a fair compromise. The Federation of Uganda Employers opposed it. It said the proposed minimum wage would decrease investment, among other things. The reasons given were particularly linked to the comparable wage ranges in neighbouring countries.

Subsequently, the Board reconsidered the issue and lowered their recommendation to the President to Ush65,000, with the support of the Ministry of Labour. The employers still considered the proposal

to be too high. As a result, the President has called for new consultations. Several meetings are projected and discussions are likely to be protracted. Meanwhile, Ugandan workers will again be asked to tighten their belts.

Notes

¹ In May 1987, the Ugandan Government introduced a new shilling, worth 100 old shillings, along with an effective 76 per cent devaluation. Ugandans complained that inflation quickly eroded the new currency's value. Indeed, the revised rate of Ush60 per US\$1 was soon out of line with the black market rate of Ush350 per US\$1. In July 1988, the Government again devalued the shilling by 60 per cent, setting it at Ush150 per US\$1; but at the same time, the parallel rate had already risen to Ush450 per US\$1. Further devaluations have now set the shilling at 1,875 per US\$1.

² Food: Ush18,000 (4 bunches of matooke per month at Ush4,500); rent: Ush10,000 (one room); utilities and non-food items: Ush5,000; and water: Ush3,000. (Old shillings.)

³ This section is based on a review of records of proceedings of the 6th Parliament and on interviews with officials of the Department of Labour in the Ministry of Gender, Labour and Social Development. We are grateful to Mr. Francis Kintu, Research Officer of the Uganda Parliamentary Research Service for the review of parliamentary records.

An underrated tool?

European experience has shown that the minimum wage is particularly useful to workers in countries where trade unions do not have a major say in wage negotiations at national level. The problem lies in setting the right level: too high and it may hinder employment, too low and it could reinforce the “unemployment trap”.

Samuel Grumiau
Journalist

The introduction of the euro, the single currency used in 12 of the 15 EU Member States, has made it easier to compare wage levels in these countries. There is a national legal minimum wage in nine Member States (Belgium, France, Greece, Ireland, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom), but not in the other countries, making the European Union an interesting case study for those looking to better define the arguments surrounding the minimum wage debate. From a trade union point of view, one thing is immediately striking: “With the exceptions of the Netherlands, Belgium and Luxembourg, it is in countries where collective bargaining is most difficult, or where it does not cover all employees, that there is a minimum wage such as France, the United Kingdom (not part of the euro), Greece, Portugal and Spain,” emphasizes Emmanuel Mermet, economic researcher at the European Trade Union Institute. “In countries where collective bargaining covers more areas, particularly wage negotiations,” continues Mermet, “it is as if a minimum wage is unnecessary because revaluation is effected every year at all levels. We would therefore not need the minimum wage if trade unions had real power in collective bargaining.” However, it should be noted that in certain countries that currently have no minimum wage, such as Germany, there have been calls for

a minimum wage to be introduced because employers are increasingly ignoring wage levels negotiated in collective agreements.

According to Eurostat, minimum wage levels in the European Union in February 2002 ranged from €406 gross per month in Portugal to €1,290 in Luxembourg (see table 1). This compares with €1,011 in the United States, where certain individual states impose a higher rate. The percentage of full-time workers receiving the minimum wage varies greatly from country to country, ranging from 1.4 to 2.2 per cent of workers in Spain, the United Kingdom, the Netherlands and Ireland, to 6.2 per cent in Portugal, 13.6 in France and 15.5 per cent in Luxembourg. Interestingly, in France this percentage is higher than many of the minimums negotiated collectively by sector. In general, women are twice as likely to be underpaid or to be paid the minimum wage. This means that a properly enforced minimum wage should reduce wage differentials, particularly between men and women but also between older and younger workers.

Trade unions in Europe not in agreement

What do European trade unions think about the minimum wage? The European Trade Union Confederation (ETUC) does

Table 1. Monthly gross minimum wages on 1 January 2001 and on 1 February 2002 according to Eurostat estimates (€)

Country	Monthly gross minimum wage on 1 January 2001	Monthly gross minimum wage on 1 February 2002
Belgium	1 118	1 163
France	1 083	1 126
Greece	466	473
Ireland	945	1 009
Luxembourg	1 259	1 290
Netherlands	1 154	1 207
Portugal	390	406
Spain	506	516
United Kingdom	985	1 124
United States	951	1 011

Source: *Statistics in Focus*, published by Eurostat, May 2002.

