



Minimum Wage Policy Guide

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Minimum wages: an introduction

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

The 17 Sustainable Development Goals (SDGs) seek to balance the three dimensions of sustainable development: the economic, social and environmental.

Goal 8 calls for “sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”, and highlights the importance of achieving equal pay for work of equal value, and protecting labour rights.

Goal 10 seeks to “reduce inequality within and among countries”, emphasizing income growth of the bottom 40 per cent of the population, the elimination of discrimination, as well as the adoption of policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.

Well-designed and effective minimum wages can contribute to these objectives. They can help to ensure “a just and equitable share of the fruits of progress to all”¹ and “a minimum living wage to all employed and in need of such protection”.²

Poorly designed minimum wages, by contrast, can put workers’ well-being at risk, undermine effective implementation, and risk encouraging informality.

The present policy guide builds on existing ILO labour standards, the latest global review of national laws and practices undertaken at the ILO,³ as well as on years of experience accumulated in the context of ILO cooperation with Governments and social partners around the world.

The guide reflects the diversity of international practices and the different choices that can be made, depending on national preferences and country circumstances. It does not seek to promote a single model on all countries. It does however emphasize key principles of good practice, and provides examples on the pros and cons of different policy options.

Finally the guide emphasizes another key SDG principle – partnership. When it comes to minimum wage fixing, only social dialogue and collective bargaining can help strike the balance between the legitimate needs of both workers and enterprises.

¹ See the [Resolution concerning the recurrent discussion on social protection \(labour protection\)](#)

² See the [ILO Declaration on Social Justice for a Fair Globalization](#)

³ [ILO, 2014, “Minimum wage systems”, General Survey of the reports on the Minimum Wage Fixing Convention, 1970 \(No.131\), and the Minimum Wage Fixing Recommendation, 1970 \(No.135\)](#) . As well as the [Outcome of the tripartite discussion of this report](#).

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”.⁴

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.

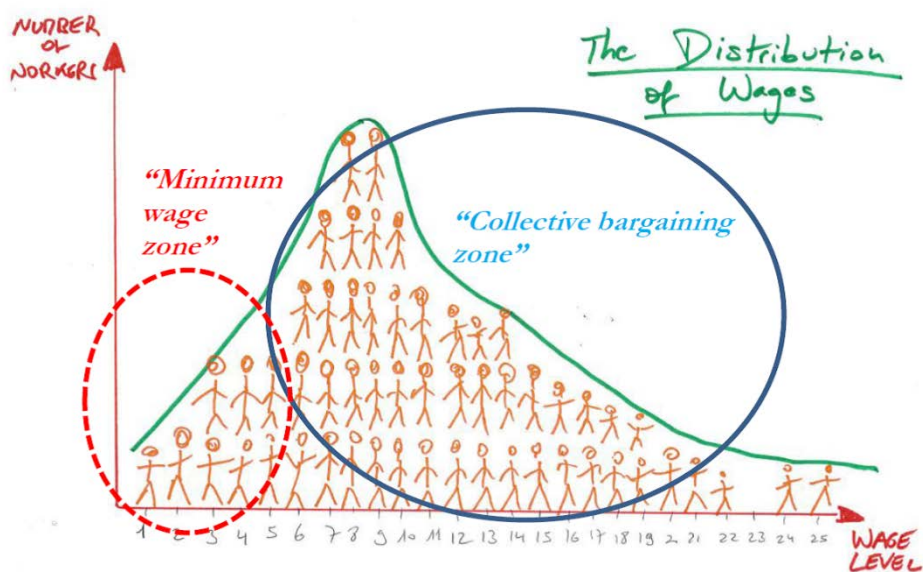
Minimum wage systems should not be seen or used in isolation, but should be designed in a way to supplement and reinforce other social and employment policies. Several types of measures can be used to tackle income and labour market inequality, including pro-employment policies, social transfers, and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

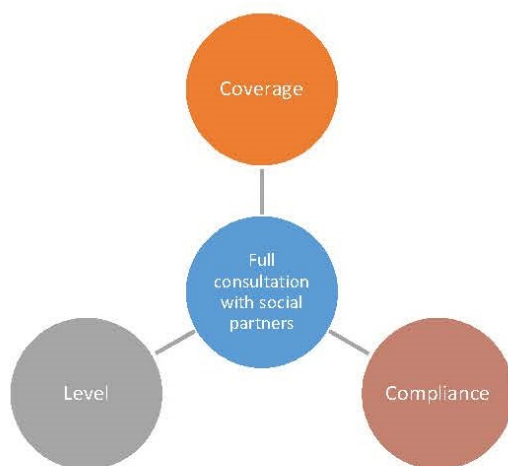
⁴ ILO: [General Survey concerning the Minimum Wage Fixing Convention, 1970 \(No. 131\)](#), and the [Minimum Wage Fixing Recommendation, 1970 \(No. 135\)](#), [Committee of Experts on the Application of Conventions and Recommendations, 2014](#) .

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 wages⁵



1.2. How many countries have a minimum wage?

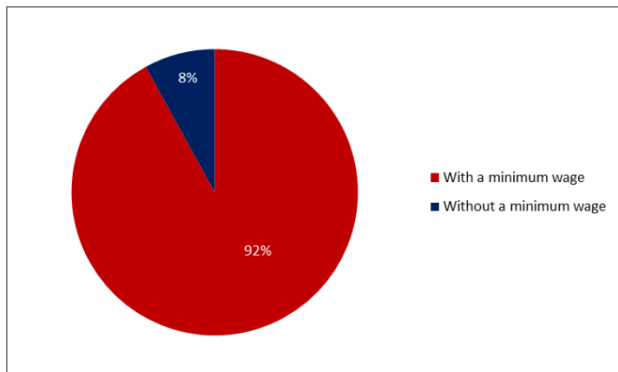
The figure 3 below shows that more than 90 per cent of ILO member States have one or more minimum wages set through legislation or binding collective agreements.

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

⁵ ILO: [Advances and Challenges in Labour Protection. Conditions of Work and Equality Department Policy Brief.](#)

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



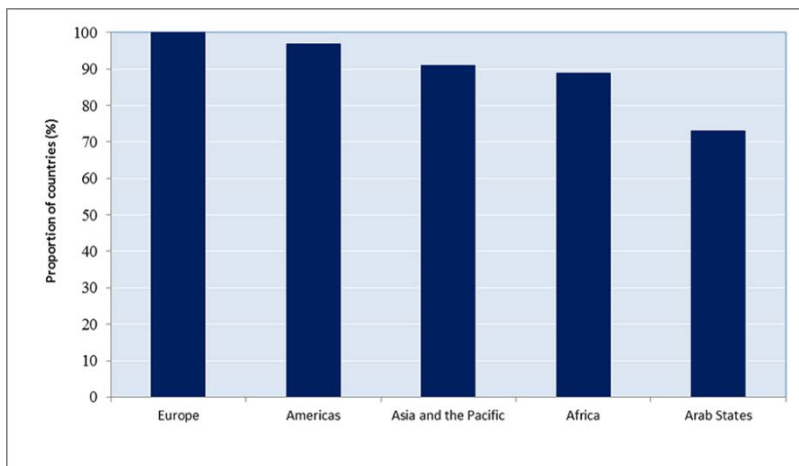
Source: ILO estimate.

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.

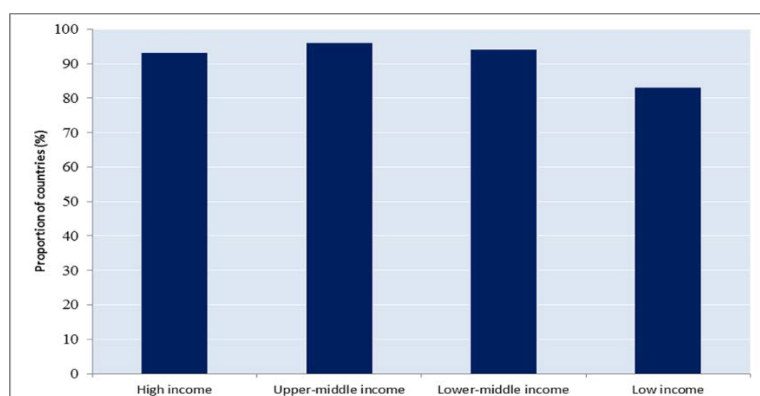
Figure 4. Proportion of countries with a minimum wage, by region, 2014 or latest available



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 first⁶

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.

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

⁶ 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).

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 1970⁷. 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.⁸ 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.

⁷ [Neumark D.; Wascher, W. 2008. Minimum Wages. \(Cambridge, MIT Press\)](#)

⁸ 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](#)⁹.

[Convention No. 131](#) encourages member States which ratify to establish a *system* of minimum wages¹⁰ 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.¹¹

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):

⁹ [ILO General Survey 2014 on minimum wage systems, para. 406](#)

¹⁰ ILO Conclusions of the Committee for the Recurrent Discussion on Social Protection (Labour Protection), International Labour Conference, 104th Session, Geneva 2015.

¹¹ 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.¹² 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.

¹² 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.¹³

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.¹⁴ 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.

¹³ [System of National Accounts 1993, paragraph 7.38](#)

¹⁴ [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.¹⁵

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. If a larger group is not making the minimum wage, it usually means the piece-rate pay is set too low, and workers' efforts are being undervalued.

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.

¹⁵ 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.

- **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).

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).¹⁶

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.¹⁷ 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.

¹⁶ <https://www.gov.uk/minimum-wage-different-types-work/paid-per-task-or-piece-of-work-done>

¹⁷ ILO (2013). [Domestic workers across the world: Global and regional statistics and the extent of legal protection, \(Geneva, ILO\).](#)

Chapter 2 – How many different minimum wage rates should there be?

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Summary

Across the world, minimum wage systems are diverse and many approaches are possible, depending on the needs and choices of individual countries.

Some countries have only one minimum wage applied to all employees in the country; others have multiple minimum wage rates by sector of activity, occupation, or geographical region.

- Simple systems are easier to operate, communicate and enforce, but offer less scope to take into account the particular circumstances of different regions or sectors within a country.
- More complex systems can be better tailored at the circumstances of different sectors or regions, but require more institutional capacity. Systems that are overly complex tend to lose their effectiveness, and may in some instances interfere with collective bargaining between workers and employers.

Compliance with the principle of equal remuneration for work of equal value should be ensured, particularly when minimum wages are set by sector or occupational category. There may be discrimination, for example, when minimum wages are systematically lower in female-dominated sectors. Similarly, it is important to avoid wage discrimination against migrant workers and workers with disabilities.

There is also a link between equal pay for work of equal value and the existence in some countries of reduced minimum wages applicable to young workers below a certain age, set with a view to facilitating their entry into the labour market.

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

2.1 The logic behind different minimum wage systems

Minimum wage systems range from very simple systems, which determine a unique rate applied to the whole country, to very complex systems that determine many different rates depending on the sector of activity, occupation, geographical region and/or enterprise size, among other alternatives. Each approach has a particular logic behind it, reflecting the concerns that policy-makers had when the policy was designed.

National and regional rates

A national minimum wage – that has only one rate applicable to all the workers of a country – is based on the idea that every worker has equal rights to the same wage protection. A single minimum wage is also linked to the idea of satisfying the needs of workers and their families, which will be the same irrespective of the sector of activity or the size of the enterprise in which they work.

However, the cost of goods and services can differ substantially between regions within the same country. Some countries may also have regional differences in the labour market, with vibrant economies and low unemployment in some parts of the country, and less dynamic areas with higher unemployment in other parts.

Some large countries, such as Brazil, the Russian Federation, or the United States combine a national minimum wage floor with the possibility to set higher regional rates.

Sectoral and occupational differences

Other minimum wage systems are structured with the objective of protecting workers through a combination of collective agreements and statutory minimum wages in low-paying sectors or activities where no collective bargaining takes place. This usually results in a system of minimum wages by sector of activity and sometimes occupations, with many specific rates, taking into account sector-specific economic factors. This is the case for example in India with a large number of different rates for “scheduled” occupations, as well as in South Africa. In some countries, these systems are complemented by a general rate applicable to non-specified activities, such as in Costa Rica.

One challenge with complex systems is that the principle of equal pay for work of equal value should be respected (see section 2.4). For example, in cases where sectoral and/or occupational minimum wages are set lower than the national minimum wage, this could be in violation of the principles underlying the [Discrimination \(Employment and Occupation\) Convention, 1958 \(No. 111\)](#).

Other differences

Some systems also differentiate minimum wages for different groups of the population, or depending on the size of enterprises.

- [Learn more about minimum wage rates by enterprise size:](#)

Differentiation of minimum wages by enterprise size may seem attractive, but also has practical difficulties. When based on the number of employees, should an enterprise hire an additional worker, and thus move into a higher minimum wage category, this may increase its labour costs well beyond the cost of that additional worker. The employer may therefore decide to avoid hiring the new worker by either increasing overtime or opting for a precarious contractual form that would not require an official declaration of a change in enterprise size.

This could also provide an incentive for larger enterprises to create smaller satellite enterprises in order to benefit from lower minimum wages. To accommodate the potentially lower capacity of small and medium

enterprises to pay and to mitigate the effect that a separate minimum wage rate might engender, some countries have instituted a gradual approach. This approach introduces a lower minimum wage initially, but gradually increases over time until it equals the general, or national, minimum wage in place.

Box 1.

The rationale underlying each type of minimum wage system

National. Every worker has the right to the same minimum wage and workers and their families all have the same needs, independently of the sector of work.

Regional. There are significant regional differences in the cost of living, economic development, and labour market situation within a same country.

Sector. Some sectors of activity have higher average productivity and "capacity to pay" than other sectors, and can afford higher minimum wages.

Occupation. Certain occupations may be more skilled than others and workers in these occupations have a higher level of productivity.

Enterprise size. Smaller enterprises may have lower productivity and subsequently a lower average capacity to pay.

Population. A high general minimum wages may act as a barrier to the employment of the members of some groups such as young workers, trainees, or workers with disabilities.

2.2 Keeping it simple

About half of the countries implement simple national and/or regional minimum wage systems. Simple systems predominate in developed countries, Central Europe and South America.

➤ [Learn more about simple systems.](#)

Simple minimum wage systems aim to determine an effective wage floor. One advantage is that the determination of the initial rate and the following adjustments can be based on relatively simple aggregate information and macroeconomic data. This information can be processed and analysed by a wage-setting body, such as a national tripartite minimum wage commission, with the support of a technical secretariat that provides reports and basic statistics.

A second advantage of simple minimum wage systems is the ease with which the applicable rate(s) can be communicated and disseminated. When a country has a national minimum wage it is easier for every worker to know the prevailing rate. Dissemination is also easier when countries with national minimum wages make the adjustments regularly, such as at the same time every year.

Thirdly, simple minimum wage systems are also easier to monitor. Labour inspectors need only consider the wages paid in relation to time worked – and compare this value to the single minimum wage rate. Having a single minimum wage also simplifies the estimation of non-compliance through household surveys, as the single rate applies to all employees.

National minimum wages however only provide a clear reference for the lowest level of the wage scale. Complementary wage mechanisms, in particular collective bargaining, are in principle needed to determine the structure of wages of workers above the lowest level of pay. In countries with weak labour market

institutions (i.e. low unionization rates and limited coverage of collective bargaining), simple minimum wage systems are sometimes perceived as insufficient to generate a fair distribution of wages.

The other half of the countries implement more complex systems with multiple rates based on region, industry and/or occupation.¹⁸ More complex systems predominate in Africa, Asia, Central America and the Caribbean.

➤ [Learn more about complex systems.](#)

More complex minimum wage systems set multiple wage floors. By doing so, they not only determine an absolute wage floor, but also a relative wage structure between different rates. In the absence of collective bargaining, complex systems may provide an opportunity to set higher wage floors in sectors or industries which have a higher “capacity to pay”.

However, for wage commissions or wage boards, setting and adjusting such minimum wage levels requires not only information at the national level, but also more specific information relevant for the particular sectors, occupations, regions, or other subgroups. The implementation of complex minimum wage systems poses an information and communication challenge. As a result workers, employers, and even labour inspectors may not know the appropriate rate that should apply, leaving room for doubt and conflict.

Complex systems also interact with collective bargaining in different ways. Where minimum wages set a complex grid of wage rates for different industries through tripartite negotiation it may represent something of a hybrid between traditional minimum wage fixing and collective bargaining, and perhaps an intermediary step towards autonomous collective bargaining between social partners. Where collective bargaining is weak, and/or minimum wages is the only avenue for wage negotiations, minimum wages are sometimes “over-burdened” with more ambitious objectives. Taken to the extreme, such a system becomes a substitute for collective bargaining – “crowding out” and delaying its development.

Complex systems also need to be reviewed and modified occasionally. For example, systems that have detailed occupations must eliminate those that have become obsolete and incorporate others that have emerged. In some cases this revision process is too slow and the existing minimum wage systems becomes outdated.

Whatever the system in place, attention should focus on keeping the level of complexity manageable considering the country’s institutional capacity, the quality of wage statistics, and the enforcement capacity of the labour administration.

When the level of aspired complexity exceeds a country’s capacity, minimum wages are weakened as an effective instrument of social protection and wage policy.

One review of minimum wages in developing countries concludes for example that “it is better to design a simple system that is well understood by all, rather than trying to fully address the heterogeneous needs of the labour force”.¹⁹

Differences between complex and simple systems :

Simple systems	Complex systems
Setting and adjusting the level:	Setting and adjusting the level:

¹⁸ [ILO Working Conditions Laws Report 2012, p.61](#)

¹⁹ Cunningham, W. 2007. Minimum wages and social policy: Lessons from developing countries (Washington, DC, World Bank)

<ul style="list-style-type: none"> ➤ Only one (or few) level(s) to set, ignoring the heterogeneity of different sectors, regions, etc. ➤ Nationally representative data can inform social dialogue on the level. <p>Who sets it?</p> <p>One tripartite board could consider national data for one national minimum wage.</p> <p>Who gets it?</p> <p>A general or national minimum wage in principle provides a floor for all employees.</p> <p>How is it enforced and monitored?</p> <ul style="list-style-type: none"> ➤ Easier for employers and employees to know the level. ➤ Easier to communicate the level. ➤ Easy to monitor using household survey data. ➤ Easier for labour inspectors to know the level. <p>How does it interact with collective bargaining?</p> <p>Minimum wages provide a wage floor for the lowest paid, and collective bargaining determines wages for those above the minimum.</p>	<ul style="list-style-type: none"> ➤ Multiple levels to set, tailored to the individual circumstances of each sector, occupation, etc. ➤ Requires data of sufficient sample size to be informative at the level of sectors and/or occupations. <p>Who sets it?</p> <p>If there is one tripartite board, its members need to understand the characteristics of all the sectors, occupations, regions, etc. Alternatively, multiple boards with this knowledge are required alongside a national coordinating structure.</p> <p>Who gets it?</p> <p>In spite of multiple rates, some employees in sectors or occupations that are not in the list may not be entitled to a minimum wage.</p> <p>How is it enforced and monitored?</p> <ul style="list-style-type: none"> ➤ More difficult to inform the public ➤ Employers, employees, and labour inspectors need to know all of the minimum wage rates and understand when and how they apply. <p>How does it interact with collective bargaining?</p> <p>Sectoral rates can complement or stimulate collective bargaining, when they are set in parts of the economy where social partners are weak. However, if the system is too complex it may interfere with collective bargaining.</p>
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2.3 Reforming minimum wage systems

Simple and complex minimum wage systems are not good or bad per se. Their evaluation will depend on how effective they are in practice and if they serve their original purpose. Complexity may work well in some countries – usually those with strong social partners and public institutions – and less so in other countries.

