



Minimum Wage Policy Guide

Chapter 1 – How to define a minimum wage?

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Summary

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

Following this definition, minimum wages exist in more than 90 per cent of the International Labour Organisation's (ILO) member States.

The purpose of minimum wages is to protect workers against unduly low pay. They help ensure a just and equitable share of the fruits of progress to all, and a minimum living wage to all who are employed and in need of such protection. Minimum wages can also be one element of a policy to overcome poverty and reduce inequality, including those between men and women.

Minimum wage systems should be defined and designed in a way to supplement and reinforce other social and employment policies, including collective bargaining, which is used to set terms of employment and working conditions.

Historically, the purpose of minimum wages has evolved from a policy tool to be used selectively in a few low-wage sectors to an instrument of much broader coverage.

ILO Conventions reflect this evolution:

- The [Minimum Wage Fixing Machinery Convention, 1928 \(No. 26\)](#), encouraged countries to implement minimum wages where “no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low”.
- Later, the [Minimum Wage Fixing Convention, 1970 \(No. 131\)](#) called for coverage of “all groups of wage earners whose terms of employment are such that coverage would be appropriate”. The principle of full consultation with social partners lies at the heart of this Convention.

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

1.1 Definition and purpose

Minimum wages have been defined as “the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract”.¹

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

The purpose of minimum wages is to protect workers against unduly low pay. They help ensure a just and equitable share of the fruits of progress to all, and a minimum living wage to all who are employed and in need of such protection. Minimum wages can also be one element of a policy to overcome poverty and reduce inequality, including those between men and women, by promoting the right to equal remuneration for work of equal value.

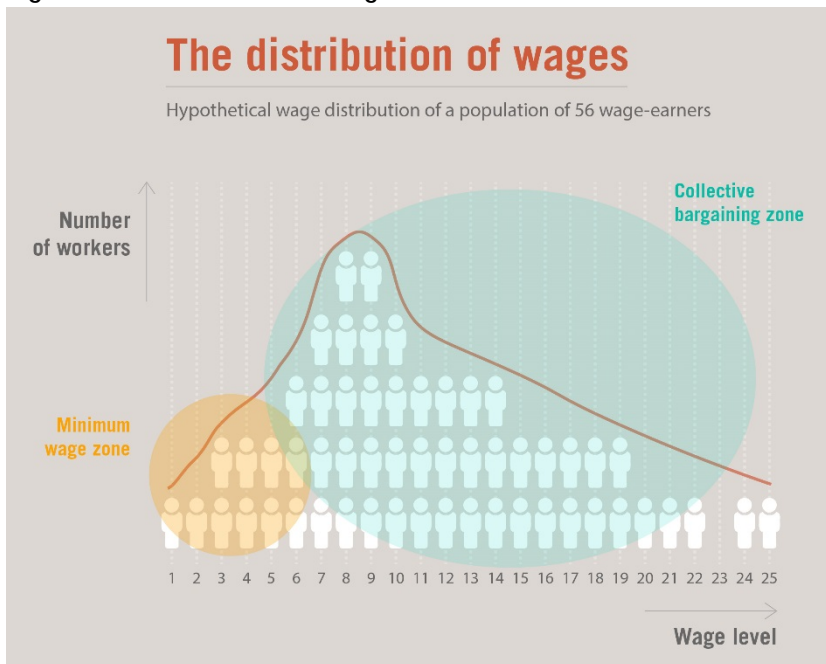
Minimum wage systems should not be seen or used in isolation, but should be designed in a way to supplement and reinforce other social and employment policies. Several types of measures can be used to tackle income and labour market inequality, including pro-employment policies, social transfers, and creating an enabling environment for sustainable enterprises.

The purpose of a minimum wage, which sets a floor, should also be distinguished from collective bargaining, which can be used to set wages above an existing floor. Figure 1 shows a hypothetical wage distribution with a “minimum wage zone” and a “collective bargaining zone” which can be used to establish minimum standards and to set wages above an existing floor.