not have a fixed stance on this matter. Indeed the opinion of trade unions in countries with a minimum wage differs from those without, and these differences are even greater with regard to how a future European minimum wage could be set. “Researchers are now discussing whether or not we should set ourselves the goal of a European minimum wage,” explains Emmanuel Mermet. “This is even more sensitive since wage issues do not fall under the EU purview, and employers cite this as a reason for refusing to participate in any negotiations. Moreover, wage rates are still not fixed at national level in all European countries. If one day there were a European minimum wage, it would certainly not be set at a certain number of euro but would most likely be calculated as a percentage of a value linked to each country, for example a percentage of the average wage or of the gross domestic product. Setting the minimum at €1,000 would be no problem in countries such as France and Belgium where the minimum wage is already close to this amount, but it would require an enormous effort by countries like Greece and Portugal.”

Not only do the EU countries have questions about the advisability of a minimum wage and the method used to set it initially, but they are also unable to reach agreement on how it should be subsequently adjusted: in seven countries (France, Ireland, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom), the national minimum wage is defined as an hourly or monthly rate set by law, usually after consulting the social partners (trade union organizations and employers’ federations). Elsewhere, levels are fixed by agreement and, in Greece, a distinction is still drawn between blue- and white-collar workers. In Belgium and Luxembourg, the minimum wage is linked to the consumer price index and is adjusted automatically but Belgian legislation requires unions and management to pay attention to examine the situation within Belgium’s three main trading partners before negotiating an increase in wages (see article by Jonathan Equeter on page 53). In other European countries, however, changes in the cost of living and wage levels are taken into account when conducting an annual review of the minimum rate although this is not a legal requirement. In short, there is much to be discussed.

Impact on employment

One of the main arguments used by those opposing a minimum wage is that it would have a negative impact on employment if set above a certain – usually unspecified – level. Some employers have put forward the idea of combating anticipated job losses by lowering social security contributions for employers. This would reduce labour costs whilst maintaining a minimum wage. However, no studies have proven that the minimum wage has a negative impact, except perhaps to a limited extent among young people under 20.¹ In practice the opposite has been the case in some healthy economies, for example in the United Kingdom where the minimum wage was reintroduced by Tony Blair’s Labour Government in 1999. “The introduc-

What is the impact of the minimum wage on wages as a whole?

Trying to evaluate the impact of the introduction of a minimum wage on the wage levels in general is a problematic task. What happens to other wages when the lowest wage in a company is increased to meet the minimum wage? Are inequalities reduced by narrowing the gap between the lower end and middle of the salary scale or do employers increase salaries across the board in order to maintain wage differentials according to ability, experience and/or length of service? In order to answer this question, we would need to observe all wage levels with and without the introduction of a minimum wage. In practice this is virtually impossible. In a study published in 1998, the OECD does however give an opinion on this matter:

“There is also some evidence of spillover effects that lead to an increase in wages for those previously at or just above the new minimum. Partly as a result of these effects, those countries with higher minimum wage rates relative to the median have less earnings dispersion and a lower incidence of low pay”.¹

¹ “Making the most of the minimum: Statutory minimum wages, employment and poverty”, in *Employment Outlook*, OECD, June 1998.

tion of a minimum wage has had a major impact on more than one million workers and has helped to make the United Kingdom a more just country,” said John Monks, TUC (Trades Union Congress) General Secretary. “Contrary to claims made by opponents of this policy, there has been no analysis to suggest that the minimum wage has had a negative impact on employment; rather, it has meant real benefits for the lowest paid workers.” (See also article by Damian Kyloh on page 80.)

In support of this statement, the TUC emphasizes that today there are 1 million more people in employment in the United Kingdom compared to 1999 when the minimum wage was re-introduced. Anyway, British employers are not asking for the minimum wage to be abolished. Rather, they have adapted to the minimum wage although they were originally vocal opponents. Another example is that of the

United States, where the number of part-time workers increased after the minimum wage was raised.² More convincing is the fact that the Netherlands, with the second highest minimum wage in the European Union, can boast of an unemployment level lower than in most other Member States of the EU. In the Netherlands, a balance has been struck by linking the minimum wage to the average increase in wages – provided that unemployment does not exceed a certain level.