Minimum wage systems often evolve and change over time. Some minimum wage systems have become more complex, difficult to manage and less effective as a basic floor of protection. These considerations have sometimes led countries to simplify their minimum wage system.

Before embarking on this path however, policy-makers should carefully consider the potential consequences. Whatever its limitations, an existing minimum wage system may play an important wage-setting role for a significant proportion of the labour force. Abruptly dismantling a complex system - to replace it by a more simple system - may produce an unwanted vacuum, especially when collective bargaining is weak.

Therefore, a gradual approach to change may be less unsettling. **A central element of reform process is consultation with the social partners** – not only are they the most knowledgeable about these issues, but they are also the key actors in implementing the changes. Their involvement in the process of change not only increases their ownership of the result, but also helps lead to a more effective minimum wage system.

The following examples illustrate the evolution of some minimum wage systems, in one direction or another.

Examples:

➤ [Brazil – from regional, to national, to a combination of national and regional rates](#)

When Brazil introduced the minimum wage in 1940, there were 14 different levels by region. These different rates attempted to take into account the significant differences in the cost of living among regions, as well as differences in the levels of economic development and the labour market. By 1963 the number of regional minimum wages had increased to 39.

After that, it was felt that every worker in Brazil should have the same minimum wage protection. As this perspective prevailed, the process went into reverse, with a progressive consolidation towards a smaller number of rates. By 1984 Brazil had only one national minimum wage. However, this level turned out to be low in the more developed south east of the country, while it was high in relation to average wages in north-eastern regions.

For this reason, since 2000, each state has been allowed to autonomously determine its own minimum wage above the national level, with the obligation to comply with the fiscal responsibility law. The fiscal responsibility law, introduced in 2000, aimed at guiding authorities (federal, regional and municipal) to apply cautious fiscal policies. While very few states adopted this alternative (only five in 2015), all those that did are located in the more developed south east, where the most dynamic industries and highest salaries are located. The difference between the lowest regional rate and the national minimum wage ranges from 12 per cent higher than the national minimum wage in Sao Paulo to 35 per cent higher in Paraná.

Regional minimum wages also establish various rates by category. For example, in Paraná there are four different rates for agricultural and livestock activities, services and trade, industrial production and semi-skilled technical workers; in Río de Janeiro there are nine levels; in Río Grande four; and in Sao Paulo three.

➤ [Costa Rica – from 520 to 23 rates](#)

Costa Rica introduced minimum wages in 1933, establishing a minimum wage per day, which developed at the cantonal level and later at provincial level. The system was structured by sector of activity and occupation, but also included differences by region, enterprise size (determined by amount of sales) and skill level. Despite some initial simplification in the 1960s, the minimum wage system tended to cover as many occupations as possible with specific minimum wages. The 1987 wage decree included 520 specific minimum wages.

The minimum wage system became increasingly difficult to manage. The National Wage Council therefore started a simplification process merging similar occupations and by 1992 it was reduced to 72 minimum wages. The simplification process continued and by 1997 the sectoral dimension had been eliminated and the system was based mainly on skill level and some specific occupations (like domestic work). The number of rates was reduced to 23.

The core of the system now consists of minimum wages established for unskilled, semi-skilled, skilled and specialized workers, plus five additional rates depending on educational level. The minimum wage which applies to unskilled workers not covered by any other specific rate is known as the salario minimo minimorum and serves as the wage floor, below which no wage can be set with the exception of domestic work which has a separate, and lower, occupational minimum wage.

The remaining degree of detail provided by the minimum wage system both highlights and partially compensates for the weakness of labour institutions, with a low level of unionization in the private sector and a very limited coverage of collective bargaining.

Costa Rica: for the historical reference, see Rojas and Murillo (1997) "Minimum wage fixing in Costa Rica", labour law and labour relations briefing note n° 10, ILO, Geneva. For the present system, see Trejos (2014) "Costa Rica: un esfuerzo para mejorar la aplicación de los salarios mínimos", in Marinakis (2014) Incumplimiento con el salario mínimo en América Latina, ILO, Santiago

➤ [Ireland – combining sectoral and national rates](#)

Ireland introduced minimum wages at the beginning of the 20th century through the establishment of Joint Labour Committees (JLCs). These are "statutory bodies that set minimum pay and conditions of employment in low-paid employments where collective bargaining is poorly developed". The JLCs issue establishment orders which state the minimum pay and conditions of employment.

Apart from the agricultural sector, all JLCs regulate a sub-sector or particular occupation (contract cleaning, law clerks, hair-dressing...) and cover between 9% and 25% of total employment. They comprise between six and 15 representative employer and worker organizations (in equal proportion) and fewer independent members. The number of JLCs has varied over time, settling at 10 by 2013.

In 2000, a national minimum wage was introduced, which extended minimum wage protection to all employees (as opposed to only those included under collective bargaining and JLCs), but also threw into doubt the relevance of the JLC system. To evaluate its relevance, the Labour Relations Commission was tasked with commissioning a review in 2005, and recommended that the JLCs be retained, albeit subject to a review and possible rationalisation. Partly because the JLCs regulated more than minimum wages, workers might lose other entitlements & protections (overtime, shift allowances, pensions, sick pay) if the JLCs were eliminated.

The simplification of the existing JLCs underwent a consultative process, including submissions from social partners: the final results were published in a report submitted to the Labour Court. The review process resulted in the abolition of two JLCs and amendments to the establishment orders issued by the eight remaining JLCs. The final result is a system that provides a basic safety net for all workers and JLCs that regulate specific terms and conditions of work for individual sub-sectors.

Ireland: O'Sullivan, M. and Wallace, J. (2011) 'Minimum labour standards in a social partnership system: the persistence of the Irish variant of Wages Councils' in *Industrial Relations Journal*, Vol. 42, No. 1, pp. 18-35.

Ibid. The authors state: "The wide disparity in these figures is reflective of the unsatisfactory situation that precise data are not available on the current number of workers covered by the JLC system, and no one has responsibility for providing coverage data."

--- Industrial Relations Act 2012. Review of Joint Labour Committees. Commissioned by the Labour Court. Section 11 Industrial Relations Act 2011. Conducted by Janet Hughes. April 2013.

2.4 Equal remuneration for work of equal value

Some countries set lower minimum wage rates for some groups of workers, such as young workers or persons with disabilities. Different minimum wages by sector or occupation can also result, indirectly, in lower minimum wages

for workers with different characteristics, for example when rates are lower in occupation or sectors where women or migrant workers predominate.

When setting different minimum wages, the principle of equal remuneration for work of equal value should be respected.

The [Equal Remuneration Convention, 1951 \(No. 100\)](#) states the principle of equal remuneration for men and women workers for work of equal value. Paragraph 2(a) of the [Equal Remuneration Recommendation, 1951 \(No. 90\)](#), calls for the application, as rapidly as practicable, of this principle in establishing minimum or other wage rates in industries and services where such rates are determined under public authority.

[Convention No. 111](#) is broader in scope and aims to eliminate all discrimination in respect of employment and occupation, whether based on sex, race, colour, religion, political opinion, national extraction or social origin, or any other criterion determined by States parties to the Convention.

Equal pay for work of equal value

The principle of equal remuneration for work of equal value, as set out in the Preamble to the ILO Constitution, is not the same as equal pay for equal work. Equal pay for equal work limits the application of the equal pay principle to work undertaken by two individuals in the same area of activity and in the same enterprise.

The concept of equal remuneration for work of equal value is broader and encompasses cases where men and women do different work. In order to determine whether different types of work have the same value, they can be assessed through a job evaluation method (see the [ILO Equal Pay – An introductory guide](#) for a detailed description).

For example, some of the jobs that have been compared in the context of evaluating equal pay for work of equal value include: caterers and cleaners (mostly women) with gardeners and drivers (mostly men); social affairs managers (mostly women) with engineers (mostly men); and flight attendants (mostly women) with pilots and mechanics (mostly men).

Minimum wages in sectors or occupations where women predominate are often lower than those of men. This can partly be explained by their lack of representation in bargaining processes, but also by societal norms and the tendency to undervalue women's work.²⁰

2.5 Sub-minimum wages for young people and apprentices

Young people

A number of countries have adopted reduced minimum wages applicable to young workers below a certain age, or multiple sub-minimum wage rates for young people of differing ages. Such lower rates are generally set with a view to facilitate their entry into the labour market.

Critics of sub-minimum wages have been mainly concerned about the possible discrimination against young people, who are not systematically of lower productivity.

This may explain why a significant number of countries have recently removed, or restricted in scope, provisions fixing lower minimum wages for young workers. In Slovenia, for example, this reform was adopted under the legislation on equality of treatment and the protection against discrimination.²¹

²⁰ [ILO General Survey on minimum wage systems \(2014\)](#)

²¹ [ILO General Survey on minimum wage systems \(2014\)](#)

Probationary periods and apprentices or trainees

Various countries have established a reduced minimum wage for the probationary period following a worker's recruitment. This can be done in place of differentiated minimum wage rates for young workers, in order to account for the potentially lower productivity of new workers in a job. Accordingly, the lower minimum wage applies for a limited period of time, for all workers, irrespective of age.

Other countries set minimum wages for apprentices. The justification here is tied to both the lack of experience - and hence lower productivity - and the fact that training will be received in exchange for the lower wage. In such schemes, persons covered by apprenticeship or traineeship contracts can only be paid at a differentiated rate when they receive actual training during working hours.

In practice, the use of differentiated rates for apprentices or trainees varies from country to country. In some, apprentices are entitled to the full minimum wage. In others, apprentices have the right to earn the full minimum wage after a certain period. In many countries however, national legislation provides for apprentices to be paid a specific remuneration or indemnity. This is often expressed as a percentage of the applicable minimum wage, for instance, 90 per cent in Bulgaria, 60 per cent in Paraguay and 75 per cent in the Philippines.²²

2.6 Sub-minimum wages for migrant workers

Certain countries have separate minimum wage rates for migrant workers. In some cases, these sub-minimum wage rates are justified on the basis of payments received in kind – particularly in the domestic work sector (see chapter on [domestic work](#) and [in-kind payments](#)).

In other cases, while a separate minimum wage may not be explicitly set for migrant workers, migrants may be considerably over-represented in sectors with the lowest minimum wages. In both instances, there are concerns surrounding potential violation of the principle of equal pay for work of equal value.

Article 25.1 of the [International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families](#), adopted by the General Assembly of the United Nations, recognizes the right of all migrant workers to enjoy treatment not less favourable than that which applies to nationals of the State of employment in respect of remuneration.

The [ILO Multilateral Framework on Labour Migration, 2006](#), confirms that all international labour standards apply to migrant workers, unless stated otherwise, and makes explicit reference to [Convention No. 131](#). Moreover, under Article 6 of the [Migration for Employment Convention \(Revised\), 1949 \(No. 97\)](#), the 315 countries that ratify the Convention must apply treatment to migrants lawfully within their territory that is no less favourable than that which they apply to their own nationals regarding remuneration, in so far as such matters are regulated by law or regulations, or are subject to the control of administrative authorities.²³ (For more information, see the [General Survey on minimum wage systems \(2014\)](#), chapter 4, section 5.4.)

2.7 Sub-minimum wages for workers with disabilities

People with disabilities make up an estimated one billion, or 15 per cent, of the world's population. About 80 per cent are of working age. People with disabilities, particularly women with disabilities, face enormous attitudinal, physical and informational barriers to equal opportunities in the world of work. Compared to non-disabled persons, they experience higher rates of unemployment and economic inactivity and are at greater risk of insufficient social protection.

²² For more information, see the General Survey on minimum wage systems (2014), chapter 4, section 5.3.

²³ ILO [General Survey on minimum wage systems \(2014\)](#), pp. 95–96

Equal remuneration for work of equal value

The principle of equality of opportunity and treatment for persons with disabilities and other workers is laid down in the ILO [Vocational Rehabilitation and Employment \(Disabled Persons\) Convention, 1983 \(No. 159\)](#), and the [Vocational Rehabilitation and Employment \(Disabled Persons\) Recommendation, 1983 \(No. 168\)](#). Paragraph 10 of Recommendation No. 168 provides that measures should be taken to promote employment opportunities for persons with disabilities which conform to the employment and salary standards applicable to the workers generally.

Furthermore, the [2006 United Nations Convention on the Rights of Persons with Disabilities](#) provides in Article 27 that States parties shall safeguard and promote the realization of the right of persons with disabilities to work. They shall take steps to protect the right of persons with disabilities to enjoy, on an equal basis with others, just and favourable conditions of work, including equal opportunities and equal remuneration for work of equal value.²⁴

Minimum wages, employment quotas and wage subsidies

Countries around the world are thus adopting anti-discrimination legislation that protects the rights of persons with disabilities to work. However, these anti-discrimination provisions do not necessarily ensure that minimum wages are always the same.

In some countries, lower rates can be set for certain workers with disabilities. This is generally done with a view to promote the employment of workers with reduced productivity.

- In New Zealand, for example, employers can apply to a Labour Inspector for an exemption permit if the worker and employer both agree that there is a good reason why a worker should be paid less than the minimum wage. Labour Inspectors will issue a minimum wage exemption only if they think it is reasonable and appropriate to do so and the disability really prevents workers from earning the minimum wage.
- In the U.S., the law authorizes employers, after receiving a certificate from the Wage and Hour Division, to pay wages less than the Federal minimum wage to workers who have disabilities for the work being performed. The fact that a worker may have a disability is not in and of itself sufficient to warrant the payment of a subminimum wage if his or her productivity for the work is not reduced.

In other countries, lower minimum wages are considered a form of discrimination, and workers with disabilities are entitled to the same minimum wage.

- In the U.K., for example, workers with disabilities have the right to the same national minimum wage.
 - In France, lower wages for a same or similar position are sanctioned as a form of discrimination, and workers with disabilities are entitled to the national minimum wage. Workers with a disability can, however, register the extent of their reduced productivity, giving the employer the right to obtain a wage subsidy from the State. Enterprises with more than 20 workers in France are obliged to have at least 6 per cent of workers with disabilities among their staff.
- [Find out more on "Disability and work" at the ILO](#)
- [Data on labour force status of persons with disabilities](#)

²⁴ Section adapted from the ILO [General Survey on minimum wage systems \(2014\)](#), pp. 97–98

Chapter 3 – Who should set minimum wages?

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Summary

Minimum wages can be fixed in different ways, including by giving the force of law to provisions of collective agreements.²⁵

Collective bargaining can be a means to fix minimum wages. However, there are only a few countries that rely exclusively on collective bargaining for minimum wage fixing. These are countries where collective agreements cover over 90 per cent of employees. In most countries, the coverage of collective bargaining is insufficient to provide protection of minimum standards to a broad majority of workers. In many countries, governments have therefore adopted statutory minimum wages in addition to those set through collective agreements.

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

To be effective such consultations should be carried out in a context of open social dialogue and held before decisions are taken by the public authorities.

While governments and employers' and workers' organizations may hold divergent views on some occasions, social dialogue is the recognition that there is a common interest in the well-being of enterprises and of the workers and their families. It also provides policymakers with important information for effective policy design, improves the chances of buy-in (ownership) and therefore effective implementation, and advances social and industrial peace and stability by minimizing misunderstandings and tensions.

Independent experts, who represent the general interest of the country, and national statistical offices also play a key role. Sufficient resources should be devoted to the collection of wage statistics and other relevant data, as employers and workers' organizations need to have access in advance to relevant information as a basis for formulating their views.

²⁵ [Minimum Wage Fixing Recommendation, 1970 \(No. 135\)](#)

3.1 Consultation and direct participation of social partners

Social partners in full consultation

Whatever the machinery,²⁶ governments should make every effort to establish and maintain the conditions for genuine social dialogue, a process which increases the chances that a minimum wage responds to the needs of the various parties and contributes to national development.²⁷

The principle of full consultation with social partners in the establishment, operation and modification of such machinery is at the heart of the ILO [Minimum Wage Fixing Convention, 1970 \(No. 131\), \(Article 4.1\)](#) .

Social dialogue plays a key role in a country's social, political and economic stability, equity and democracy. It creates a framework of peaceful and orderly procedures with which to resolve potentially damaging disputes.²⁸ When workers or employers feel that they have been left out of decision-making, or not well represented in the decision-making process, there will be less "buy-in" or ownership of minimum wage policies – and protests or strikes may occur.

➤ [What is "consultation"?](#)

The principle that there should be full consultation and participation, on a basis of equality, of social partners in establishing, operating and modifying the minimum wage machinery is one of the pillars of Convention No. 131 and the Minimum Wage Fixing Recommendation, 1970 (No. 135).

In its General Survey 2000 on tripartite consultation, the ILO Committee of Experts on the Application of Conventions and Recommendations specified that consultation implies more than merely sharing information, without implying a joint decision-making process. This is different from "negotiation", which implies that the objective of the different parties is to reach an agreement. The consultations required under the term of the Convention are intended to assist the competent authority in taking a decision – rather than lead to an agreement.

The ILO considers that – to meet the requirement of Convention No. 131 – employers' and workers' organizations should be fully consulted. The existence of a formal consultation procedure is not sufficient to meet this requirement. Steps should be taken to ensure that concerns and arguments put forward by social partners are really taken into account. This implies that consultation must take place before decisions are taken and that the representatives of the employers' and workers' organizations should be provided with full and pertinent information.

Direct participation

[Convention No. 131](#) also calls – wherever it is appropriate to the nature of the machinery – for the direct participation of social partners.

Social partners' direct participation in fixing the rate and its adjustment should lead to balanced outcomes that are both enforceable and maintain social cohesion. In general, the involvement of social partners allows the concerns and priorities of those most directly affected by the minimum wage policy to be taken into account more effectively. This in turn is likely to secure greater authority and support for the minimum wage that will be fixed, and tends also to facilitate its effective implementation. representing the general interest of the country can be public officials with responsibilities in industrial relations or other related fields, or independent experts – such as academics – who are free from any conflict of interest.

²⁶ Machinery refers to the mechanism through which minimum wages are set and adjusted.

²⁷ [ILO General Survey on minimum wage systems \(2014\)](#), p. 119

²⁸ [Fashoyin, T. \(2004\). "Tripartite cooperation, social dialogue and national development", International Labour Review, Vol. 143.4, pp. 341-72.](#)

3.2 Minimum wages through collective bargaining

Collective bargaining

The most direct involvement of social partners is through collective bargaining, which is a perfectly legitimate form of minimum wage fixing under Convention No. 131.

➤ [Learn more about Convention No. 131 and collectively agreed minimum wages](#)

Convention No. 131 does not solely refer to statutory minimum wages. Minimum wages may in fact be fixed by giving the force of law to provisions of collective agreements. This does not require collective agreements to be extended so that they apply to all workers and employers in a specific sector or to all branches of activity in a country. The requirement is only for negotiated minimum wages to be legally binding on the parties.