Figure 2 illustrates that the effectiveness of minimum wages depends on many factors, including the extent to which they afford protection to all workers in an employment relationship, including women, and youth and migrant workers, regardless of their contractual arrangements, as well as all industries and occupations in the economy (coverage); whether they are set and adjusted at an adequate level that covers the needs of workers and their families, while taking into account economic factors (level); and whether employers comply with minimum wage regulations (compliance).

¹ ILO: [General Survey concerning the Minimum Wage Fixing Convention, 1970 \(No. 131\)](#), and the [Minimum Wage Fixing Recommendation, 1970 \(No. 135\)](#), [Committee of Experts on the Application of Conventions and Recommendations, 2014](#) .

Figure 1. The distribution of wages



How to read this figure: Figure 1 shows a hypothetical wage distribution of a population of 56 wage-earners before the introduction of a minimum wage. The level of wages is on the horizontal axis, and the number of wage earners is on the vertical axis. We see the full range of market wages, including a relatively small proportion of workers with extremely low pay on the left end of the wage distribution. For example, 1 employees has a wage of 1\$, 2 employees are paid 3\$, while 5 employees receive wages of 8\$. The red circle called the “minimum wage zone” shows that a minimum wage should in principle remain targeted at the lowest-paid employees, to eliminate “unduly low pay”; the blue circle is the “collective bargaining zone” and illustrates the principle that collective bargaining can be used to set wages above an existing floor.

Figure 2. Main dimensions of effective minimum wages²



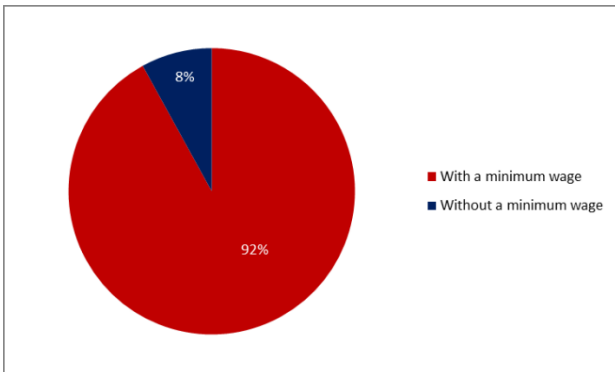
1.2. How many countries have a minimum wage?

The figure 3 below shows that more than 90 per cent of ILO member States have one or more minimum wages set through legislation or binding collective agreements.

² ILO: [Advances and Challenges in Labour Protection. Conditions of Work and Equality Department Policy Brief.](#)

This does not mean that in all these countries minimum wages cover a majority of workers or that they are regularly adjusted. It shows, however, that minimum wages are used by a large majority of countries in the world. In many of these countries, policy debates focus not so much on whether to have a minimum wage, but on how to make one work effectively.

Figure 3. Proportion of ILO member States with and without a minimum wage



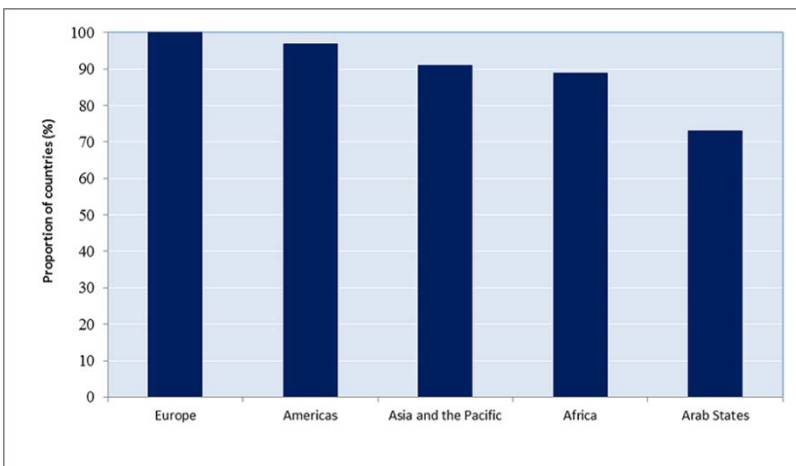
Source: ILO estimate.

