

Proportions of workers affected and impact on total wage bill

The proportion of workers affected can be calculated at the national, regional or industry level. It can also be calculated for certain groups of workers (such as by sex, race, and so on). These disaggregated analyses enable a richer understanding of the wage distributions unique to each part or group of workers in the economy. They also allow a better understanding of the individuals, regions or industries that will be most likely or disproportionately affected by the minimum wage.

Varying proportions affected

Take, for example, situations where an aim of the minimum wage is to redress pay inequity between men and women at the bottom of the wage distribution. This type of analysis allows for an assessment of the percentage of women likely to be affected by the minimum wage, its impact on the gender wage gap at the bottom of the distribution and its subsequent impact on the average gender wage gap across the entire distribution.

In practice, the share of workers who earn minimum wages varies from country to country. When the United Kingdom introduced the new national minimum wage of £3.60 in 1999, this floor was higher than the wages of 9 per cent of all the country's wage earners. In France, it is estimated that around 10 to 12 per cent of employees are clustered around the minimum wage (SMIC). In Indonesia, the share of workers below the minimum wage has been estimated at about one half of wage earners.¹

What percentage of workers should be affected by the minimum wage? Not surprisingly, there is not a single optimal percentage of employees who should be affected by the minimum wage. Rather, the optimal percentage will be determined by social dialogue based on the overall impact on the total wage bill and the other statistical indicators discussed here.

How this impacts on the total wage bill

How does the proportion of workers affected impact on the country's total wage bill? The impact on the total wage bill depends on two factors: the number of workers affected and the average wage increase brought about by the new minimum wage.

In the case of Cape Verde, for example, it was estimated that if a new minimum wage were introduced to benefit 15 to 20 per cent of employees, this would increase the total wage bill by about 2 per cent. This does not take into account possible "domino" or spillover effects on wages above the minimum.

Hence, as long as a minimum wage is set below the peak of the wage distribution, its overall

¹[ILO \(2015\) Indonesia : Wages and Productivity for Sustainable Development. Brief.](#)

impact on the total wage bill remains limited. This is because such a floor affects a limited share of employees, and also because the bottom percentiles of earners typically account for a strikingly small share of total earnings (the reverse image of the fact that high earners account for a disproportionately large share of earnings).

What would be the inflationary pressure from a 2 per cent increase in wages? The answer depends on the evolution of labour productivity as well as on the share of labour in total production costs in the sectors or occupations where minimum wage workers are most concentrated. The latter can be obtained from ‘input-output tables’ or, if not available, from data from establishment surveys.

Imperfect compliance

If labour costs in a given sector represent for example half of total production costs, it will follow that a 2 per cent increase in labour costs will increase total production costs by around 1 per cent – even in the unrealistic case where minimum wages are perfectly enforced. If, at the same time, labour productivity also goes up by 1 per cent, there is no reason to expect higher prices. But even under the assumption of unchanged labour productivity, the pressure on price increases does not exceed 1 per cent.

In practice, the overall effects of a 2 per cent increase in the wage bill in, say, Cape Verde, are likely to be even less than 1 per cent. One reason for this is imperfect compliance. Even with the best of intentions, minimum wages are never perfectly enforced. When simulating the possible effect of an increase in minimum wages it is therefore instructive to assume not only full compliance but also to assume that the so-called “fraction of workers affected” by an increase includes all wage earners whose hourly wages are set somewhere between 95 per cent of the old minimum wage and 105 per cent of the new minimum wage. These people are the most likely to benefit from a legislated adjustment in wage levels. Others, in particular those who were paid substantially less in violation of the earlier legal minimum, are likely to remain in non-compliance even after the adjustment – unless inspection measures are strengthened or other mechanisms put in place to strengthen compliance.