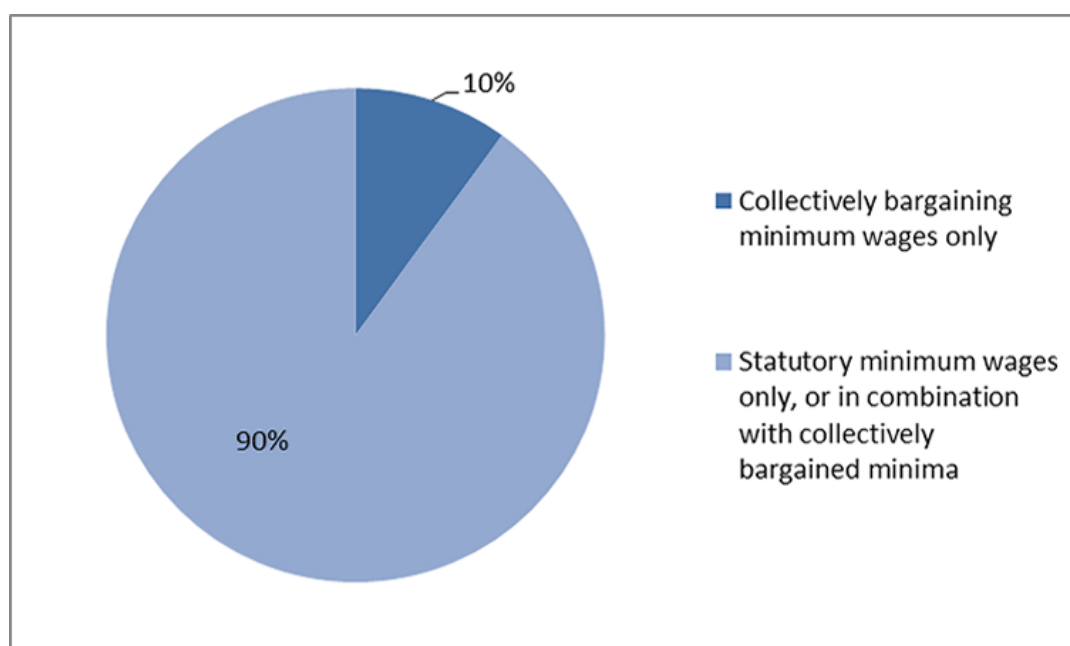
However, the provisions on the scope of application of minimum wage systems – which according to the Convention should cover “all groups of wage earners whose terms of employment are such that coverage would be appropriate” – should be taken into account.

For example, the situation in Austria or Belgium, where the coverage rate of collective agreements exceeds 90 per cent of wage earners, is very different from that of other countries where the coverage rate is much lower. The extension of collective agreements can play a useful role in reducing the number and groups of wage earners not protected by minimum wages.

Source: ILO General Survey 2014

In many countries, bargained and statutory minimum wages co-exist. In a more limited number of countries, collective bargaining is the only means of minimum wage fixing. Figure 1. below distinguishes between countries where minimum wages are exclusively set through binding collective agreements, and countries that rely on statutory minimum wages (with or without additional bargained minima).

Figure 1. Proportion of countries with different minimum wage fixing machineries



Source: ILO estimate

We observe that only 10 per cent of countries with a minimum wage rely exclusively on collective bargaining. In practice, many of these countries are Nordic European countries. In addition, Belgium also sets its national minimum wage through an inter-sectoral collective agreement adopted by the National Labour Council.

➤ [Learn more on minimum wages in Nordic countries](#)

None of the Nordic countries has a statutory minimum wage.

Denmark and Sweden use collective agreements as their only mechanism for setting minimum wages, while Finland, Iceland and Norway have also started to use extension mechanisms to cover all workers at industry level.

Minimum wage agreements are often differentiated by age, skill or seniority. Higher wages will be subject to further negotiations at the enterprise level. In Denmark and Sweden, the collective agreements are binding only for those parties that have signed them. This system covers around 89% of employees in Sweden, and about 84% in Denmark. In Norway, EU enlargement in 2004 caused these practices to be supplemented by an extension of collectively agreed wage rates in industries that absorbed many migrant workers from the new member states. Even so, the coverage rate is only about 67%. Finally, in both Finland and Iceland, coverage of collective agreements is widespread, of about 90% of workers. Finland extends all national collective agreements that have an industry coverage exceeding 50%. In Iceland negotiated wages apply to all employees who perform work of similar type.

Sources: Eldring L. and K. Alsos (2012). European Minimum Wage: A Nordic Outlook (Fafo, Norway). Adapted from pp. 71–73 and 78. ILO (2015) Trends in collective bargaining coverage: stability, erosion or decline? Issue Brief No. 1 – Labour Relations and Collective Bargaining.

Collective bargaining can provide protection of minimum standards. However, in most countries, the coverage of collective bargaining is insufficient to provide protection of minimum standards to a broad majority of workers (See [Issue Brief No.1](#)). Many countries therefore adopt statutory minimum wages in addition to the minima set through collective bargaining.

This is the case in Germany where close to 60 per cent of workers are covered by collective agreements, and where a national minimum wage was adopted in 2015. In Brazil, more than 40,000 collective labour contracts cover about two-thirds of paid employees, and are complemented by a national-level and several state-level statutory minimum wages. Similar situations prevail in other countries.

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

In France, for example, it was noted that when the SMIC (salaire minimum interprofessionnel de croissance) was adjusted in July each year, it often exceeded bargained minima – making them obsolete. In Croatia too, it has been observed that the statutory minimum wage frequently exceeds collectively agreed pay floors – creating direct interaction between the two systems.²⁹

In other instances, a statutory minimum rate is fixed so low that it may be viewed as irrelevant for collectively agreed wage floors.

➤ [Find out more on the ILO's work on collective bargaining and labour relations](#)

²⁹ [Grimshaw, Bosch and Rubery \(2014\). "Minimum wages and collective bargaining: What types of pay bargaining can foster positive pay equity outcomes?" British Journal of Industrial Relations, Vol. 52, Issue. 3, pp. 470-498.](#)

3.3 Statutory minimum wages

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

In statutory systems, the most frequent way of ensuring consultation and participation of social partners and independent experts is through institutions such as tripartite or bi-partite wage commissions, wage boards, or other bodies with general competence for economic and social affairs.

However other forms of consultations are possible, including written communications or separate ad hoc bilateral consultations. Although most wage commissions are consultative, some countries have delegated decision-making authority to them, such as in the Republic of Korea.

As a matter of principle, social partners should be involved on a basis of equality. Membership in wage boards or commissions should include employers’ and workers’ representative organizations.

➤ [Learn more about centralized and decentralized wage boards](#)

How multiple minimum wage rates are set varies from country to country. In some cases, minimum wage systems with multiple rates are updated by a single national-level commission. In cases where the system is very complex, this could prove challenging for a single high-level wage-setting commission. The commission would, in principle, need to understand the intricacies of each individual occupation, region and/or sector where a minimum wage is set.

In practice, however, adjustments are sometimes updated using the same percentage increase across the whole minimum wage structure. In practice, the application of a uniform percentage increase to all minimum wages crystallizes the relative structure between the different minimum wages. Consequently, after several years, the minimum wage structure no longer adequately reflects actual labour market trends or the economic development of different sectors of activity.

In these cases a more decentralized process, coordinated at a higher level, would usually be a more appropriate approach. Minimum wages by sector and/or occupations would be set through the active participation of social partners, at a decentralized level, but under the general coordination of a tripartite commission at the national level. Specific minimum wage updates can then be determined and informed by the social partners’ direct knowledge of the particularities of a certain sector, region, and/or occupation.

The [Minimum Wage Fixing Machinery Recommendation, 1928 \(No. 30\)](#), and [Minimum Wage Fixing Machinery \(Agriculture\) Recommendation, 1951 \(No. 89\)](#), explicitly indicate that employers’ and workers’ organizations should be invited to recommend individuals for appointment to such bodies, to ensure that these individuals have the confidence of those whose interests they represent.

When wage boards are sectoral, it is essential that the relevant employers’ and workers’ organizations be involved. Women should also be included among social partners.

Here are examples of how the minimum wage is set in practice:

➤ [France](#)

France’s SMIC (salaire minimum interprofessionnel de croissance) is adjusted annually on 1 January. Successive adjustments must aim to eliminate long-term distortions between minimum wage increases and increases in the general level of wages .

The SMIC is adjusted by Decree of the Council of Ministers, after a recommendation by the National Collective Bargaining Commission (CNNC). The CNNC comprises 18 workers' representatives and 18 employers' representatives.

Since 2008, the CNNC consults an expert group, whose five members are nominated for four years by the Prime Minister. The role of the group is to meet social partners and collect their views on the level and design of the minimum wage; to collect available studies on the effects of the minimum wage; to gain deeper understanding of what is known about the minimum wage in general and in France, particularly regarding employment effects; and to propose new studies on aspects that are less well known or understood.

The CNNC can also recommend – or not - an additional increase, the “coup de pouce”, based on its analysis and various economic factors.

➤ [Peru](#)

In Peru, the Constitution indicates that minimum wages must be regulated by the State with participation of representative organisations of workers and employers. In practice, the minimum wage is set by the Government after proposal by the tripartite National Council for Labour and Employment Promotion (CNTPE).

Since 2007, the CNTPE is supported by a “technical commission on productivity and minimum wages”, which identified statistical indicators and criteria for the adjustment of the minimum wage. These criteria were adopted by the CNTPE and include expected inflation as well as multifactor productivity. Technical reports are produced by the Ministry to facilitate implementation of the adjustment mechanism.

The proposed criteria have been agreed by all parties with a view to protect the purchasing power of workers who earn the minimum wage, and ensure that higher enterprise revenues arising from increased efficiency translate into higher wages for workers who participated in the production process.

➤ [Malaysia](#)

Malaysia adopted a system of minimum wages in 2013, applying to all workers except domestic workers. Two different rates apply – one rate for Peninsular Malaysia, and another for Sabah, Sarawak and the Federal Territory of Labuan.

The government makes the final decision about minimum wage levels following recommendations from the National Wages Consultative Council as well as after consulting relevant stakeholders throughout the country. The government may either agree with the Council's recommendations or direct it to make fresh recommendations. The Council has suggested a set of criteria and a formula to guide the adjustment of minimum wage rates.

The National Wages Consultative Council is a tripartite advisory body that also includes technical experts, and was established under the National Wages Consultative Act 2011. It is obliged to have at least four meetings a year. Before making recommendations, the Council must (a) have consultations with the public on the rate and coverage; and (b) collect and analyse data and conduct and disseminate research on wages and socio-economic factors. The Council can also formulate recommendations on the coverage of the minimum wage, its non-application to certain sectors or regions, or implementation-related matters.

In addition to an independent Chairperson, Deputy Chairperson and a public officer acting as the Secretary, the Council consists of at least five members among the public officers, at least five representing employees, at least five representing employers, and at least five other members.

Source: Government minimum wage portal: <http://minimumwages.mohr.gov.my/>

➤ **South Africa**

One way in which the minimum wage is determined in South Africa is through “sectoral determination”.

The Basic Conditions of Employment Act (BCEA) provides for the establishment of the Employment Conditions Commission, which plays a key role in drawing up and advising the Minister on sectoral determinations. The Commission initially consisted of five members, with three (including the chairperson) nominated by government, one by organised business and one by organised labour. The composition was later expanded to allow for one alternate for each of organised business and organised labour. The nominees must be approved by the National Economic Development and Labour Council (NEDLAC), which is South Africa’s primary statutory body for social dialogue and which must be consulted during the development of labour and economic policies. However, the nominees to the Employment Conditions Commission do not serve as “representatives” of the social partners and are not accountable to them in the sense of receiving mandates and reporting back to their constituencies. The Commission is thus not a tri-partite body in the strict sense of the term.

The BCEA specifies the procedure for drawing up sectoral determinations in some detail. It requires that the Department of Labour issue a public notice announcing the terms of reference and asking for written input from members of the public, conduct an investigation, and prepare a report for consideration by the Commission. The Commission then discusses the report and makes recommendations to the Minister in respect of a determination. The Act also provides for the Commission to hold public hearings. In practice, the hearings are organized by the Department with government officials always in attendance and Commission members sometimes in attendance.

Source: Debbie Budlender, 2016. “The Introduction of a minimum wage for domestic workers in South Africa”, ILO Working Paper, Geneva.

3.4 Independent experts and statistical offices

Independent experts

Convention No. 131 also calls – wherever it is appropriate to the nature of the machinery – for the direct participation in the minimum wage fixing of persons having recognised competence for representing the general interests of the country and appointed after full consultation with representative organisations of employers and workers concerned, where such organisations exist and such consultation is in accordance with national law or practice.

Statistical offices

In addition to social partners, independent experts with technical expertise and national statistical offices play a key role too. Because minimum wage-setting should be evidence-based and effects should be carefully monitored, social partners and policy-makers should have timely access to relevant data and analysis from a country’s national statistical office.

Sufficient resources should be devoted to the collection of statistics or other relevant data. Recommendation No. 135 considers that “to the extent possible in national circumstances, sufficient resources should be devoted to the collection of statistics and other data needed for analytical studies of the relevant economic factors, particularly those related to the criteria for minimum wage determination”.

The objective of statistical indicators is not, of course, to substitute for social dialogue or bargaining, but rather to allow well-informed social dialogue.

Chapter 4 – Who should be getting minimum wages?

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Summary

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

In practice, certain employees are excluded from minimum wage protection for a variety of reasons– for instance, domestic workers, workers in the informal economy, or workers in non-standard forms of employment. Home-based workers or workers in agriculture are also frequently excluded.

With respect to domestic workers, the ILO [Domestic Workers Convention, 2011 \(No. 189\)](#) considers that: “Each Member shall take measures to ensure that domestic workers enjoy minimum wage coverage, where such coverage exists, and that remuneration is established without discrimination based on sex” (Article 11).

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

Minimum wages should also apply to workers in non-standard form of employment, including workers on fixed-term contracts and other forms of temporary work, temporary agency work and other contractual arrangements involving multiple parties, or part-time work.

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

4.1 Should minimum wages apply to all employees?

The ILO standards

The [Minimum Wage Fixing Convention, 1970 \(No. 131\)](#) aims to “establish a system of minimum wages which covers all groups of wage earners whose terms of employment are such that coverage would be appropriate”.

The [Minimum Wage Fixing Recommendation, 1970 \(No. 135\)](#) provides that “The number and groups of wage earners who are not covered in pursuance of Article 1 of the [Minimum Wage Fixing Convention, 1970](#) , should be kept to a minimum.”

However, when an ILO member State ratifies [Convention No. 131](#), the national competent authority may exclude certain groups of wage earners from the coverage of its minimum wage system, in principle in consultation with social partners. Subsequently, a minimum wage system established under [Convention No. 131](#) may not necessarily cover all employees.

Legal coverage in practice

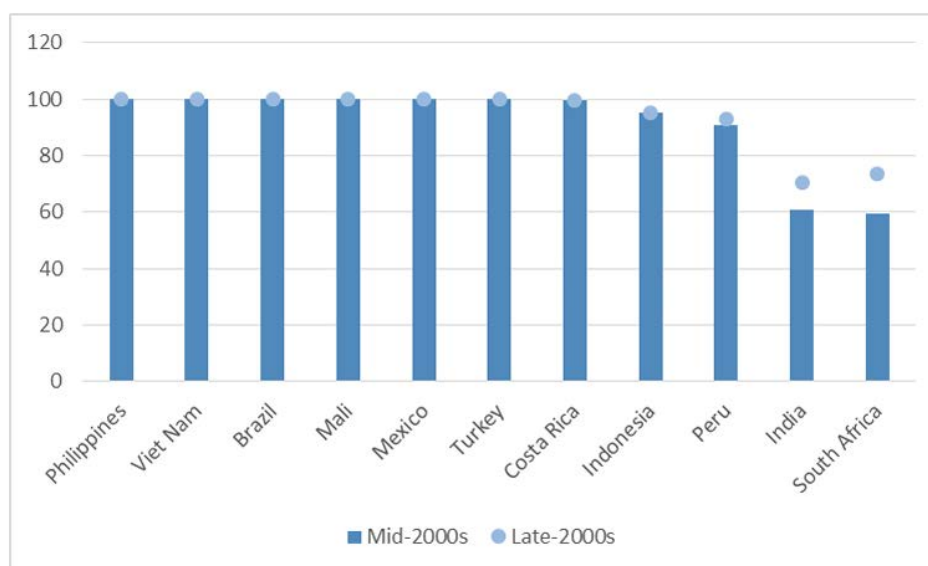
To date, the most frequent groups excluded from minimum wage systems are agricultural workers and domestic workers. Other groups often excluded include: family businesses, small enterprises, apprentices and trainees, and workers with disabilities. The case of public sector workers is discussed in [section 4.3](#).

Figure 1. here below shows the estimated coverage of minimum wage legislation over time for a series of developing economies.

As can be seen, in a majority of these countries 100 per cent of employees are legally protected by minimum wage legislation, including workers in the informal economy. By contrast, in Indonesia, Peru, India and South Africa, minimum wage coverage is less than complete. In Indonesia, minimum wages cover all employees except domestic workers. In South Africa and India, minimum wages are set for specific groups of workers by sector, occupation and/or region.

Figure 1. only considers statutory minimum wages and not minimum wages set through collective bargaining. If minimum wages set through collective bargaining were also included, this would increase the coverage of minimum wage protection.

Figure 1. Percentages of wage earners covered by minimum wage legislation in 11 developing economies



Source: Rani, U.; Belser, P.; Oelz, M.; and S. Ranjbar. 2013. 'Minimum wage coverage and compliance in developing countries' in *International Labour Review*, Vol. 152, No. 3-4.

4.2 Who is an Employee?

The legal definition of an employee

By definition, minimum wages usually only directly apply to employees (wage earners), although there are some exceptions (see section 4.4). The term "employee" is used in both legal texts and statistical analyses – even though there is no international legal definition of an employee. Countries use different definitions and no uniform standard exists.

To prevent abuses, the ILO [Employment Relationship Recommendation, 2006 \(No. 198\)](#), provides non-binding guidance on criteria to be used to determine the existence of an employment relationship.

The [Recommendation](#) suggests that:

- 4(a) National policy should at least include measures to provide guidance for the parties concerned, in particular employers and workers, on effectively establishing the existence of an employment relationship and on the distinction between employed and self-employed workers.

It explains that:

- 13. Members should consider the possibility of defining in their laws and regulations, or by other means, specific indicators of the existence of an employment relationship. Those indicators might include:

(a) the fact that the work: is carried out according to the instructions and under the control of another party; involves the integration of the worker in the organization of the enterprise; is performed solely or mainly for the benefit of another person; must be carried out personally by the worker; is carried out within specific working hours or at a workplace specified or agreed by the party requesting the work; is

of a particular duration and has a certain continuity; requires the worker's availability; or involves the provision of tools, materials and machinery by the party requesting the work;

(b) periodic payment of remuneration to the worker; the fact that such remuneration constitutes the worker's sole or principal source of income; provision of payment in kind, such as food, lodging or transport; recognition of entitlements such as weekly rest and annual holidays; payment by the party requesting the work for travel undertaken by the worker in order to carry out the work; or absence of financial risk for the worker.