Note: As of September 2015, the ILO had 186 member States. Only countries where the minimum wage applied to all or part of the private sector were counted as having a minimum wage. This includes minimum wages set through collective agreements that are given the force of law.

Statistics can be broken down by region.

All European countries have either a statutory or a collectively bargained minimum wage covering at least part of the private sector. In the Americas and the Caribbean, there are only very few exceptions, such as Suriname. There are a few more exceptions in Asia, including Singapore and Brunei, and also in Africa such as Ethiopia, Eritrea or Somalia. Among Arab states, no minimum wage exists in Qatar, Bahrain or the United Arab Emirates.

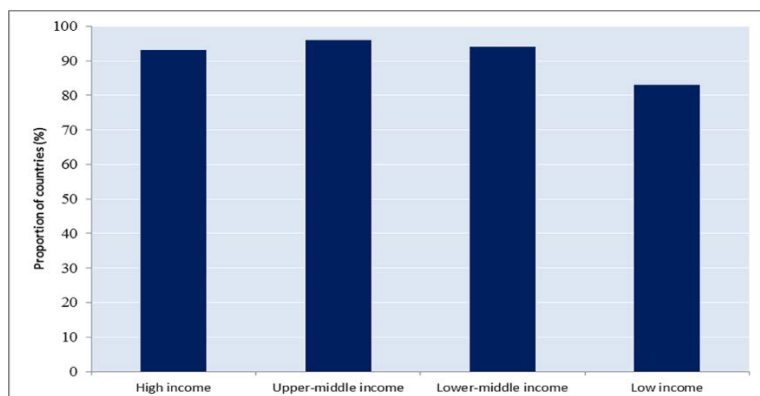
Figure 4. Proportion of countries with a minimum wage, by region, 2014 or latest available



Source: ILO estimate

Statistics can be broken down by countries' level of gross domestic product (GDP) per capita. The proportion of countries with minimum wages is slightly higher in high-income and middle-income groups than in low-income groups.

Figure 5. Proportion of countries with a minimum wage, by income group, 2014 or latest available



Source: ILO estimate

1.3. A short history

Selective intervention at first³

Initially, minimum wages covered relatively few categories of workers and sought to protect those considered to be especially vulnerable. New Zealand was the first country to implement a minimum wage in 1894, followed by the Australian state of Victoria in 1896, and the United Kingdom in 1909. Frequently, minimum wages were considered as a temporary measure, to be phased out once wage bargaining between social partners would be established. Early forms of minimum wages sometimes targeted their protection at homeworkers or women (see box 1. below).

Box 1.

The origins of minimum wages in the United States

In the early 1900s, there was widespread concern about “sweatshops” in the United States, and particularly about the working conditions of women and children. The idea of a minimum wage was supported both by the American Association for Labor Legislation and the National Consumers’ League, a group led by women, whose board of directors endorsed the notion of a legal minimum wage for women in 1909. Minimum wages were first introduced at state level and in most cases applied only to women and children. State minimum wages were regularly challenged in courts, and in 1923 the US Supreme Court declared minimum wages to be unconstitutional. In 1938, following an initiative by President Roosevelt, the US Congress adopted the Fair Labor Standards Act, which instituted a federal minimum wage. Its constitutionality was almost immediately challenged in courts, but was eventually validated by the Supreme Court in 1941.

Source: [Neumark D.; Wascher, W. 2008. Minimum Wages. \(Cambridge, MIT Press\)](#)

Expanding coverage after the second world war, and a halt in the 1980s

After the Second World War, the number of countries with minimum wages expanded. Newly independent countries such as India (1948) and Pakistan (1961) were among those adopting minimum wages. Francophone African countries adopted the French model of a general minimum wage (SMIG) with a lower rate for agriculture (SMAG), while Anglophone African countries adopted the tradition of sectoral wage boards.