Informing the general public

The existence of a minimum wage is, in itself, not a guarantee against the exploitation of workers. Some unscrupulous employers take full advantage of their employees' lack of information and ignore legal wage requirements. An effective labour inspectorate and a public information campaign that is well covered in the media are needed, along with a trade union presence. In the United Kingdom, a TUC survey of 508 16 to 21-year-olds showed that the majority of them were not aware of their right to a minimum wage and, when told, were surprised at how little it was. There are no accurate statistics on how many workers in Britain are paid less than the minimum wage but the TUC estimates that there could be more than 170,000. The survey also showed that 70 per cent of the young people surveyed were against the lower minimum wage for people aged 18-21 who are not on apprenticeship schemes – a form of discrimination which the TUC vigorously opposes.³ And yet, this type of discrimination is found in all the EU countries that have a minimum wage, except for Portugal and Spain – the two countries with the lowest minimum wages.

Some advocates of the minimum wage emphasize that it mainly benefits poor families. When the minimum wage was reintroduced in the United Kingdom in 1999, it was estimated that it would benefit one in three homeworkers, one in five part-time workers and one in five single

parents. Those earning the lowest wages could expect to see their pay rise by 30 per cent. However, a study in *Economic Studies*, a journal published by the Organisation for Economic Co-operation and Development (OECD), put into perspective the effect of the minimum wage on poverty:

“Among working-poor households, low pay, at least the bottom decile or so likely covered by minimum wages, is only weakly correlated with household poverty. OECD (1998) shows that in most countries only around 10 per cent of low paid workers are in poor households, with only Italy and the United States significantly above this at around 20 per cent. This is simply because household size, the number of earners and hours of work are all making a substantial contribution to household income and needs assessment implicit in poverty measures.⁴

Despite its advantages, according to the OECD, the minimum wage alone is not a panacea for poverty. The fact that in many poor families there is no one in paid employment further limits the effectiveness of the minimum wage in the fight against poverty in general.

A good weapon in the fight against the “unemployment trap”

In countries where the minimum wage is significantly higher than unemployment benefits, it plays a role in encouraging people to work, even if there are other factors involved, such as non-wage benefits and costs, personal preferences, travelling expenses and childcare costs. The level still needs to be determined at which a person will consider work a more attractive prospect than staying on benefits; deciding on such a level is difficult because it is subjective. In Belgium, for example, the federation of CPAS/OCMW centres (public social assistance centres responsible for helping the poorest in society) estimated that in 2001 people living on their own taking low-paid, casual work

would earn only roughly €60 more per month than they would if they collected benefit (known as the “minimum integration income” in Belgium) from their CPAS/OCMW centre coupled with the reductions in certain charges they would receive due to their situation. People with dependent children needing to pay for childcare facilities would, they say, lose €200 per month in comparison. And this is in a country with one of the highest minimum wages in Europe! Trying to combat this unemployment trap by lowering benefits would not be helpful as, according to several studies, this would lead to an increase in poverty.⁵

An interesting argument in favour of the minimum wage, but difficult to quantify, is that of its impact on the motivation of people already in work. Someone receiving a fair wage will be more keen to do his job to the best of his ability and, above all, not look for a new job, saving the employer the cost of hiring and training someone new. “Trade unions are trying to show that promoting a decent wage will encourage an increase in productivity, commitment to the job and therefore improve companies’ competitiveness,” underlines Emmanuel Mermet. “Moreover the European Union, which is spreading its message of promoting high-quality work, explains that a social Europe is not an obstacle but rather an aid to competitiveness. Many still believe the contrary, so we need to change attitudes.”

Criticized by some and extolled by others, introducing a minimum wage would not have all the qualities attributed to it by its supporters, especially when it comes to fighting poverty. Yet, if it remains fixed at a reasonable level, it does not cause unemployment, the main complaint of its detractors. So, with all the advantages, especially in those countries where trade unions are still weak, and few disadvantages, the minimum wage should be included in a more general approach to social justice. Its effectiveness will depend on the level at which it is set and the backdrop against which it is negotiated.

Notes

¹ However, the available figures do not show conclusively that the introduction or increase of a minimum wage definitely leads in all circumstances to job losses among young people.

² Ressler, R.W.; Watson, J.K. and Mixon, F.G. Jr. "Full wages, part-time employment and the minimum wage", in *Applied Economics*, November 1996.

³ A TUC press release presents the survey in greater detail on the following web site: [http://](http://www.tuc.org.uk/work_life/tuc-4512-f0.cfm)

www.tuc.org.uk/work_life/tuc-4512-f0.cfm. The survey is part of a report entitled "Young people: What do they know?", published on the web at: <http://www.tuc.org.uk/organisation/tuc-4504-f0.cfm>

⁴ Gregg, Paul. "The use of wage floors as policy tools", in *Economic Studies*, No. 31, 2000.

⁵ The "unemployment trap" is any situation where individuals are persuaded not to work because they see that without a job, benefits paid are higher than the income they would earn from working.