Statistical estimates of the share of employees

In developed economies, it is estimated that wage earners represent around 90 per cent of total employment. By contrast, in developing and emerging economies employees can represent as little as 30 per cent of total employment – sometimes even less.³⁰

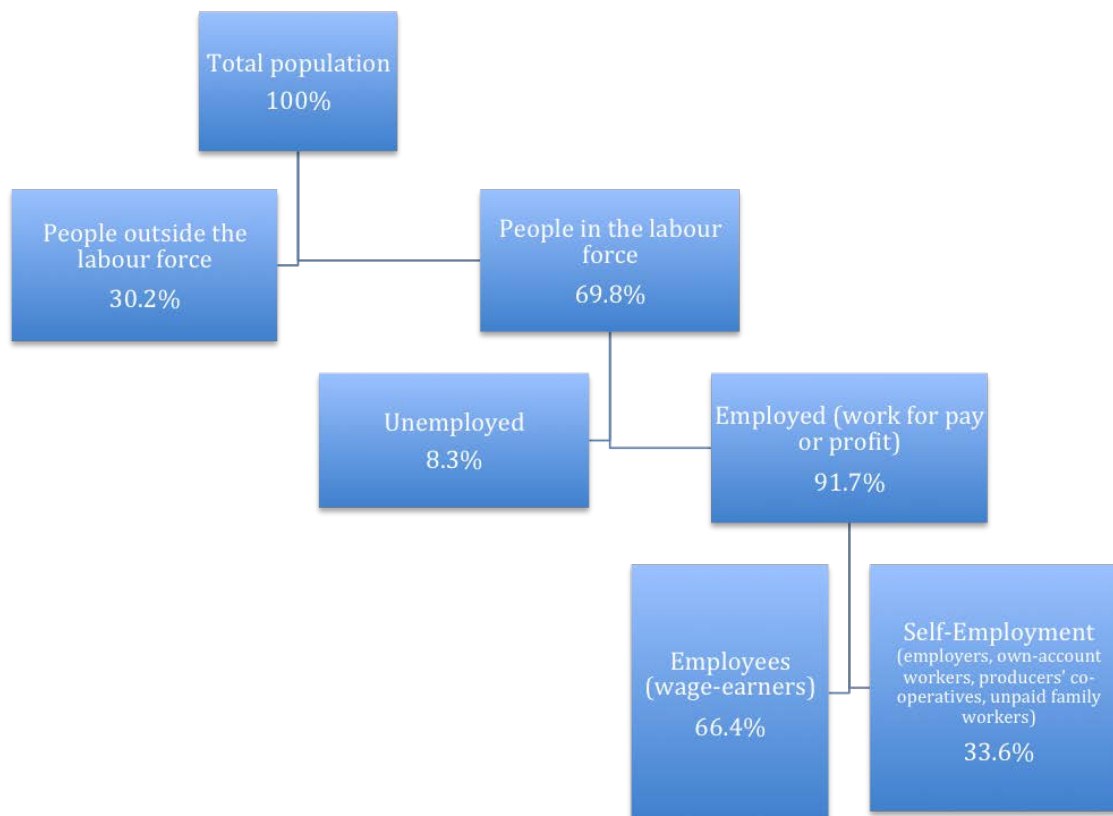
The share of employees in total employment has important implications for gauging who is covered by minimum wage provisions. As minimum wages only apply to employees, if they represent only a minority of workers, these protections only apply to them.

Figure 2. below shows the statistical relationship between wage employment, the labour force and the total population as a whole, illustrated by the case of Brazil in 2009. Employees (those who earn a wage) are only one subgroup among those employed. Self-employed workers do not earn a wage – they earn income from self-employment.

If there were 100 people in Brazil, about 70 (69.8 to be exact) would be in the labour force. Of those 70 people, about six would be unemployed (8.3 per cent) and 64 (91.7 per cent) would be employed. Of the 64 employed persons, about 42 would be wage earners (66.4 per cent), while the remaining 22 (33.6 per cent) would be self-employed.

³⁰ ILO [Global Wage Report 2014/15](#)

Figure 2. Relationship between wage employment, the labour force and the total population. (Brazil, 2009)



Note: In 2013, the International Conference of Labour Statisticians (ICLS) changed the definition of employment, the non-active population and the active population (see sources for more detailed information). Employment includes all sectors of the economy, including the public sector, at the national level.

Sources: [Key Indicators of the Labour Market \(KILM\)](#) ; [Resolution concerning statistics of work, employment and labour underutilization, adopted by the 19th ICLS \(2013\)](#) ; [Resolution concerning statistics of the economically active population, employment, unemployment and underemployment, adopted by the 13th ICLS \(1982\)](#).

4.3 Domestic workers

Domestic workers should receive minimum wage protection equivalent to that provided to other workers generally. Minimum wage provisions are important instruments to protect the most vulnerable and lowest-paid workers – such as domestic workers – from unduly low wages. A minimum wage recognizes the basic contribution of these workers and is a key means of ensuring the principle of equal pay for work of equal value.

The [Domestic Workers Convention, 2011 \(No. 189\)](#) , explicitly states that: “Each Member shall take measures to ensure that domestic workers enjoy minimum wage coverage, where such coverage exists, and that remuneration is established without discrimination based on sex” (Article 11).

In line with this provision, several countries, including South Africa, Brazil, Switzerland or the U.S. have taken measures, in very different circumstances, to extend minimum wage coverage to domestic workers.

According to ILO estimates, 22.3 million domestic workers (42.5 per cent of the total) still do not have any protection against unduly low wages and no minimum wage is applicable to them.³¹

³¹ [Domestic workers across the world: Global and regional statistics and the extent of legal protection](#) , pp. 75–76.

A few examples:

➤ [South Africa - The introduction of a sectoral minimum wage for domestic workers](#)

In South Africa, the minimum wage for domestic workers was one of a large range of reforms that were undertaken in the years following the transition from Apartheid to democracy in 1994. There are between 780'000 to more than a million domestic workers in the country, mostly African and coloured women.

The process of setting a minimum wage began seriously in 1999, five years after the first democratic elections which saw the end of the Apartheid era. The minimum wage came into effect towards the end of 2002, a little more than eight years after the first democratic election. The minimum wage for domestic workers was the result of a process that included a campaign from trade unions, an investigation into the wages and conditions of work of domestic workers, as well as a series of workshops and public hearings.

The introduction of a minimum wage and other protections for domestic workers can be considered one of the success stories of post-1994 South Africa. It was an important step in recognising domestic workers as workers with rights –a change from “servant” to “worker”. It has also been described as a part of a process of “de-slaving” and reasserting the dignity of domestic work. Previously, domestic work was perhaps the worst manifestation of exploitation of black women.

There is, however, still much “unfinished business”, as domestic workers still have one of the lowest minimum wages of all workers in South Africa, and compliance remains a challenge.

Source: Debbie Budlender, 2016. “The Introduction of a minimum wage for domestic workers in South Africa”, ILO Working Paper, Geneva.

➤ [Brazil – Constitutional Amendment assuring rights for domestic workers](#)

In Brazil, domestic work remains an important occupation for women and a key component of social organization of care work. In 2013, domestic work accounted for 6.7 per cent of occupations, amounting to a total of 6.4 million people, of which 92.6 per cent were women. It is an occupation dominated by adult (81.6 per cent aged 30 years or older) and black (64 per cent) women workers.

In recent years, within a context of international debate, legislative measures have been approved that aim to expand the rights of this historically fragile category of workers.

In 2013, 25 years after promulgation of the Constitution, a Constitutional Amendment (CA 72) was approved which finally placed domestic workers among the other categories of workers with social rights. Moreover, in 2014, Law 12.964, of 8th April, altered the former law on domestic workers of 1972, imposing fines for employers who fail to formalise the work contract.

With promulgation of CA 72, Brazilian domestic workers are now assured of a whole series of rights, including minimum wages, but also compensation in the event of dismissal without just cause; unemployment insurance; bonuses for night work (20%); wage protection (it being a crime to intentionally withhold wages); a work day of no more than eight hours and forty-four hours a week; overtime pay of no less than 50% higher than the normal hourly rate; the right to work in a place where standards of hygiene, health and safety are met; or insurance against work-related accidents.

Source: IPEA. 2016. Initial Effects of Constitutional Amendment 72 on domestic work in Brazil, ILO Working Paper, Geneva.

➤ [Switzerland – a national standard employment contract for domestic workers](#)

In Switzerland, a national standard employment contract (SEC) was introduced in 2011, setting a minimum wage for domestic workers – who represent approximately 4% of the economically active population. Although there is no statutory national minimum wage in Switzerland, the Confederation and the cantonal governments can impose SECs in branches and occupations that are not covered by a collective labour agreement, i.e. in the absence of employer and worker organizations.

After the Secretariat of State for Economic Affairs (SECO) issued a report in 2007 that documented one of the highest rates for offences and abuses in the domestic work sector, the Tripartite Commission of the Confederation (federal TPC) requested the Government to establish a SEC, including a minimum wage, for the sector.

In 2009, a tripartite expert group was mandated to design the SEC, which – once negotiated - was presented to the parties concerned – including the cantons, umbrella economic associations, political parties, and social partners from sectors in which workers perform activities similar to those of domestic workers, such as cleaning, the hotel and catering sector, agriculture and health (home-based care).

Three skill levels determine the level of the hourly minimum wage: unskilled, unskilled with at least four years of occupational experience and skilled. Skilled workers are furthermore divided into those that hold a federal vocational training certificate (FVTC) in home economics or a certificate of an initial two-year training course and those that hold a federal training certificate (FTC) in home economics or a certificate of a three-year training course.

Source: Graf, Roman. 2016. Introduction of the minimum wage for domestic workers in Switzerland, ILO Working Paper.

➤ [U.S. – Extension of minimum wages to all categories of domestic workers](#)

In the U.S., like in many other places, the journey towards the inclusion of domestic workers in minimum wage and overtime protections has been long and complicated. Domestic workers were originally excluded when the federal minimum wage was established in the 1930s. This exclusion was an outcome of the racial interests and gendered assumptions of legislators and the trade union movement alike.

In the 1970s, the minimum wage was extended to specific categories of domestic workers (like full time nannies), while other categories remained excluded (i.e. companions to the elderly and disabled).

State-based initiatives after 2010, like those for a Bill of Rights for Domestic Workers in New York, California and Hawaii, helped to lay the groundwork for further federal legislative and regulatory changes.

In 2013, under encouragement from President Obama, the Department of Labour revised its regulations to include live-in domestic workers. The only categories that remain excluded are casual babysitters, and “companions” who provide social fellowship to elderly people and people with disabilities. However, the scope of “companions” has been significantly reduced to ensure effective coverage of workers.

As a result, domestic workers are now fully included in the federal minimum wage. The initial minimum wage for domestic workers was equal to the established federal minimum wage in effect in 2013 at \$7.25 per hour. Domestic workers represent approximately 1.7 % of the total workforce.

Source: Goldberg, Harmony, 2015. The Long Journey Home: The Contested Exclusion and Inclusion of Domestic Workers from Federal Wage and Hour Protections in the United States of America, ILO Working Paper, Conditions of Work and Employment Series No.58

4.4 Workers in non-standard forms of employment

Non-standard forms of employment (NSFE) are receiving growing attention. They include, among others, “fixed-term contracts and other forms of temporary work, temporary agency work and other contractual arrangements involving multiple parties, disguised employment relationships, dependent self-employment and part-time work”.³²

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

International, regional and national legal instruments may also stipulate non-discriminatory treatment of workers in these forms of NSFE, in terms of wages, relative to their “standard” counterparts working for the same employer. For instance, under the ILO [Part-Time Work Convention, 1994 \(No. 175\)](#), “measures appropriate to national law and practice shall be taken to ensure that part-time workers do not, solely because they work part time, receive a basic wage which, calculated proportionately on an hourly, performance-related, or piece-rate basis, is lower than the basic wage of comparable full-time workers, calculated according to the same method” (Article 5).

Non-discrimination principles are adopted at the regional level, in the EU Directives on Part-Time Work (97/81/EC), Fixed-Term Work (1999/70/EC), Temporary Agency Work (2008/104/EC), albeit in some cases they are subject to some exceptions.

Some countries have also partially extended labour protection to categories of workers who do not qualify as employees under the relevant legal system. This category is recognized as “dependent self-employment”, the definition of which varies from country to country. Individuals in dependent self-employment are not automatically covered by minimum wage regulation, but this protection may nonetheless be extended to them.

In the United Kingdom, for instance, the category, “workers”, which encompasses both “employees” and other individuals performing work or services personally,³³ was introduced, and labour protection was partially extended to them. Accordingly, “workers” are entitled to the national minimum wage even though they do not qualify as “employees” under United Kingdom law.

Other workers in NSFEs may be excluded from minimum wage protection because they are misclassified. This is particularly the case of workers in “disguised employment relationships”, which Recommendation No. 198 defines as “when the employer treats an individual as other than an employee in a manner that hides his or her true legal status as an employee, and that situations can arise where contractual arrangements have the effect of depriving workers of the protection they are due”.

[More work is currently under way at the ILO on the subject of non-standard forms of employment.](#)

4.5 Informal economy workers

Distinguishing the concepts: the informal sector, informal employment and the informal economy

Developing countries are frequently characterised by the co-existence of formal and informal employment.

In 1993, the [15th International Conference of Labour Statisticians](#) at the ILO (15th ICLS) defined the **informal sector** as a group of production units comprised of unincorporated enterprises owned by households, including informal own-

³² [ILO, Governing Body, 323rd Session, Geneva, 12–27 March 2015, Conclusions of the Meeting of Experts on Non-Standard Forms of Employment \(Geneva: ILO, 2015\)](#)

³³ See Employment Rights Act 1996, Section 230 (3).

account enterprises and enterprises of informal employers (typically small and non-registered enterprises). This definition limited the definition of informality to enterprises.

In 2003, the 17th International Conference of Labour Statisticians at the ILO (17th ICLS) [guidelines](#) which examined informality from a different perspective, that of jobs. By doing so, they defined the concept of **informal employment** as "all remunerative work (i.e. both self-employment and wage employment) that is not registered, regulated or protected by existing legal or regulatory frameworks, as well as non-remunerative work undertaken in an income-producing enterprise. Informal workers do not have secure employment contracts, workers' benefits, social protection or workers' representation."³⁴

In this way, while the informal sector and informal employment are distinct concepts, they are also complementary. The **informal economy** encompasses both perspectives and is defined as all economic activities by workers and economic units that are - in law or in practice - not covered or insufficiently covered by formal arrangements.

A new ILO Recommendation

With respect to minimum wages, according to recently adopted [Transition from the Informal to the Formal Economy Recommendation, 2015 \(No. 204\)](#), countries should progressively extend minimum wage protections, in law and in practice, to workers in the informal economy through the process of formalization.

In some countries, legal provisions on minimum wages do not apply to some workers in informal employment, for example when enterprises employing fewer than ten wage earners are excluded from the relevant legislation. In most countries, however, the main challenge is compliance rather legal coverage.

In other countries, the situation is more ambiguous. In Pakistan, for example, although workers in informal sector enterprises or holding informal jobs are not expressly excluded from minimum wage or industrial relations legislation, stakeholders have historically and almost universally interpreted legal protections as applicable to only employees in formal sector enterprises. As a matter of statutory construction, however, it is possible to interpret the existing legislation as including workers in informal employment or holding informal jobs.

- [See also Chapter 7.5 on the effects on formal and informal employment](#)
- [See R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 \(No. 204\)](#)

[More work is currently under way at the ILO on transition from the informal to the formal economy.](#)

4.6 Public sector employees?

In many countries, public sector employees are excluded – in whole or in part – from the scope of labour laws, including provisions on minimum wage fixing. However, this does not imply that no minimum wage applies to them since administrative laws or arrangements, which often include pay scales, can cover them. Lower pay scales are normally adjusted to be set no lower than the minimum wage.

For example, in October 2015 in Malaysia, the government announced a minimum wage for public sector employees which would enter into force July 1, 2016. This announcement was made independently from the National Wages Consultative Council, the body responsible for recommending minimum wages to the Government for the private sector.

By contrast, in some countries laws regulating minimum wages clearly state that public sector workers are included. For example, the minimum wage legislation applies to public workers in the Bahamas. Act No. 1 of 2002 on Minimum

³⁴ [ILO Thesaurus](#)

Wages in Commonwealth of the Bahamas and states that the Act includes "... any such employment by or under the Crown in right of the Government of The Bahamas...".³⁵

One concern is thus not the total exclusion of these workers from any minimum wage fixing machinery, but the possible lack of consultation with the social partners, and particularly with representative organizations of workers concerned. Legal requirements to consult can vary by country. For example, public sector unions in Japan, by law, must be consulted regarding pay related issues. This is not the case in Chile, where there is no binding obligation to consult public sector trade unions regarding any employment issue, including wages.

Another area of concern is the influence that an increase in the minimum wage could have on public sector spending. If the minimum wage increases, the wages of those who earn less than the newly proposed rate will also increase. In some cases however, minimum wages act as a multiplier for higher wages within the public sector. In these cases, an increase in the minimum wage can have far reaching implications for public expenditure on public sector pay.

- [Learn more on minimum wages for public sector workers in Annex 1](#)

For more detailed information, see Chapter 2 of the [ILO General Survey on minimum wage systems, 2014](#).

³⁵ Act No. 1 of 2002 on Minimum Wages, Application of Act, Section 3. (1)

Chapter 5 – Setting and adjusting minimum wage levels

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Summary

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

A balanced and evidence-based approach is necessary which takes into account, on the one hand, the needs of workers and their families and, on the other, economic factors. An appropriate balance between these two sets of considerations is essential to ensuring that minimum wages are adapted to the national context, and that both the effective protection of workers and the development of sustainable enterprises is taken into account.

An evidence-based approach also implies that there should be clear criteria to guide discussions on the level of minimum wages, as well as reliable statistical indicators to support governments and social partners in their deliberations. Common statistical indicators that are used include the general level and distribution of wages, the evolution and differences across regions in the cost of living, as well as national or sectoral levels of labour productivity and rates of economic growth.

To maintain their relevance, minimum wage levels need to be adjusted from time to time. Failure to do so may lead to an erosion of the purchasing power of workers who earn the minimum when prices of goods and services are rising, or may lead to more wage inequality when the general level of wages is increasing.

Because the social and economic effects of minimum wages are never fully predictable, it is essential to ensure that the impact of minimum wage adjustments is adequately monitored and studied.

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

5.1 What is a balanced and evidence-based approach?

A balanced approach is one that takes into account, on the one hand, the needs of workers and their families and, on the other, economic factors. Such an approach combines both social and economic factors in order to find a level that benefits workers and society without prompting negative effects. A balanced approach is necessary because a minimum wage is a redistributive tool that has both benefits and costs.

If set too low, minimum wages will have little effect in protecting workers and their families against unduly low pay or poverty. If set too high, minimum wages will be poorly complied with and/or have adverse employment effects.

The balanced approach in ILO Convention No.131

The balanced approach is emphasized in the [Minimum Wage Fixing Convention, 1970 \(No. 131\)](#), which in Article 3 states that:

The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include—

(a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;

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

It is understood that these criteria are not exhaustive.

While economic factors may constrain increases in minimum wages, in other instances they may provide an opportunity to increase minimum wages beyond the minimum survival needs of workers and their families.

How to ensure that minimum wage fixing is evidence-based?

While minimum wage fixing is always the result of a political process, including in principle the full consultation of social partners, setting the minimum wage should be evidence-based. In this respect, it is useful to identify objective criteria. The importance of the collection of statistics and other data for analytical studies is emphasized in Recommendation No. 135 and the Labour Statistics Convention, 1985 (No. 160).

When governments and social partners agree on the basic criteria that they intend to use for the minimum wage adjustment, discussions can occur within a common framework. The availability of data also allows for the effects of the minimum wage rate to be carefully monitored over time.

These effects, measured by a monitoring process, can subsequently feed into the next round of decisions that policy-makers take to uprate the minimum wage.

Data used for this purpose should be timely, comprehensive, and disaggregated by sex. In order to assess the effect of the minimum wage, or simulate the effects an uprate might have on the economy, it is necessary to have data which are as representative of the economy as possible.

➤ [Learn more about surveys](#)

In many countries, a labour force survey will broadly meet these requirements. In some cases, in cooperation with national statistical offices, the labour force survey can be modified to include questions on wages or to oversample a specific population, like domestic or migrant workers, as was done recently for example in Namibia.

Admittedly, there are criticisms of household surveys, like labour force surveys, since they are prone to measurement error, particularly with regards to self-reporting of income, wages and hours. Other surveys, like establishment surveys, can complement analyses undertaken using the labour force survey.

However, it is important to note the groups that are often excluded from establishment surveys – workers in the informal economy, the self-employed and often small or medium-sized enterprises. Excluding these groups from surveys also excludes them from subsequent data analyses that are used to set and adjust the minimum wage.

5.2 How frequently should minimum wages be adjusted?

ILO Conventions and Recommendations

[Convention No. 131](#) considers that minimum wages should be "adjusted from time to time (Article 4)."