³ Based mainly on [Starr, G. 1981. Minimum Wage Fixing An international review of practices and problems \(Geneva, ILO\)](#); [Neumark and Washer \(2008, ch. 2\)](#), and [Marinakakis, A. 2008. The role of ILO in the development of minimum wages, the ILO Century Project \(Geneva, ILO\)](#).

The legal coverage of minimum wages was progressively expanded as it was increasingly felt that all workers, as a matter of right, should receive protection against unduly low wages. Nationally applied minimum wages appeared in the Netherlands (1969), France (1970) and Spain (1980). In the United States, coverage expanded from about 20 per cent of the workforce in the early years to nearly 80 per cent in 1970⁴. Coverage also expanded in countries with sectoral minimum rates. States in India, for example, gradually expanded the number of sectors and occupations “scheduled” for minimum wage coverage.

The economic and intellectual contexts of the 1970s and 1980s brought this expansion to a halt in some countries. The United Kingdom dismantled its wage councils in the 1980s.

The return of minimum wages – the 1990s and beyond

In recent years, minimum wage systems have been established or strengthened in many countries to address working poverty and inequality. The United Kingdom introduced a new statutory minimum wage with national coverage in 1999. Since the early 1990s eight other members of the Organisation for Economic Co-operation and Development (OECD) have adopted a statutory minimum wage, including the Czech Republic, the Slovak Republic, Poland, Estonia, Slovenia, Ireland, Israel and most recently Germany.⁵ Most OECD countries without a statutory minimum wage have legal floors set through collective agreements, such as in Denmark, Finland, Norway or Switzerland. As a result, minimum wages exist in all European countries.

Many developing and emerging economies also established or strengthened minimum wages. China adopted a minimum wage in 1994 and strengthened it in 2004; South Africa established a system of minimum wages after the end of apartheid in 1997; Brazil re-activated its minimum wage policy in 2005; the Russian Federation complemented its national minimum wage with regional floors in 2007; and Malaysia adopted a national minimum wage in 2013, followed by Myanmar and the Lao People’s Democratic Republic in 2015, and by Macao (China) in 2016. In Africa, the most recent country to introduce a national minimum wage was Cape Verde in 2014.

1.4 The main ILO conventions

Minimum wages have been a subject at the ILO since its creation in 1919.

- Based on the view that “universal and lasting peace can be established only if it is based upon social justice”, the 1919 ILO Constitution called in its Preamble for an urgent improvement of conditions of labour, including “the provision of an adequate living wage”.
- In 1944, the ILO Declaration of Philadelphia referred to the importance of “a minimum living wage to all employed and in need of such protection”. This was reiterated in the 2008 ILO Declaration on Social Justice for a Fair Globalization.

Minimum Wage Fixing Machinery Convention, 1928 (No. 26)

In 1928, the ILO adopted the [Minimum Wage Fixing Machinery Convention, 1928 \(No. 26\)](#). In line with the prevailing philosophy of the time, this Convention encouraged member States to implement minimum wages “for workers employed in certain of the trades or parts of trades (and in particular in home working trades) in which no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low”. Agriculture was excluded.

With more than 100 ratifications, [Convention No. 26](#) remains to this day [one of the most widely ratified ILO Conventions](#). It is complemented by [Recommendation No. 30](#), which calls for the participation of women in wage-fixing bodies and for strong enforcement measures to protect law-abiding employers from unfair competition.

⁴ [Neumark D.; Wascher, W. 2008. Minimum Wages. \(Cambridge, MIT Press\)](#)

⁵ OECD. May 2015. “Focus on minimum wages after the crisis: Making them pay”.

Agricultural workers and seafarers

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

In 1951, the ILO adopted the [Minimum Wage Fixing Machinery \(Agriculture\) Convention, 1951 \(No. 99\)](#). By the end of 2015, [Convention No. 99](#) had 54 ratifications. It is complemented by [Recommendation No. 89](#).