The accompanying [Minimum Wage Fixing Recommendation, 1970 \(No. 135\)](#), further clarifies that "Minimum wage rates should be adjusted from time to time to take into account changes in the cost of living and other economic conditions." In principle, this revision can take place "either at regular intervals or whenever such a review is considered appropriate in the light of the variations in a cost-of-living index".

The advantages of regular adjustments

Governments and social partners can in principle agree to revise the minimum wage whenever they consider it necessary. However, **in the absence of fixed periodicity, both workers and employers will be affected by some uncertainty.**

Workers who receive a minimum wage do not know for how long price inflation will erode their purchasing power, while employers do not know when they might suddenly face an abrupt increase in their labour costs. Indeed, it has been observed that in countries without fixed periodicity, minimum wages sometimes remain unadjusted for long periods followed by sudden and large adjustments. This not only weakens the relevance of the minimum wage, but also makes it more challenging for enterprises to absorb the cost increases.

Most frequently, countries adjust their minimum wages once a year. Some countries, adjust rates every six months, while others have 2-years intervals. Annual adjustments seem adequate in periods of low or moderate inflation, providing workers and employers with appropriate predictability and allowing for regular adjustments, in line with evolving economic circumstances.

What to do if there is high inflation?

Yearly adjustments allow for predictability and smooth adjustments, and can be complemented by more frequent adjustments when inflation exceeds some threshold.

In some countries, when inflation accelerates above a certain threshold, more frequent adjustments are automatically applied. In France, for example, the minimum wage is automatically increased whenever price inflation exceeds 2 per cent within a given year.

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

5.3 The needs of workers and their families

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

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

Because of all these reasons, **adequate minimum standards of living should be ensured through the combination of a minimum wage and social security measures.** Yet some useful benchmarks can be used for the purpose of fixing minimum wages.

Estimating absolute and relative needs

Absolute estimates of needs of workers and their families can be constructed by estimating the average cost of basic but decent life style for a worker and his or her family by adding up the cost of food, housing, and other essential expenses like for health, education of children, and participation in the social life of the community. This is the approach usually taken in estimating national poverty lines³⁶ or "living wage" thresholds.

Relative needs and relative poverty lines are defined as some proportion - sometimes 60 per cent - of median household income. Relative poverty lines better capture the "cost of social inclusion and equality of opportunity in a specific time and space"³⁷ and are usually preferred in more developed economies.

- [Learn more about needs of workers and their families in Annex 2](#)

Adjusting for increases in prices

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

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

Because past inflation is not necessarily going to be reproduced in the future, an alternative is to use expected future inflation. However, as with most forecasts, estimates of future inflation usually differ from the effective inflation rates. An ex-post "corrective adjustment" can thus be introduced in case the estimates are significantly different from the effective rates.

- [Click to learn more about the link between inflation and the real value of minimum wages in Annex 3](#)

³⁶ National poverty thresholds may be determined on the basis of various methods. Some examples are described in [Haughton, J.; Khandker, S.R. 2009. Handbook on poverty and inequality \(World Bank, Washington DC\)](#)

³⁷ [Jonathan Bradshaw](#) ; Yekaterina Chzhen; Gill Main; Bruno Martorano; Leonardo Menchini; Chris de Neubourg (January 2012). [Relative Income Poverty among Children in Rich Countries](#) (PDF) (Report). Innocenti Working Paper. Florence, Italy: UNICEF Innocenti Research Centre. [ISSN 1014-7837](#)

5.4 Economic factors

When setting the level of the minimum wage, policy makers should take into account economic factors. If the minimum wage is set too high or increased too much, this may have unexpectedly large impacts on the labour costs that employers must pay. This, in turn, could trigger price inflation, hurt exports, and reduce the level of employment. Wages that are too low, by contrast, constrain domestic household consumption.

According to ILO Convention No.131, economic factors to take into account include, "the requirement of economic development, levels of productivity, and the desirability of attaining and maintaining a high level of employment". Other economic factors that can be considered include issues related to competitiveness, investment, prices, and economic growth.³⁸

Labour productivity - sharing the fruits of progress

In setting and adjusting minimum wages, policy makers frequently make reference to labour productivity. Labour productivity provides contextual information on the market value of what is produced by an average worker in a country, given existing levels of capital and technology.³⁹ Taking into account labour productivity in regular adjustments also ensures that workers receive a share of the fruits of progress.

Average labour productivity in a country is usually measured as GDP per worker, or GDP per hour worked. Data on sector-level productivity is also useful when minimum wages are set at different levels in different industries. However, in some sectors, measuring labour productivity is problematic. For example, quantifying the value added in the education sector or in domestic work are particular challenges.⁴⁰

➤ [Learn more about wages and productivity](#)

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

Proportion of workers affected and impact on total wage bill

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

If the minimum wage is set too high, it will likely affect a large number of workers and this could have unexpectedly large impacts on average labour costs and on the total wage bill that employers must pay. This, in turn, could trigger price inflation and/or reduce the level of employment. Since compliance is partly dependent on the level of the minimum wage, there is also a high probability that a minimum wage set too high would result in a low level of compliance.

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

³⁸ [IOE. The Minimum Wage. Guidance paper of the International Organisation of Employers](#)

³⁹ [OECD. 2001. Measuring Productivity: OECD Manual, Measurement of aggregate and industry-level productivity growth \(Paris, OECD\).](#)

⁴⁰ [Atkinson. 2005. Atkinson Review: Final Report. Measurement of Government Output and Productivity and the National Accounts \(New York, Palgrave Macmillan\).](#)

better understanding of the individuals, regions or industries that will be most likely or disproportionately affected by the minimum wage.

- [Learn more about impact on labour costs in Annex 4](#)

Managing aggregate demand - finding the right balance

For some individual enterprises, increasing wages can be very problematic. At the same time, even during periods of economic difficulty, there are strong economic and social reasons why governments may want to encourage wage increases in line with average productivity growth. One such reason is that higher wages for low-paid workers can increase their consumption levels and in some circumstances lead to higher aggregate demand. When wages are pushed too high, however, exports and investment may decline, and aggregate demand may fall.

From a macroeconomic perspective, wages which increase roughly at the rate of medium-term productivity growth plus the Central Bank's target rate of inflation (or some other low inflation rate if there is no explicit inflation target) should guarantee price stability, ensuring that wage developments do not cause deflation or excessive inflation.

5.5 Ratio of minimum to average wages

One useful and widely used statistical indicator is the ratio of the minimum wage to the mean or the median wage. As mean wages are affected by extreme values, median⁴¹ wages provide a better point of reference, especially in countries that have high wage inequality. This indicator shows the level of the minimum wage relative to that of the "average worker", and – to the extent that average wages reflect at least in part average productivity levels – also provides information on economic factors.

The first figure below shows that in developed economies, the minimum wage ranges usually from 35 to 60 per cent of the median wage. The second figure shows that in developing countries, the ratio of minimum to median wages is frequently higher. This could be due to the fact that in developing countries, the median wage earner is often relatively low-paid. Thus, considerations related to the needs of workers and their families sometimes lead to higher minimum wage ratios than in developed economies.

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

It should also be noted that these ratios can be misleading when they are interpreted too literally. The figure below shows for example that minimum wages are relatively high in France, which may suggest that it also has higher effects on labour costs than in other countries. To some extent, however, the cost of minimum wages in France are mitigated by reduced social security contributions for employers who hire minimum wage workers.

- [Learn more about caveats and limitations](#)

When comparing the minimum to average wage ratio, it is important to compare the monthly minimum wage for normal hours with full-time (or full-time equivalent) workers.

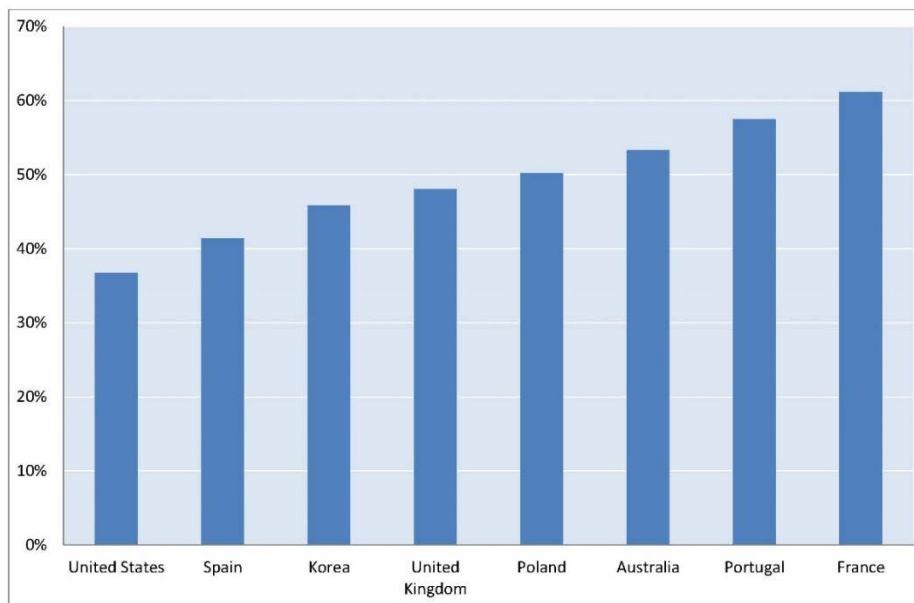
Average wage data for all employees tends to be lower than that for full-time or full-time equivalent employees since there is variation in hours worked in the former. The difference will depend on the percentage of employees who work less than full time.

⁴¹ Median wages refer to the middle wage. For example, in a country with five people who earned monthly wages equal to 5, 6, 7, 9, and 15, the median would be 7

Also, the minimum to average wage ratio should be interpreted with care. For example, in some sectors, the average wage may be very close to the minimum wage in industries where minimum wage-type work predominates. This is the case in Cambodia, where the minimum wage is exclusively set for the textile industry and where, with the exception of a few managers, the majority of workers earn the minimum wage. Under these circumstances, the minimum wage actually sets the average wage in the sector.

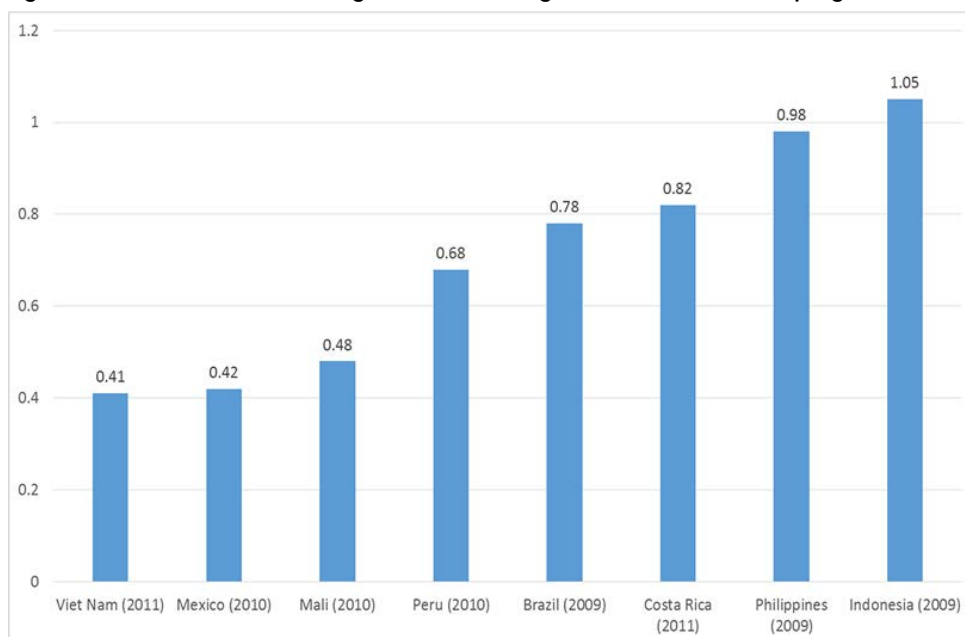
In all circumstances, the minimum to average wage ratio requires additional analysis. In emerging and developing economies, where employees represent a smaller share of total employment and the informal economy is usually larger, there may be a disconnect between the average wage of employees who would be legally covered by the minimum wage and the average wage of all employees.

Figure 1. Ratio of minimum wage to median wages in selected developed countries (2014)



Source: [OECD \(2015\), "Earnings: Minimum wages relative to median wages", OECD Employment and Labour Market Statistics \(database\)](#).

Figure 2. Ratio of minimum wage to median wages in selected developing countries



Note: Analysis based on data from household and labour force surveys.

Source: Rani, U.; Belser, P.; Oelz, M.; and S. Ranjbar. 2013. "Minimum wage coverage and compliance in developing countries" in *International Labour Review*, Vol. 152, No. 3-4.

5.6 Should a mathematical formula be used?

Some countries have adopted a mathematical formula for the periodic adjustment of their minimum wages. This can increase predictability, avoid having to hold discussions on the adjustment every year, or remove the possibility for sudden or extraordinarily large increases motivated by political rather than technical factors.

However, if mathematical formulas are used, these should be adopted after full consultation with social partners.

Is indexation a good idea?

If minimum wages are automatically updated to compensate for all past inflation, this would, in principle, guarantee the real level (purchasing power) of minimum wages.

However, such "indexation" mechanisms have been questioned in recent times as they were considered to introduce "inflationary inertia" under some circumstances. That is, the reproduction of past inflation in wages and other prices can become an obstacle for reducing the current inflation rate.

During the 1980s, European countries such as Denmark, Austria, Belgium, Italy and France modified or even eliminated this formal link.⁴² At the same time, a similar process took place in Latin American countries that were suffering much higher rates of inflation. Since then, countries tend to be more cautious of adopting mathematical formulae to update minimum wages automatically.

More complex formulas

It must be stressed that a minimum wage that is adjusted only on the basis of a change in the cost of living would result in a constant minimum wage in real terms, and minimum wage-earners would not see their real wages increase even in circumstances of economic growth. Most countries which use a formula therefore also include another economic factor, such as economic growth or the growth in labour productivity.

Below we provide some example of countries which have adopted a minimum wage formula. These country examples illustrate the diversity of criteria used in order to determine minimum wage adjustments.

➤ [Brazil](#)

In Brazil, a law has established that minimum wage adjustments be determined by a formula that considers past inflation and GDP growth. In the case of inflation, the formula considers the inflation accumulated during the previous year (t-1), while for GDP, due to the lag in receiving final results, they apply the rate of increase of year t-2.

Brazil's formula for determining adjustments (where MW is minimum wage) is as follows:

$$\Delta \text{ MW } t = \Delta \text{ CPI } t-1 + \Delta \text{ GDP } t-2$$

The law establishes that this formula should be revised every four years. It was first adopted in 2008, and renewed in 2012 and 2016.

⁴² [Eyraud F.; Saget, C. 2005. The fundamentals of minimum wage fixing \(Geneva, ILO\).](#)

➤ Costa Rica

In Costa Rica a new formula was agreed between Government and social partners in 2012. The formula contains an inflation component, as well as a growth-related component. The inflation component considers expected inflation, plus an ex post correction of the estimates. The growth-related component incorporates 20 per cent to 40 per cent of average GDP per capita growth of the previous five years (lagged by one year). The final determination of the production component is left for negotiations between the social partners in the minimum wage tripartite commission.

Costa Rica's formula therefore is:

$$\Delta MW = \text{expected } \Delta \text{CPI (+correction factor)} + (20\%-40\%) * \Delta \text{GDP per capita}$$

The application of this formula is made conditional on certain situations in the economy and labour market. The inflation component is not automatic if inflation accelerates (i.e. effective inflation is greater than expected inflation plus 1 per cent). Also, the economic growth component is not automatic if one of the following situations occurs: the unemployment rate is greater than 8 per cent; there was negative economic growth for four successive quarters; or there is more than a 15 per cent change (positive or negative) in the exchange rate between minimum wage adjustments.

In the event that any one of the particular situations listed above takes place, the social partners are called on to recommend the final adjustment, taking the particular circumstances into account.

➤ Malaysia

In the case of Malaysia, the minimum wages rate was set using a combination of several socio-economic indicators grouped as either base criteria or adjustment criteria. The base criteria were the Poverty Line Income (PLI) per worker and median wages. The PLI is used to account for the basic cost of living per worker in a household while median wages of the lower half of wage earners in the private sector reflects the firms' ability to pay. These two elements were then averaged to represent the floor wage. This floor wage is then adjusted by the adjustment criteria. This second group of criteria includes: labour productivity growth, the percentage change in the Consumer Price Index (CPI) and real unemployment rate, as illustrated below:

$$MW_i = \text{Avg} \left(\frac{PLI_i}{\text{Avg workers per household}} + \text{Median wage}_i \right) \times \left[1 + \left(\frac{P_i}{100} \right) + \left(\frac{CPI_i}{100} \right) - \left(\frac{UE_i}{100} \right) \right]$$

MW = Minimum Wages (RM)

PLI = Poverty Line Income (RM)

P = Productivity growth (%)

CPI = Consumer Price Index (% change)

UE = Real Unemployment Rate (%) = (Unemployment rate – 4%)

i = Region (Peninsular Malaysia, Sabah and Sarawak)

➤ France

In France, annual minimum wage adjustments are linked to the evolution of the CPI, as well as to the increase in the purchasing power of blue-collar workers' basic hourly wage. The minimum wage adjustment takes place every January. It incorporates the change in the CPI over 12 months (November t-2 to November t-1).

The annual revision of the minimum wage also incorporates half the annual increase in the hourly basic rate of blue collar wages (from September t-2 to September t-1), resulting from a specific survey carried out quarterly by the Ministry of Labour.

France's formula is:

$$\Delta \text{MW}_t = \Delta \text{CPI Nov } t-2 / \text{Nov } t-1 + 0.50 * \Delta \text{Blue collar hourly wage Sep } t-2 / \text{Sep } t-1$$

France's minimum wage also has an automatic guarantee concerning the evolution of prices. This adjusts the minimum wage every time the price index increases by 2 per cent or more since the last adjustment.

In addition to this mathematical determination of minimum wage adjustments, France also has a discretionary component that can introduce an additional percentage to the final increase. Since 2009 a commission of independent experts recommends if there is space for an additional increase (coup de pousse), taking into account the economic context.

➤ [The Netherlands](#)

The Netherlands adjusts its minimum wage twice a year (1 January and 1 July) in line with changes in the weighted average of collectively agreed wages. It is important to note that minimum wages also determine minimum social security benefits, raising concerns related to the tax burden that minimum wage increases could entail.

For this reason, in 1993 a condition for minimum wage uprates established that if the "inactives to actives ratio" exceeds a threshold of 82.6 per cent there would be no increase. Inactives are defined as those receiving benefits, including public old-age pension, while actives are those employed, including self-employed and part-time workers. In addition, the law provides for an assessment every four years. Despite these very clear criteria, in practice the minimum wage has been frozen even in situations when the inactive-active threshold ratio was not exceeded (July 2003 to January 2006).

(See: W. Salverda (2008) 'The Netherlands: Minimum wage fall shifts focus to part-time jobs', in Vaughan Whitehead, *ibid.*)

Note that it is almost impossible for a mathematical formula to incorporate all the key considerations. It is not unusual therefore, to see that the application of a formula is made conditional on a number of situations, or that, in addition to the formula and additional considerations, there is space for social dialogue or for reaching a different decision on the basis of political considerations.

5.7 Combining short-term adjustments and a longer-term perspective

In periodic adjustments there is a tendency to concentrate on short- and medium-term indicators. A typical minimum wage adjustment normally will give much weight to a limited set of factors, such as price inflation or economic growth.

While this approach is natural, minimum wage fixing authorities should also bear in mind the longer-term perspective.

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

Have a medium-term strategy

Many countries have discovered that a gap exists between the legitimate needs of workers and their families and what the economy is capable of paying in terms of minimum wages. It will not be possible to eliminate this gap in a single minimum wage adjustment, at least not without adverse economic effects.