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

Minimum Wage Fixing Convention, 1970 (No. 131)

In 1970, ILO adopted the [Minimum Wage Fixing Convention, 1971 \(No. 131\)](#), which is considered to offer broader protection than that envisaged by ILO [Convention No. 26](#)⁶.

[Convention No. 131](#) encourages member States which ratify to establish a *system* of minimum wages⁷ which:

- offers a broad scope of application and where exclusions made are kept to a minimum;
- establishes a machinery to fix and adjust minimum wages from time to time;
- is based on the principle of full consultation with social partners;
- involves social partners, on an equal footing, as well as independent experts in the design and operation of the system;
- sets minimum wage levels that take into account the needs of workers and their families, as well as economic factors;
- includes appropriate measures to ensure the effective application of minimum wages.

The objective of a generally applicable lower limit under which wages are not permitted to fall reflects the view that all workers – as a matter of right – should receive protection against “unduly low wages”. However, [Convention No. 131](#) does not prescribe a single national minimum wage. The [Minimum Wage Fixing Recommendation, 1970 \(No. 135\)](#), which accompanies the Convention, makes clear that broad coverage can be achieved “either by fixing a single minimum wage of general application or by fixing a series of minimum wages applying to particular groups of workers”. By not seeking to impose a single model on all ILO member States, [Convention No. 131](#) allows for the existence of different national circumstances and different levels of economic and social development.⁸

By the end of 2015, [Convention No. 131](#) had been [ratified by 52 member States](#), including by 11 countries since 2000.

1.5 What is included in a minimum wage?

The term “wage” is generally understood to be the payment an employer makes to his or her employees – including to employees with regular, casual, short-term, intermittent or seasonal jobs, as well as to apprentices and trainees. This broad definition of “wages” is spelled out in Article 1 of the ILO Protection of Wages Convention, 1949 (No. 95):

⁶ [ILO General Survey 2014 on minimum wage systems, para. 406](#)

⁷ ILO Conclusions of the Committee for the Recurrent Discussion on Social Protection (Labour Protection), International Labour Conference, 104th Session, Geneva 2015.

⁸ See ILO: [Report of the Committee on the Application of Standards, International Labour Conference, 103rd Session, Provisional record 13 part one, Geneva 2015](#).

"...the term wages means remuneration or earnings, 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".

In this general sense, the term "wages" is often synonymous with terms such as "earnings" or "remuneration". It does not include income from self-employment.

The components of a wage

In many cases, total wages or earnings include different components, such as:

- basic pay
- annual bonuses
- tips
- in-kind benefits
- productivity and performance pay
- allowances and premiums for non-standard work hours or dangerous work.

The fact that total wages or earnings are made of different components raises the question of which components should count towards compliance with the minimum wage. Should the minimum wage apply to workers' total earnings – or should it apply only to some of its components?

[Convention No. 131](#) does not explicitly indicate the elements to be included in the minimum wage.⁹ But clarity is needed for a minimum wage policy to be operational.

In some countries, only basic wages are taken into account for the purpose of minimum wages. In other countries, most other wage components are also included. While both options are possible, a problem arises in cases where the basic wage constitutes only a very small part of total earnings (in which case a minimum wage that applies only to the basic wage is not very meaningful) or when the components of the minimum wage are left undefined. In some countries with no clear legal definition of what the minimum wage should include, this question tends to end up in court.

Gross wages and net wages

The broad definition of "wages" – and the same is true for "minimum wages" – generally refers to gross earnings or gross remuneration. This means total remuneration in cash and in kind paid to employees before any deductions are made by the employer in respect of taxes, contributions of employees to social security and pension schemes, life insurance premiums, union dues or other obligations of employees. Wages therefore differ from employees' disposable take-home pay, which is what remains after taxes, pensions, social security contributions, or other deductions.

This should be taken into account when evaluating the ability of a minimum wage to cover the needs of workers and their families.

⁹ ILO General Survey 2014 on minimum wage systems, p. 19.

1.6 Payment in kind

Payment in kind is non-cash remuneration received by an employee for work performed. This can include: food, drink, fuel, clothing, footwear, free or subsidized housing or transport, electricity, car parking, nurseries or crèches, low or zero-interest loans or subsidized mortgages.

ILO Convention No. 95

The ILO [Protection of Wages Convention, 1949 \(No. 95\)](#) allows “for the partial payment of wages in the form of allowances in kind in industries or occupations in which payment in the form of such allowances is customary or desirable because of the nature of the industry or occupation concerned” (Article 4.1). In such cases, it calls however for measures to ensure that:

- (a) “such allowances are appropriate for the personal use and benefit of the worker and his family”; and
- (b) “the value attributed to such allowances is fair and reasonable”.

It must be kept in mind that payment in-kind tends to limit the financial income of workers. This sentiment is captured by the System of National Accounts (SNA 1993):

Income in kind may bring less satisfaction than income in cash because employees are not free to choose how to spend it. Some of the goods or services provided to employees may be of a type or quality which the employee would not normally buy.¹⁰

The need for regulation

There is also a risk of abuse. Hence, even in those industries or occupations in which such a method of payment is long-established and well-received by the workers concerned, there is a need for safeguards and legislative protection.

This can be done in different ways:

- **Prohibiting in-kind payments as part of the minimum wage.** In Spain, the legislation allows for the inclusion in the wage of payments in kind up to 30 per cent, but prohibits it as part of the minimum wage. In Cambodia, in-kind payment cannot be considered as part of the minimum wage.
- **Allowing a maximum percentage of the wage:** While no Conventions or Recommendations fix a specific threshold for payments in kind, the ILO Committee of Experts has expressed doubt concerning payment in kind that exceeds 50 per cent of the wage.¹¹ Most countries have lower thresholds, with many not allowing in-kind payments exceeding 30 per cent of the wage.
- **Setting a maximum level:** Some countries designate the specific value of benefits in kind. In the domestic work sector in Switzerland, food and housing can represent a maximum of 33 CHF per day. A similar system also functions in France.
- **Valuing in-kind payments at cost or less than the cost to employers:** In order to preclude employers from profiting from the provision of payment in kind, some countries explicitly state that employers may not charge more than the actual cost of the goods provided. Other countries use the price a worker would pay for a product, service or housing if he or she were to buy it.
- **Limiting the value of in-kind benefits to a multiple of the minimum wage:** In Chad and Senegal, the value of one meal is equivalent to one hour worked at the minimum wage.

¹⁰ [System of National Accounts 1993, paragraph 7.38](#)

¹¹ [Report III of the Committee of Experts. General Survey on the reports concerning the Protection of Wages Convention \(No. 95\) and Recommendation \(No. 85\).](#)

Social security contributions

Payments in kind are one component of total earnings and for this reason should in principle count as part of the value on which social security contributions are based. For example, if the minimum wage is \$100 per month and 30 per cent is paid in kind, social security contributions (employer and employee), should still be based on \$100 (as opposed to \$70).

1.7 Piece rate pay

Piece rate pay occurs when workers are paid by the unit performed (e.g. the number of tee shirts or bricks produced) instead of being paid on the basis of time spent on the job.¹²

Piece rates are frequently used in certain industries or occupations where the work is repetitive in nature, and where employees have a high level of control over the results. Examples include such tasks as plucking tea, pruning fruit trees, sorting second-hand books, producing garments, or kilometers driven. Home based workers and other out-workers (who work in premises other than that of the employer) are also frequently paid piece rates.

In developing countries, workers relying on piece rate wages often constitute a vulnerable section of workers, with many working in the informal economy. Large numbers are women. Piece rate pay is also frequent in the textile, garment, footwear and leather industries, and in global supply chains.