This suggests that there should be a medium- to long-term target for this policy – that is, closing this gap in successive, gradual adjustments. This approach has also been used for example in the domestic work sector (see chapter 8).

It is also important to monitor the effective application of the policy. Effective monitoring is crucial for the successful implementation of the minimum wage.

Therefore, the minimum wage fixing authorities should commission once in a while detailed reports detailing the inspections made with regard to minimum wages, cases of non-compliance detected, and action taken to correct this situation. It is important for the minimum wage fixing authorities and/or bodies to know if their decisions have a real impact on the ground.

Chapter 6 – How to enforce minimum wages?

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Summary

In some countries more than half of all wage earners who are entitled to the minimum wage are paid wages below the legal floor.

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

Compliance can be increased through a number of implementation measures, including:

- information and awareness raising campaigns
- capacity building activities for employers' and workers' representatives
- empowering workers to claim their rights through individual complaints as well as collective action
- measures to formalize the informal economy
- targeted labour inspections
- sanctions that function as a deterrent to non-compliance
- monitoring and responsible purchasing practices within global supply chains
- public employment programmes that pay minimum wages

The extent of non-compliance can also vary depending on the design of minimum wage policies and the number of rates, and also depends on the effectiveness of the entire process of designing and implementing minimum wage policies, from fixing the right level and rate structure in the first place, in full consultation with employers' and workers' organizations.

This is why a comprehensive approach is necessary.

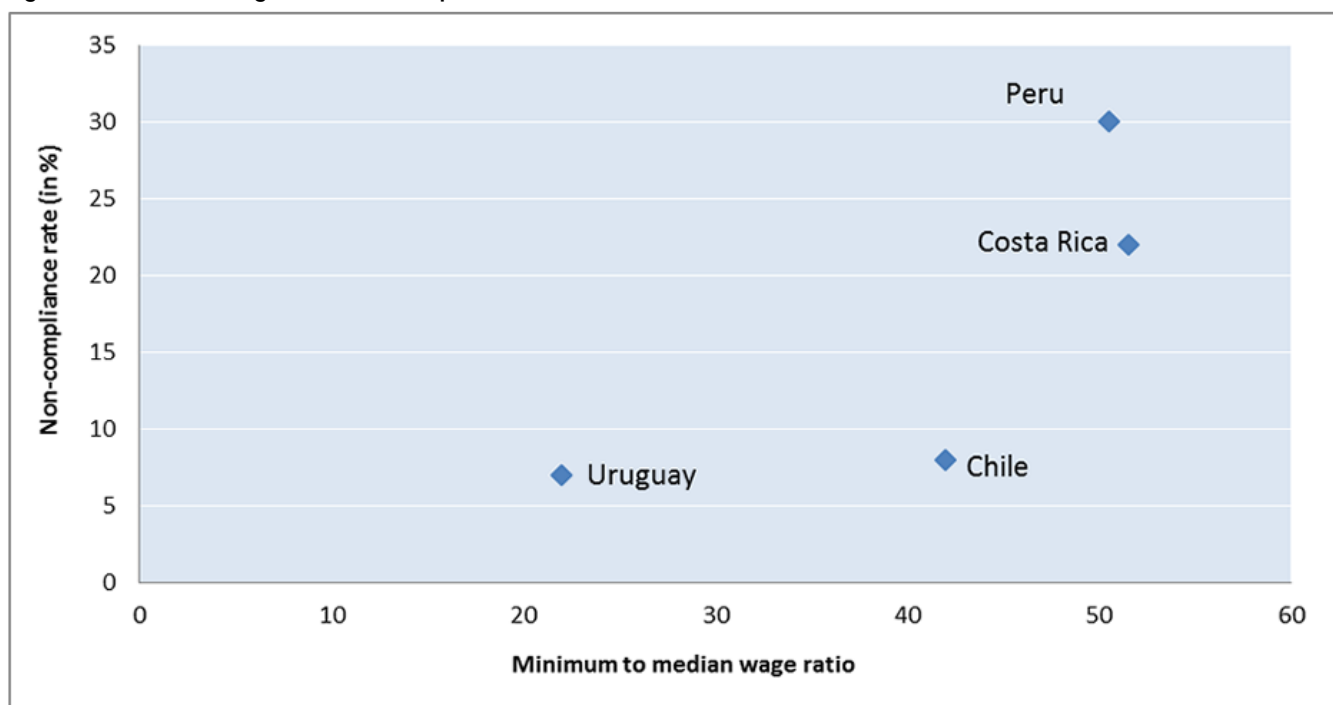
6.1 The need for a comprehensive approach

A comprehensive approach is needed because compliance is affected by the level at which minimum wages are set relative to average wages, as well as by institutional factors.

Figure 1. below shows that non-compliance is higher in Peru and Costa Rica, where minimum wages are higher, than in Uruguay and Chile. However, institutional factors matter too: although the level of minimum wages is similar in Peru and Costa Rica, non-compliance is substantially higher in the former than the latter. Although non-compliance is relatively low in both Uruguay and in Chile, this result is achieved in spite of a substantially higher minimum wage in Chile than in Uruguay.⁴³

When minimum wages are very low, it is quite natural that only a few workers will be paid less than the minimum. Only when minimum wages truly “bite” does compliance become a challenge.

Figure 1. Minimum wage and non-compliance in Latin America, urban sector, 2011



Source: [Marinakis \(2014\)](#).

How to strengthen institutional factors?

The [Minimum Wage Fixing Convention, 1970 \(No. 131\)](#), provides that “Appropriate measures, such as adequate inspection reinforced by other necessary measures, shall be taken to ensure the effective application of all provisions relating to minimum wages” (Article 5).

The [Minimum Wage Fixing Recommendation, 1970 \(No. 135\)](#), suggests that measures should include:

- (a) arrangements for giving publicity to minimum wage provisions in languages and dialects understood by workers who need protection, adapted where necessary to the needs of illiterate persons;
- (b) the employment of a sufficient number of adequately trained inspectors equipped with the powers and facilities necessary to carry out their duties;

⁴³ [Marinakis, A. 2014. Incumplimiento con el salario mínimo en América Latina. El peso de los factores económicos e institucionales, \(OIT, Santiago\).](#)

- (c) adequate penalties for infringement of the provisions relating to minimum wages;
- (d) simplification of legal provisions and procedures, and other appropriate means of enabling workers effectively to exercise their rights under minimum wage provisions;
- (e) the association of employers' and workers' organizations in efforts to protect workers against abuses; and
- (f) adequate protection of workers against victimization.

Overly complex minimum wage systems can also reduce compliance. Awareness raising and labour inspection are easier in countries with relatively simple minimum wages rather than too complex sectoral or occupational minimum wages, with numerous rates. A multiplicity of rates obviously makes minimum wage rates much more difficult to communicate and inspect.

6.2 Measuring non-compliance

In order to design, put in place and pursue sound strategies and measures for compliance and enforcement it is important to analyse the extent and patterns of non-compliance in a manner as detailed as the available data permit. This is not only relevant for enhancing the effectiveness of interventions but also to make strategic choices in allocating available public resources.

Studies can look at the extent of non-compliance according to urban and rural areas, the formal and informal economies, different economic sectors and occupations, size of the enterprise, and how non-compliance affects women and men. Compliance gap assessments can also look at the situation of groups more vulnerable to workplace discrimination, such as indigenous and tribal peoples, ethnic minorities, migrants or people with disabilities.

Compliance can be estimated in three ways:

- The first method, which is extensively used in empirical studies, is to calculate from statistical data the percentage of workers earning less than the legal minimum wage in different jobs and sectors. This method provides rough estimates and contains measurement error.
- A second measure is based on violations of minimum wage laws detected during workplace inspections. However, an analysis based on labour inspections can be only partial, as it refers exclusively to detected cases.
- A third measure could be the number of complaints made by workers to enforcement bodies and courts. However, it is difficult to obtain the necessary administrative data, and not everyone who is underpaid lodges a complaint.

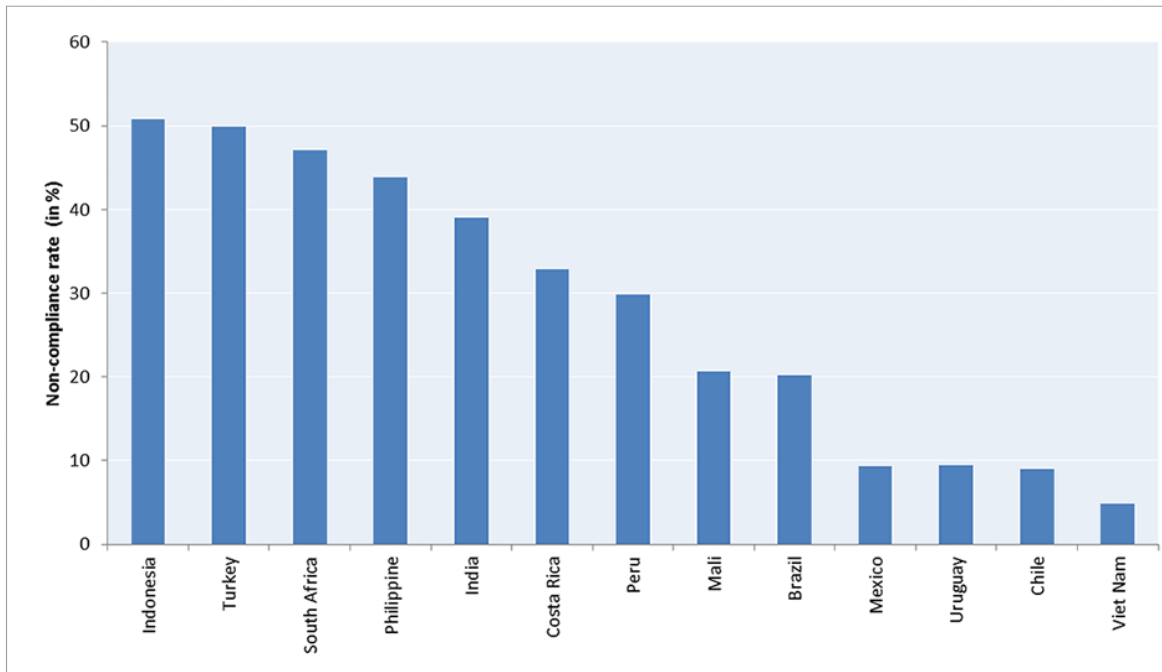
An illustration of the statistical methodology⁴⁴

The Figures below use the first method and provide an estimate of the proportion of legally covered workers earning less than the legal minimum wage, taking into account imperfect data on their hours of work. Information on wages comes from household or labour force surveys, and wages are compared to the applicable legal minimum wages. Such a method allows comparison across countries and over time. It must be kept in mind, however, that they are only statistical estimates.

⁴⁴ Rani et al., (2013). "Minimum wage coverage and compliance in developing countries". *International Labour Review*, Vol.152, No.3-4, pp.381-410.

Using such a method, compliance rates vary widely from country to country. Figure 2 shows that the share of covered workers earning less than the legal minimum wage varies from less than 10 per cent in Viet Nam, Chile, Uruguay or Mexico, up to about 50 per cent in Turkey or Indonesia.

Figure 2. Non-compliance rate (percentage of employees paid less than minimum wage), latest year for which data are available



Source: [Rani et al., 2013](#) ; [Marinakakis \(2014\)](#) .

Different population groups

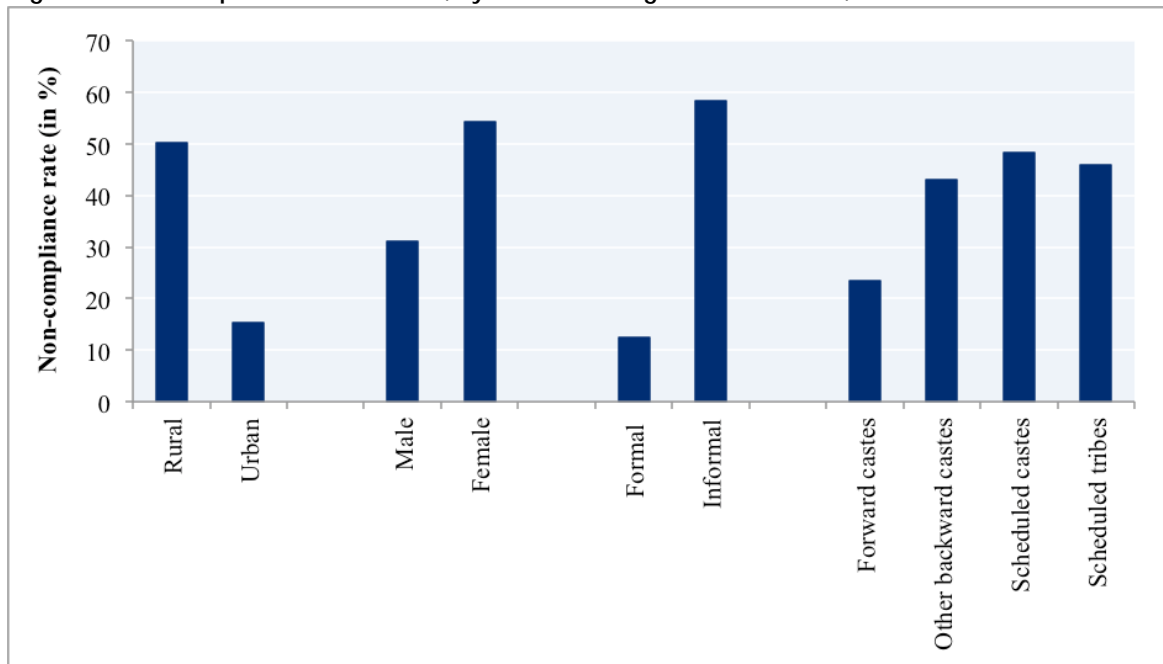
Within countries, there are significant differences in non-compliance rates across different groups of the population.

The case of India illustrates a situation that is common across countries: non-compliance is more widespread in rural than in urban areas, and in the informal than in the formal economy. Women are also frequently more likely to be underpaid than men, as are disadvantaged ethnic or social groups such as so-called scheduled castes and scheduled tribes in India (Figure 3).

Similarly, if we look at non-compliance across different industries, the case of South Africa shows non-compliance to be particularly high in construction and agriculture (Figure 4).

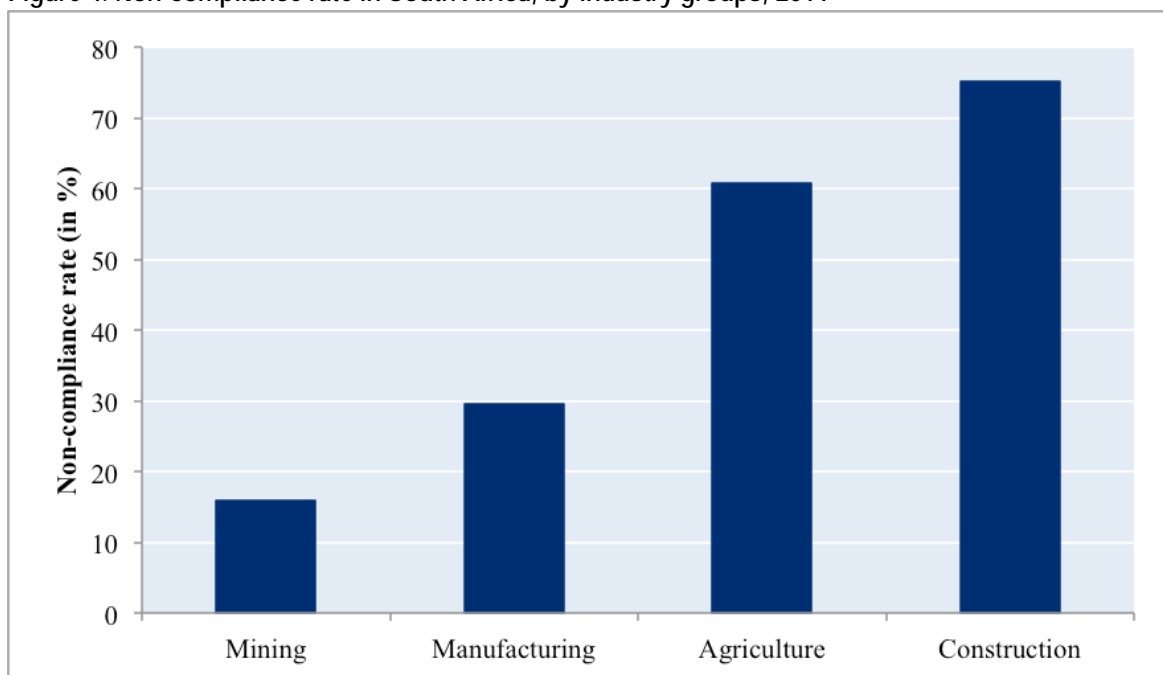
Looking at the non-compliance rate by size of the enterprise, then the case of Costa Rica shows that non-compliance tends to be higher in smaller than in large enterprises (Figure 5).

Figure 3. Non-compliance rate in India, by different categories of workers, 2009–10



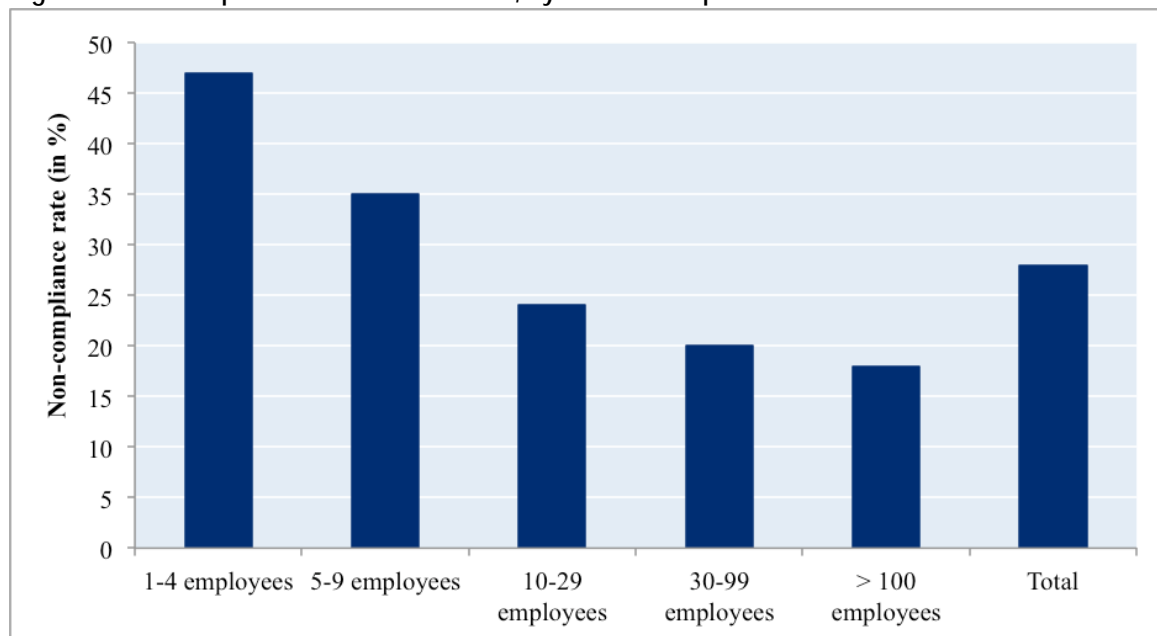
Source: [Rani et al., 2013](#)

Figure 4. Non-compliance rate in South Africa, by industry groups, 2011



Source: [Rani et al., 2013](#).

Figure 5. Non-compliance rate in Costa Rica, by size of enterprise



Source: ILO based on labour force surveys.