The regulation of piece rates

Under some conditions, piece rates may be beneficial to both employers and employees. For this to be the case, however, the manner in which remuneration is calculated for each piece produced or task completed needs to be fair to both parties: if the salary is set too low, discouragement will set in and the workers concerned will work long hours and may ultimately feel burnt out by the system. Occupational health and safety issues also arise when taxi drivers, for example, need to work excessive hours to make a decent living. If the rate is not fair to the employer, the enterprise might fail.

To be fair and effective, piece rate systems should be transparent, reward employees according to the difficulty and quality of their work, and ensure that motivated workers can earn substantially more than the minimum wage.

Many countries regulate piece rates and piece rate work:

- **In various countries, the legislation stipulates that pieceworkers' wages may not be lower than the applicable minimum wage.** In these countries, at the very minimum, workers under a piece rate system should earn the minimum wage. When they do not, the difference between what they have earned and the minimum wage needs to be paid by the employer.
- **In other countries, the legislation provides for the possibility of fixing specific minimum wage rates for pieceworkers based on a "standard output".** In the State of Madhya Pradesh in India, for example, the minimum wage notification for piece rate beedi rollers (hand rolled cigarettes) indicates a guaranteed minimum wage per week provided they roll 5600 beedis per week. Workers are entitled to this if the raw materials supplied are inadequate to roll this number. However, the guaranteed minimum wage will not be payable where the failure to roll 5600 beedis is attributable to the worker.
- **In some countries, piece rate workers must be paid a "fair wage".** In the U.K. piece rate can only be used in limited situations when the employer does not know how many hours the worker does work (e.g. as with some home workers). If an employer sets the working hours and the workers have to "clock" in and out, this counts as time work not as output work (see box 2 below).

¹² This section is largely based on G. Billikopf, Piece-Rate Pay Design, ILO, Forthcoming (2015), and on K. Sankaran, Piece Rated Minimum Wages, ILO, Forthcoming.

Box 2.

A fair wage for piece rate workers in the United Kingdom

Employers are obliged to implement the following method:

- Find out the average number of tasks or pieces completed per hour; for example workers may produce on average 12 shirts per hour.
- Divide this number by 1.2 so that new workers won't be disadvantaged if they're not as fast as the others yet; in our example we divide 12 shirts by 1.2 which is equal to 10 shirts produced.
- Divide the hourly minimum wage rate by that number to work out the fair rate for each piece of work completed. If the minimum wage rate is £6.70, workers must be paid at least 67p per shirt they make (£6.70 divided by 10).¹³

1.8 Hourly or monthly rates?

In principle, minimum wages can be set for an hour of work, a week of work, a month of work – or any other time period.

Belgium, Estonia, France, Luxembourg, Malaysia, Romania and Ukraine all provide both an hourly and a monthly minimum wage. By contrast, the United Kingdom and the United States only provide an hourly minimum wage and Malta only has a weekly minimum wage.

There are advantages and disadvantages of the various minimum wage units.

If a monthly, weekly or daily rate is set, workers should be paid in exchange for normal hours of work of a full-time worker, as specified in the country's labour laws. Overtime payments should be excluded from the calculations of minimum wages. Having to work overtime to receive the legal minimum is a form of non-compliance. For part-time workers, the amount of the minimum wage should be proportional to their working hours.

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

This is frequently the case for domestic workers, 56.6 per cent of whom are excluded from limits on working time worldwide.¹⁴ This means that they have no protection from excessive working hours or any right to payment for hours worked which exceed the standard working week for workers who are covered by the legislation.

Some countries have set higher hourly minimum wages for workers who work short hours. In South Africa, for example, hourly rates are higher for workers working less than 27 hours per week.

¹³ <https://www.gov.uk/minimum-wage-different-types-work/paid-per-task-or-piece-of-work-done>

¹⁴ ILO (2013). [Domestic workers across the world: Global and regional statistics and the extent of legal protection, \(Geneva, ILO\).](#)