6.3 Information and awareness raising

On the importance of awareness

A key measure is making information on applicable minimum wages available to both employers and workers – and the public more generally. Along with information on applicable rates, awareness should be raised about the sanctions in case of non-compliance. In addition, persuasive arguments and a supportive public discourse can be part of the construction of a “culture of compliance”.⁴⁵

For example, in the United Republic of Tanzania it was found that workers who knew their rights and legal entitlements were also more likely to be paid accordingly.⁴⁶ An evaluation study on the implementation of India’s Minimum Wages Act, 1948 in the stone-breaking and stone-crushing industry in Karnataka in 2007–08 found that, among employers, only 30 per cent said they were aware of the Minimum Wages Act. Among workers, only 8.4 per cent were aware of the Minimum Wages Act and 18.5 per cent knew of any inspection authority.⁴⁷

How to publicize minimum wages?

Awareness-raising activities and information dissemination strategies undertaken by governments and social partners can rely on a range of different channels including the Internet, television and radio broadcasts. Providing information and advice to workers and employers is also one of the principal functions of labour inspectorates.

In the United Kingdom, for example, when the national minimum wage was introduced, it was widely believed that the policy would be successful only if it was largely “self-enforced” – that is, so widely known about and accepted

⁴⁵ Benassi, C. 2011, “The Implementation of Minimum Wage: Challenges and Creative Solutions”, Working Paper No.12, ILO GLU, March

⁴⁶ Lee, S. and D. McCann (2011b). “The impact of labour regulations: Measuring the effectiveness of legal norms in a developing country”, in Sangheon Lee and Deirdre McCann (eds): Regulating for decent work. Geneva, ILO, pp. 291–312

⁴⁷ Government of India (GoI) (2009). Evaluation Study on the Implementation of Minimum Wages Act, 1948 in Stone Breaking and Stone Crushing Industry in Karnataka 2007-8, Government of India, Ministry of Labour and Employment, Labour Bureau, Chandigarh.

that there would be widespread compliance. To this end, much attention was devoted to information campaigns, by the authorities as well as social partners.

➤ [Publicizing the minimum wage in the United Kingdom](#)

In the United Kingdom, in the months before and after the introduction of the national minimum wage (NMW) (March and April 1999) about £4.5 million was spent on a national publicity campaign, including television advertisements.

Separate campaigns subsequently targeted ethnic minority communities and young people. Over the span of 2 months (late January to late March) the NMW Helpline dealt with 50,000 enquiries.

More than a million copies of short "information" pamphlets were sent to organizations and individuals in the first few months. Separately tailored booklets on "best practice" aimed at businesses in the six sectors most affected (hospitality, retail, social care, cleaning and security, hairdressing, clothing) were produced.

These contained case studies showing how good pay could lead to better performance and were prepared in cooperation with trade associations and training bodies, which also distributed them.

In 2000, by which time the NMW had already been introduced, awareness campaigns were run using the national press, local radio, youth magazines, Internet advertisements, beer mats and postcards. A further campaign targeted television advertising and women's press. An independent market research agency was used to check awareness and the results were generally very positive. An interactive website – www.gov.uk/browse/working/tax-minimum-wage – was set up to provide users with a decision tree to help them assess their entitlement.

NMW increases continue to be publicized through many means including the regular information bulletins that the tax authorities send to 1.5 million employers. The Trades Union Congress has from the start produced regularly updated guidance, made available to all through their websites and other networks (www.tuc.org.uk/extras/nmw/enforcement.pdf). There are other groups, which publicize and advise on NMW, for example, the National Group on Homeworking (www.gn.apc.org/network/national-group-homeworking).

Source: William Brown, Darwin College, Cambridge, 2013.

Similarly, in Costa Rica, a National Minimum Wage Campaign was undertaken in 2010, which combined awareness raising, facilitating and encouraging complaints. A central feature of the campaign was information on a new telephone hotline allowing workers to report wage violations in a simple and anonymous manner. This hotline received tens of thousands of calls. During the campaign important personalities, including the country's President, made public statements calling for respect for minimum wages.⁴⁸

Information dissemination can potentially improve compliance even in the informal economy, where a widely known wage standard (like a minimum wage) can play a guiding role for wage fixing and alter workers' and employers' expectations and behaviour – the so-called "lighthouse" effect.

➤ [Minimum wage "lighthouse effect" in Brazil](#)

In the late 1970s Souza and Baltar (1979) wrote an article arguing that in the case of Brazil, the minimum wage had a "lighthouse effect" over wage determination that went well beyond the natural scope for this policy. According to this argument, the minimum wage guided wage fixing for workers in small

⁴⁸ Trejos, J. D. (2013). La aplicación de los salarios mínimos en Costa Rica con énfasis en el sector rural. Unpublished mimeo. San José, Research Institute in Economic Sciences, University of Costa Rica.

enterprises, which were rarely inspected, as well as in the informal sector. Even self-employed workers used the minimum wage as a reference to determine the price to be paid for their products or services.

Many studies discussed this concept, developing empirical evaluations. Neri et al. (2001) estimated the percentage of workers receiving exactly the minimum wage in September 1996, adjusting the working time to a week of 40 hours. They wanted to assess the relevance of minimum wages in the formal economy (both public and private), as well as for the informal economy and the self-employed. Formal workers were defined as workers "con carteira" (with identity cards), while informal workers are those "sem carteira" (without identity cards).

Neri et al. found that although non-compliance among informal workers was high (27 per cent), no less than 14 per cent of informal workers earned exactly the minimum wage, showing the relevance of this instrument in this segment of the labour market. Among the self-employed, the figures reveal a weaker link with the minimum wage than the other segments.

See: Souza, P. R. and P.E. Baltar (1979). "Salário mínimo e taxa de salários no Brasil". Pesquisa e Planejamento Econômico, Vol.9, No.3, pp.629-60

Neri, M.; Gonzaga G.; and J.M. Camargo (2001). Salario Mínimo, Efeito-Farol e Pobreza. Revista de Economía Política 21(2): 78-90.

6.4 The role of employers' and workers' organizations

Why consultation and involvement of social partners is necessary to raise compliance

Compliance with minimum wages depends on the effectiveness of the entire process of designing, implementing and enforcing minimum wage policies. This process starts from determining the right level and rate structure, in consultation with employers' and workers' organizations, and extends to considering measures to facilitate and encourage compliance when needed.

As highlighted in Chapter 3 the principle of full consultation and participation, on a basis of equality, of the social partners in the establishment and operation of minimum wage systems is one of the pillars of [Convention No.131](#) and [Recommendation No.135](#)⁴⁹.

A participative process of minimum wage fixing - which allows the minimum wage to be set at a level agreed to by workers and employers' representatives - tends to give the minimum rate more legitimacy with social partners thereby also facilitating compliance.

Furthermore, a tripartite decision-making process could facilitate the common interpretation of minimum wage law, thus avoiding misunderstandings and confusion among workers and employers⁵⁰.

As well as involvement in designing rates, workers' and employers' organizations can disseminate information on minimum wages to their members and provide related advice and support. Training activities for employers' and workers' representatives can help to ensure that non-compliance is not due to lack of awareness or misunderstanding.

Empowering workers to claim their rights through individual complaints as well as collective action is also key

⁴⁹ ILO [General Survey on Minimum Wage System \(2014\)](#), p.101.

⁵⁰ [Benassi, C. 2011, "The Implementation of Minimum Wage: Challenges and Creative Solutions", Working Paper No.12, ILO GLU, March](#)

In some countries aspects of this role are laid down in law. In the Philippines, legislation provides that union representatives or workers representing workers' interests should always accompany labour inspectors during inspections.

In Norway, contracting enterprises and their trade union representatives have a particular role in the enforcement of extended agreements. A contracting enterprise must ensure that its sub-contractors also abide by the agreements. Sub-contractors' employees can hold the contractors liable for missing wage payments in areas that fall under the extended collective agreement.

Norway and Iceland also have rules ensuring that trade unions have the right to inspect the wages and labour conditions of workers. In Norway, this applies to the employees of sub-contractors in areas covered by the extended agreements, whereas in Iceland this applies in general. Furthermore, in Norway, contractors are joint and severally liable for sub-contractors' wage obligations.⁵¹

In Finland, the legislation establishes that employers' associations and employers bound by a collective agreement shall respect its provisions and that employers' organizations shall monitor the agreement's application by its members.

In countries such as India or Israel, workers' organizations can bring claims for unpaid wages to court on behalf of the worker concerned.

6.5 Labour inspection

The number and duties of labour inspectors

The enforcement of minimum wages falls within the scope and responsibilities of labour inspectorates.⁵² There are a number of indicators to assess the capacity of labour inspection systems, including: the number of inspectors, the number of inspections undertaken, and the number and amount of penalties imposed in practice. The effectiveness of labour inspection will also depend on whether inspectors are properly trained.

A precondition for effective enforcement through labour inspection is the provision of sufficient human and other resources. Though there is no internally agreed formula for determining the appropriate number of labour inspectors, ILO standards stipulate that the number of inspectors should be sufficient to secure the effective discharge of the duties of the inspectorate.

The scope of these duties can be gauged by the following criteria: number of inspectors, size and situation of the workplace, number of workers per enterprise to be inspected, and the number and complexity of the legal provisions to be enforced.⁵³

Labour inspectors must be able to access enterprises subject to inspection, to inspect wage records and other documents, and conduct interviews with workers and management. Labour inspectors should be able to issue warnings or open administrative procedures so that they can impose penalties in cases of non-compliance.

The need for pro-active strategies

Labour inspectors generally intervene either when complaints are received or when programmed inspections are due. Complaints procedures to ensure the effective application of minimum wage provisions should be as simple and

⁵¹ Eldring, L. and K. Alsos, (2012). European Minimum Wage: A Nordic Outlook Fafo Report, Norway, p.73

⁵² In some countries, other institutions enforce minimum wages. For instance, in Germany and the United Kingdom, enforcement of minimum wages is the responsibility of the customs authorities.

⁵³ [ILO General Survey on Labour Inspection \(2006\)](#)

accessible as possible. In the context of wages, there is a tendency for inspections to be triggered by complaints rather than proactive identification of inspection targets in the context of labour inspection programmes and strategies.

To avoid an entirely reactive complaints-based strategy, proactive strategies could include awareness-raising campaigns and could analyse the levels of compliance based on labour statistics. Data could be obtained from fiscal and social security institutions in order to identify sectors or enterprises where there is a higher probability of non-compliance. This would facilitate targeted interventions. For these reasons, cooperation between labour inspectorates and fiscal and social security institutions is very important – particularly on sharing information regarding amounts declared for tax and social security purposes.

Technology has enabled labour inspectors to monitor wages payments in new ways (see Box 1 below). This could also be a mechanism for monitoring and improving compliance, where minimum wages exist.

Box 1

Relying on new technologies to monitor payment of wages

In the United Arab Emirates, since 2009, all enterprises have been legally required to pay wages for both national and migrant workers through banks and other financial services providers. This system allows the Ministry of Labour to have a comprehensive wage database and an electronic wage payment monitoring mechanism for enterprises within the country. This system also allows the timely detection of delays in payment of salaries and enables it to subject non-complying companies to sanctions.

Source: [Labour Inspection in Arab States: Progress and Challenges, ILO working paper 2014](#)

Fast-track administrative procedures

In Israel, under the 2011 Act to increase the enforcement of labour laws, Israeli labour administration agencies were empowered to fine employers for minimum wage violations through fast-track administrative proceedings. Prior to this act, criminal prosecution was the only means of recourse.

These reforms introduced financial sanctions, in addition to the possibility of penal sanctions, thereby improving the procedure through which fines were imposed. These measures were accompanied by the recruitment of 120 additional labour inspection staff.

The legislation also provided for employer self-assessment through a scheme involving government-certified private “wage inspectors” and for the joint liability of private employment agencies offering security, cleaning and catering services and service recipients.

This process creates stakes for both the employment agency and the user. As a result this increases the chances for workers to be able to claim their rights, it encourages compliance, and it also gives an advantage to workers in cases of litigation. Data collected by the authorities in Israel showed a considerable increase in enforcement action and an increased use of financial sanctions.

Table 1. Key measures to enforce Israel’s labour laws

Year	Files opened	Files closed	Warnings of criminal procedure	Indictments	Criminal fines	Administrative warnings	Financial sanctions
2011	1118	1651	789	283	614	-	-
2014	3430	3479	130	72	193	7771	532 Sanctions totalling NIS 31,197,960

Source: State of Israel/Ministry of economy, Second Progress Report on the Implementation of OECD Recommendations-Labour Market and Social policies, August 2015.

6.6 Dissuasive sanctions regimes

Sanctions should be dissuasive and rapid

Compliance is encouraged when employers perceive a likely probability of being inspected and exposed to penalties. In order to be dissuasive, a sanction regime needs to include penalties that are sufficiently high to act as a deterrent.

Sanctions do not necessarily have to be of a penal nature in order to be effective and dissuasive. Creating an economic cost for non-compliance creates an incentive for compliance. In cases where the “penalty schemes” do not impose high monetary fines, these should be complemented with additional fixed costs, which may indirectly cause losses, like losing government subsidies, for example.⁵⁴

The length of the proceedings required to impose sanctions also influences the extent to which penalties act as a deterrent. Immediate sanctions are a greater deterrent than longer proceedings, particularly if their outcomes are uncertain.

For example, when sanctions are imposed through judicial proceedings, courts often do not have sufficient resources to handle labour cases efficiently. This may encourage non-compliance among employers’ as they are aware of this situation and perceive that there is no liable threat of sanctions.

Workers, meanwhile, are likely to be discouraged from taking claims of violations to court, as the outcome is uncertain.

Authorization to impose fines?

Costa Rica is one of several countries where labour inspectorates are not authorized to impose fines for labour law violations, including in regard to wages. As a rule, inspections in Costa Rica can only lead to an imposition of a fine once a follow-up inspection has found that the violation persists.

In such cases, the labour inspectorate must then submit the case to court, which will determine the fine imposed. Similarly, workers are required to claim outstanding wage payments in court. However, judicial proceedings are lengthy and only a small proportion of cases result in fines and back-payment of underpaid wages. This raises questions about whether further gains in minimum wage compliance could be made by strengthening the sanctions regime.⁵⁵

Labour inspection strategies and dissuasive sanction regimes to address violations are the necessary backbone of any credible compliance system. This is particularly the case where workers lack collective representation or are otherwise vulnerable – such as informal workers, domestic workers, low-skilled migrant workers and undocumented migrants.⁵⁶

⁵⁴ Chang, Y-M. and I.Ehrlich (1985). “On the economics of compliance with the minimum wage law”, *Journal of Political Economy*, Vol.93, pp.84-91.

⁵⁵ Vega, M. L. and R. Robert (2013). *Labour inspection sanctions: Law and practice of national labour inspections*. Labour Administration and Inspection Programme Working Document No. 26. Geneva, ILO; Trejos, J. D. (2013). *La aplicación de los salarios mínimos en Costa Rica con énfasis en el sector rural*. Unpublished mimeo. San José, Research Institute in Economic Sciences, University of Costa Rica.

⁵⁶ For more information on how different countries have designed sanctions for minimum wage violations see ILO, [Minimum Wage Systems, General Survey 2014](#) , pp. 153-157.

6.7 Recovery of wages due and protection against victimization

Simplify administrative procedures

Enabling workers to exercise their rights to back wages and wages due to underpayment is part and parcel of minimum wage enforcement. In a large number of countries, workers can exercise this right in the courts or with administrative authorities. However, requiring workers to lodge court cases to recover unpaid amounts is often burdensome and can involve lengthy and costly processes.

This is why a number of countries provide for simpler administrative proceedings. Some countries have empowered labour inspectors to directly order the payment of wage arrears, such as Canada, South Africa, Thailand, Turkey and the United States.

The ILO Committee of Experts noted in the General Survey 2015 that among the range of measures to be taken regarding minimum wage compliance, it was important to:

...ensure accessible and effective legal remedies for employees whose minimum wage rights have not been respected, so that they can recover unpaid amounts owed to them. In the absence of such measures, regardless of the administrative or penal sanctions applied to offenders, the situation resulting from non-compliance would not be rectified, as the wages would remain unpaid. Finally, the effective use of these remedies by the workers concerned can only be ensured if they are protected against the risk of victimization to which they may be exposed for initiating proceedings against their employer; this risk is particularly acute in periods of economic crisis, which are marked by high levels of unemployment. (para. 327)

6.8 Formalization

A new ILO Recommendation

A high incidence of informality is a major challenge for the rights of workers and has a negative impact on the development of sustainable enterprises. It also poses a major challenge for the enforcement of minimum wages.

A new ILO Recommendation 204 concerning the Transition from the Informal to the Formal Economy has been adopted in 2015, and provides guidance to facilitate the transition of workers and economic units to the formal economy, while ensuring the preservation and improvement of existing livelihoods during the transition.

Article 18 considers that:

“Through the transition to the formal economy, Members should progressively extend, in law and practice, to all workers in the informal economy, social security, maternity protection, decent working conditions and a minimum wage”

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

An example in Peru

In Peru, formalization of employment has provided an entry point for extending the reach of the government authorities responsible for compliance. Under an electronic worker registration system (planilla electronica) introduced in 2007,

enterprises with three or more workers are required to make monthly social security declarations online. As workers have to register in the system, there is more visibility and enterprises became more aware that they could be subject to inspections. As a result, minimum wage compliance is higher among enterprises that have made online declarations compared to others.

The current focus of the labour inspectorate on enterprises that have not made the declarations can be expected to have a positive effect on compliance. This system provides the labour inspectorate with better data on workplaces and on the workers they employ, while enterprises are apparently more aware that they could be subject to inspections. Labour inspection action has resulted in some 10,000 workers annually being newly registered over recent years, which is substantial considering the human resource constraints facing the inspectorate.

More work on this topic is currently under way at the ILO.

- [See also the ILO webpage on Informal Economy](#)
- [See R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 \(No. 204\)](#)

6.9 Public employment programmes

Renewed interest in public employment programmes (PEPs)

In recent years, many developing countries have shown renewed interest in and commitment to developing public employment programmes (PEPs), including public works programmes (PWPs) and/or employment guarantee schemes (EGSs). Their main purpose is to combine the generation of short-term employment, the reduction of poverty, and the creation or development of infrastructure and other assets (such as public buildings) or environmental protection projects.

Examples include the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) in India, the Expanded Public Works Programmes (EPWP) in South Africa, or the Productive Safety Net Programme (PSNP) in Ethiopia.

Wage rates are an important aspect of the design of public employment programmes, since they affect the number of people who volunteer to take part in them (the labour supply response), the amount of transfer benefits that participants receive, and ultimately the cost of these programmes. In addition, the wage rate set in public employment programmes determines the extent to which these programmes attract poorer sections of the population and has implications for other economic activities.

If the wage rate is set too high fewer jobs can be created for a given budget, the programmes are generally less effective at targeting the poor, and they can have disruptive effects on other sectors. If wages are set too low, the welfare impact on participants' households will be insufficient, and the result is likely to be low morale, high turnover, and low productivity.

- [Learn more on wages in public employment programmes](#)

Why minimum wages in PEPs contribute to better compliance in general

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

By acting as the "employer of last resort", the government can thus encourage compliance in the private sector. Such an effect has been observed, [for example, in India](#):

Minimum wages and NREGS in India

India's National Rural Employment Guarantee Scheme (NREGS), introduced in 200 districts in 2005–06, was extended to the entire country covering 619 districts in 2009–10. The programme seeks to provide a guarantee of up to 100 days of employment per household in the rural areas. All rural households willing to supply labour are required to register with their village council (gram panchayats) and are issued a job card.

The programme provides legal entitlement not only to work on demand but also to be paid minimum wages. Wages under NREGS were initially linked to statutory state-level minimum wages for agricultural labourers, and later to the national minimum wage floor. Men and women are paid similar wages – a significant policy change from earlier employment guarantee schemes. Data show that in 2009–10 about 52 million households in 619 districts were provided with employment, with an average of 65 days per household.⁵⁷

As the employment guarantee scheme was introduced and expanded, the rate of compliance with minimum wages increased. In rural areas, estimated compliance almost doubled, from 26.4 per cent in 2004–05 to 49.8 per cent in 2009–10.⁵⁸ The gap in rural wages between formal salaried workers and casual workers decreased, and the gender wage gaps in rural India also declined.

While there are competing explanations for these trends, it seems plausible that the employment guarantee scheme played an important role in them. One study of 249 districts across 19 Indian States over the period 2000–2011 found that on average NREG increased the real daily agricultural wage rate by 5.3 per cent.⁵⁹ Another study also found that NREGA had a significant positive impact on the wage of female casual workers, which increased 8% more in NREGA districts compared to non-NREGA districts.⁶⁰ Since then, several other studies have confirmed the direction of the results.⁶¹

6.10 Global supply chains

While wages and working conditions for the numerous workers engaged in global supply chains are sometimes better than those provided in enterprises which supply the domestic market (particularly in the informal economy), the existence of low wages and long hours remain a source of concern.⁶² In many enterprises, women are paid at the lowest end of the scale⁶³.

Excessively long hours with extensive overtime work is a prominent issue — often exceeding the ILO limit of 48 hours per week established in Conventions Nos. 1 and 30. For example, one recent study of working hours in Chinese and Thai supply chain factories producing football products found that 48 per cent of the workers in these factories were

⁵⁷ www.nrega.nic.in

⁵⁸ See Rani, U. and P. Belser (2012). The effectiveness of minimum wages in developing countries: The case of India”, in *International Journal of Labour Research*, Vol. 4, Issue 1, pp. 45–66; and Rani et al., (2013). “Minimum wage coverage and compliance in developing countries”. *International Labour Review*, Vol.152, No.3-4, pp.381-410

⁵⁹ Berg E., Bhattacharyya S., Durgam R., and M. Ramachandra, “Can Rural Public Works Affect Agricultural Wages? Evidence from India”, CSAE Working paper WPS/2012-05, University of Oxford

⁶⁰ M. Azam, “The Impact of Indian Job Guarantee Scheme on labour Market Outcomes: Evidence from a natural experiment”, IZA Discussion Paper DP No.6548, IZA

⁶¹ See for example Rani, U. and R. Sen (forthcoming). “Economic growth and the role of labour market institutions in India” in Hayter, S. and Lee C H (eds.) *Industrial Relations in Emerging Economies*. ILO, Geneva.

⁶² Miller, D, and Hohenegger, K. (2016) (forthcoming), ‘Valuing labor, buying practices and the low wage question in apparel supply chains’, preliminary version, ILO-INWORK

⁶³ JETI (Joint Ethical Trading Initiatives),2015. “Living wages in global supply chains: A new agenda for business”.

working more than 60 hours per week.⁶⁴ In addition, the lack of adequate rest periods and paid annual leave is also a common issue. For example, the same study found that 25 per cent of workers in the factories studied did not receive at least one day off work in every seven-day period.

In response to workers' demands for higher wages and better working conditions in supply chains, some brands and retailers have adopted corporate social responsibility (CSR) practices and have included "living wages" or "fair wages" in their codes of conduct, requiring their members to implement minimum conditions in their supply chains. However, different studies suggest that such initiatives have had only modest effects.⁶⁵

Falling prices paid to suppliers have contributed to stagnating or in some instances falling wages, and have made it difficult for suppliers to pay higher wages and sometimes even to comply with minimum wages⁶⁶ Suppliers, and at the end of the chain, the workers, continue to receive a small share of the retail price. Compliance with minimum wages thus also require responsible purchasing practices.

The box below highlights the work of the ILO-IFC Better Work Programme in monitoring and furthering compliance.

Better Work Programme

The Better Work Programme is a partnership between the International Labour Organization (ILO) and the International Finance Corporation (IFC). The programme assists enterprises to improve practices based on core ILO labour standards and national labour law, including minimum wage legislation.

It does this with a strong emphasis on improving worker-management cooperation, working conditions and social dialogue. Enhancing respect for labour standards helps enterprises meet the social compliance demands of global buyers, improve conditions for their workers, and helps firms become more competitive by increasing productivity and quality.

Better Work focuses on labour-intensive industries with large numbers of vulnerable workers in developing countries, such as agribusiness, apparel, construction and light manufacturing. The programme is developing both global tools and country-level projects.

Source: [Better Work Programme](#) .

⁶⁴ Smyth, R.; Qian, X.; Neilsen, N; and Kaempfer, I. (2013), "Working hours in supply chain Chinese and Thai factories: Evidence from the Fair Labor Association's 'Soccer Project'", *British Journal of Industrial Relations*, Vol. 51:2, June 2013, pp. 382-408.

⁶⁵ Locke (2013), *The Promise and Limits of Private Power: Promoting Labour Standards in a Global Economy*, New York, Cambridge University Press.

⁶⁶ Starmanns, M., "How is value shared within global supply chains? Purchasing practices and low wages in global supply chains", ILO Working Paper, INWORK Series, forthcoming

Chapter 7 – Monitoring the effects of minimum wages

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Summary

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

Governments and social partners should have access to studies on the effects of minimum wages on variables such as wages, employment, informality, hours of work, gender pay gaps, income inequality or poverty. Studies should also monitor effects on prices and on the different elements of aggregate demand, including household consumption, investment or the competitiveness of exports.

Different and credible methodologies should be used to ensure that conclusions are not driven by biases in the choice of methodologies.

If they are effective, minimum wages should raise the wages of some groups of workers. When women are over-represented among low-paid workers, the minimum wage should also reduce the gender pay gap. But the overall wage effect depends on the level and legal coverage of the minimum, the degree of compliance, and the "spillover" effects on the wages of workers who are paid above the minimum.

Spillover effects arise when, as a result of a higher minimum wage, workers with more seniority or skills also demand higher wages, either through collective or individual bargaining. Spillovers can also occur because changes in the minimum wage can have far-reaching effects on pay in the public sector.

More controversial is the debate on the employment effects, which have been found to vary across countries and studies. A recent World Bank overview concluded that "although the range of estimates from the literature varies considerably, the emerging trend in the literature is that the effects of minimum wages on employment are usually small or insignificant (and in some cases positive)."⁶⁷ But differences in findings across countries and studies point

⁶⁷ Kuddo, A., Robalino, D., and M. Weber, 2015. Balancing Regulations to Promote Jobs: From employment contracts to unemployment benefits, World Bank Group, Washington, D.C.,

towards the importance of country-specific programmes for monitoring the employment effects of minimum wages, particularly on vulnerable workers and enterprises.

7.1 The importance of monitoring

Enough resources should be allocated for monitoring the effects of minimum wages

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

The U.K. Low Pay Commission, for example, has in the last few years allocated substantial amount of resources to commissioning research projects, analyse relevant data and actively encourage the Office of National Statistics to establish better estimates of the incidence of low pay, carry out surveys of firms in low-paying sectors, and make fact-finding visits throughout the UK to meet employers, employees and representative organisations.⁶⁸

Recent research projects in the U.K. have for example covered issues such as:

- The impact of minimum wages on earnings, employment and hours
- How the minimum wage changed consumption, savings and debt behaviour
- The impact of the minimum wage on productivity and training
- The impact of the minimum wage on the gender pay gap
- The impact of the minimum wage on young people
- The impact of the minimum wage on businesses and low-paying companies
- How the minimum wage interacts with the taxes and benefits system
- The impact of the minimum wage on pay settlements
- The nature of non-compliance

All this research has helped the members of the Low Pay Commission in their deliberations and recommendations on annual rate adjustments.

Using different methodologies

Current empirical research is notably varied in methods, data and measures, especially in contrast with earlier research on the subject. Because the choice of methodology can have an effect on results that are obtained, it is important to carry out a critical mass of studies using a variety of methodologies.

7.2 Effects on wages

Minimum wages can benefit minimum-wage earners as well as workers with somewhat higher earnings

The first step in monitoring the effects of a minimum wage is to verify that it really does increase wages. If it does not, then the minimum wage is not an effective wage floor. If it does, then the minimum wage will normally increase average wages and reduce wage inequality compared to a situation where it is absent.

By pushing up the wages of low-paid workers, the minimum wage also contributes to raising the relative wages of more vulnerable or disadvantaged workers, such as those who are young, less educated, or migrant workers.

⁶⁸ <https://www.gov.uk/government/organisations/low-pay-commission>

In practice, minimum wages can benefit two categories of workers.

- Firstly, they should benefit so-called “bound” workers – those who previously earned less than a newly introduced or newly increased minimum wage. This is normally the target group of the policy.
- Secondly, minimum wages can have “ripple” or “spillover” effects further up the wage distribution, increasing wages of those above the level of the minimum. Spillover effects refer to indirect wage increases that take place because employers or workers (or both) want to maintain differences in job status, or higher wages for workers with more seniority or skill. They can also arise in the public sector, when different groups of workers are paid a multiple of the minimum wage. Spillover effects are normally stronger at wages that are close to the minimum, and progressively disappear as workers earn higher wages.

In developed economies low-paid workers predominantly work in places such as restaurants, hotels, retail outlets, nursing homes, hairdressers, in agriculture and in the textile, clothing and food processing industries. In developing countries, agriculture and the textile, garment, leather and footwear industry (TGLF) – including as part of global supply chains - are major employers of minimum wage workers.

Empirical findings

Among advanced economies, the inequality-reducing effect is found in most empirical studies across a wide range of countries and periods.

Belman and Wolfson, in their review of the United States and other developed economies, found that “the preponderance of evidence is that higher minimum wages raise the wages of both bound workers and workers who had previously been earning above but close to the new minimum”.⁶⁹ In the U.S., for example, about 5 per cent of paid employees earn no more than the applicable state-level minimum wage, but a total of up to 25 per cent (those who earn up to 150 per cent of the minimum) have been estimated to benefit from the policy. In France, not taking into account spillover effects, it was estimated that the wages of about 11 per cent of workers increased as a result of the minimum wage increase in January 2015.⁷⁰

Among developing economies, there is similar evidence that minimum wages can reduce wage inequality. The reactivation of minimum wages has, for example, reduced wage inequality in Brazil.⁷¹ But in many countries, their effectiveness in doing so is reduced by widespread non-compliance. In some cases, minimum wages appear to only reduce wage inequality in the formal sector.

The size of the effect on wages and wage inequality thus differs across countries and depends – among other factors - on the level at which the minimum wage is set, the number of workers it covers, the extent of the “spillover” effect, and the degree of compliance.

Additional References:

- [Grimshaw and Miozzo \(2003\) Minimum wages and pay equity in Latin America Working Paper 12/2003, ILO, Geneva.](#)
- [Rubery \(2003\) Pay Equity, minimum wage and equality at work Working Paper 19/2003, ILO, Geneva.](#)

⁶⁹ Belman D.; Wolfson, P. 2014. What does the minimum wage do?, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan.

⁷⁰ DARES, La Revalorisation du SMIC au 1er Janvier 2015, Octobre 2015, No.077

⁷¹ Lemos, S. 2010. Minimum wage in Brazil: The effect of the minimum wage on wages, employment, and prices in Brazil (Great Britain, Marston Gate). Belman and Wolfson, 2015.

7.3 Effects on gender pay-gaps

Gender pay-gaps

One element of the overall level of total inequality lies in the wage gaps between different groups of workers, including between men and women. In order to close these wage gaps, it is important to understand why they exist.

Unadjusted or “raw” gender wage gaps refer to the earnings of men minus the earnings of women. This can be calculated for average wages, median wages or wages in different places in the distribution. The fact that women earn less than men is an almost universal feature of labour markets around the world. In many countries, the gap is higher among well-paid workers than among low-paid ones.

Much research has attempted to interpret the gender wage gap, and some of the factors that have been advanced by researchers include:

- differences in levels of education and work experience
- sex segregation channelling women into lower value-added sectors and occupations;
- pay discrimination and the undervaluation of women’s work

Empirical evidence

Given the over-representation of women in low-paying jobs, minimum wages can also make a significant contribution towards lower gender pay gaps.

This link between minimum wages and reduced gender pay gaps has been documented in countries as diverse as the U.S. and Indonesia.⁷² An ILO study showed, for example, that the introduction in 2012 of a minimum wage in the former Yugoslav Republic of Macedonia may have contributed to reduce the gender pay gap between 2011 and 2014.

But maximizing the effect of minimum wages on gender pay gaps requires that the labour market institutions and wage policies do not themselves directly or indirectly discriminate against vulnerable groups of workers (e.g. by setting lower wage levels in sectors or occupations held by women or excluding migrants from coverage of minimum wage laws).

Also, because its causes are multiple, comprehensive policy packages are required to reduce gender wage gaps. National legislation must provide for the right to equal remuneration for work of equal value and effective access to justice to claim this right. In addition, equal pay between men and women needs to be promoted through strong policies to promote gender equality, including combating gender-based stereotypes about women’s roles and aspirations, strengthening policies on maternity and paternity as well as parental leave, and advocacy for better sharing of family responsibilities.

Additional references:

- [Minimum wages and pay equity in Latin America](#)
- [Pay equity, minimum wage and equality at work](#)
- [A Comparative Analysis of Promoting Pay Equity: Models and Impacts](#)

⁷² For the U.S., see Di Nardo, J, Fortin, N., and T. Lemieux (1996), “Labor Market Institutions and the Distribution of Wages, 1973-1992: A semi-parametric approach”, *Econometrica*, 64(5). For the U.K., see M. Hallward-Driemeier, B. Rijkers, and Waxman A., 2015. “Can Minimum Wages Close the Gender Wage Gap? Evidence from Indonesia, Policy Research Working Paper 7364, World Bank Group.

7.4 Effects on employment

Employment effects are controversial

Monitoring the employment effects of minimum wages is essential. Employment effects have long been at the centre of minimum wage research, with much debate over whether and how minimum wages affect jobs, employee numbers and hours worked. As highlighted by Belman and Wolfson, "support for the minimum wage is premised on its improving the lives of those most vulnerable in the labour market. If a minimum wage leads to job loss for many of those same people, serious questions arise with respect to its relative benefits and costs".⁷³

Debates on employment effects are also frequently controversial, with different economic theories leading to different predictions. According to one view, minimum wages increase the cost of labour above the marginal productivity of low-paid workers and thus prices them out of the market. Other theories consider that up to a certain level, the cost of minimum wages can be absorbed through a combination of lower wage increases for more highly paid workers, lower profit margins, higher productivity, and/or lower employee turnover. Keynesian macroeconomics suggests that employment may increase if minimum wages lead to higher domestic consumption and aggregate demand.

➤ [See our summary on employment effects in different economic theories](#)

Neoclassical economic theory predicts that higher minimum wages will lead to lower employment. This may happen for two reasons: firstly, because minimum wages may force enterprises to raise the prices of their goods and services, and consumers or international buyers who face higher prices may therefore cut back on their demand (the so-called "scale effect"). Secondly, when low-wage workers become more "expensive" due to the minimum wage, firms may decide to replace some of them with more machines and a few skilled workers to operate these (the "substitution effect").

If these effects are large, aggregate employment levels of low-wage workers may decline. There is also likely to be a "cross-industry" effect, as employment is predicted to fall in labour-intensive industries, where the proportion of low-paid workers is higher and where labour costs represent a high proportion of total production costs for enterprises. In other industries, employment may remain unchanged or may even increase, as consumers spend more of their money on goods and services where prices are less affected by minimum wages.

Other theories, based on different assumptions, take a different view. Different theories start with the hypothesis that many employers exercise a degree of 'monopsony power' – that is, they have market power in employing a particular type of labour often in a defined local labour market (retail workers or nurse assistants for example) and can hold wages (the price of labour) below their contribution to productivity. This theory implies that - when faced with higher labour costs – employers may have an incentive to maximize their profits by expanding production and employment (the "monopsony" effect). So-called "search models" also show that in imperfectly functioning labour markets, higher wages for those at the bottom can, up to a certain point, be compensated by a combination of reduced profits, lower wage increases for managers, or other cost-saving or productivity-enhancing measures.

Macro-economic theories highlight the fact that higher wages not only raise labour costs for employers, but they also increase consumption demand among the low-paid workers and their families. Assuming there are no large negative effects on external competitiveness (which might be the case for very export-oriented economies) or investment, such positive "consumption effects" can lead to increases in aggregate demand and employment. Macro-economic perspectives show that even if some low-

⁷³ Belman D; Wolfson, P. 2014. What does the minimum wage do?, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, p.21

productivity firms reduce employment or go out of business, this does not necessarily mean that aggregate employment will be reduced. Employment may expand in other firms and higher wages may attract more people into the labour market.

Empirical evidence

Empirical findings are varied, country- and time-specific, and also depend to some extent on the type of data and methods that are used.

In high-income countries, a comprehensive reviews of about 70 studies, shows that estimates range between large negative employment effects to small positive effects. But the most frequent finding is that employment effects are close to zero and too small to be observable in aggregate employment or unemployment statistics⁷⁴. Similar conclusions emerge from meta-studies (quantitative studies of studies) in the United States⁷⁵, the United Kingdom⁷⁶, and in developed economies in general⁷⁷. Other reviews conclude that employment effects are less benign and that minimum wages reduce employment opportunities for less-skilled workers⁷⁸.

Although there are fewer studies in developing countries, similarly mixed findings emerge.⁷⁹⁸⁰ A recent World Bank publication concluded that “although the range of estimates from the literature varies considerably, the emerging trend in the literature is that the effects of minimum wages on employment are usually small or insignificant (and in some cases positive).”⁸¹ One review of studies in ten major economies (Brazil, Chile, China, Colombia, India, Indonesia, Mexico, the Russian Federation, South Africa and Turkey), found small or no impact on employment, except in circumstances where the minimum wage is set at very high levels.⁸² A review of experiences in Latin America also concludes that employment effects of minimum wage increases are varied and depend on the level.⁸³

7.5 Effects on formal and informal employment

Developing countries are frequently characterized by the co-existence of a formal and an informal employment. According to the definitions adopted in 2013 at the 17th International Conference of Labour Statisticians, jobs in small or unregistered enterprises as well as non-declared jobs in registered enterprises are included in the definition of informal employment.

Based on the ICLS definition, figure 1 below shows that the percentage of wage-earners in informal employment ranges from about 20 per cent in urban areas of Uruguay to more than 80 per cent in India, where an estimated 135 million casual workers in 2009-10 far outnumbered salaried workers.⁸⁴

⁷⁴ Belman D; Wolfson, P. 2014. What does the minimum wage do?, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, p.21

⁷⁵ [Doucouliagos, H.; Stanley, T.D. 2009. “Publication selection bias in minimum wage research? A meta-regression analysis” in British Journal of Industrial Relations, Vol. 47, No. 2, pp.406-426.](#)

⁷⁶ [Leonard, M.; Stanley, T.D.; Doucouliagos, H. 2014. “Does the UK minimum wage reduce employment? A meta-regression analysis” in British Journal of Industrial Relations, Vol.52, No.3, pp.499-520.](#)

⁷⁷ Belman and Wolfson, 2014. Op.cit.

⁷⁸ Neumark, D., and W Wascher, 2008. Minimum Wages, MIT Press, Cambridge, Massachusetts and London, England.

⁷⁹ Belman D. and P. Wolfson, (2016) [“What Does the Minimum Wage Do in Developing Countries? A Review of Studies and Methodologies”](#), ILO Geneva.

⁸⁰ Betcherman, G. 2014, “Labor Market regulations: What Do We Know about Their Impacts in Developing Countries?” The World Bank Research Observer

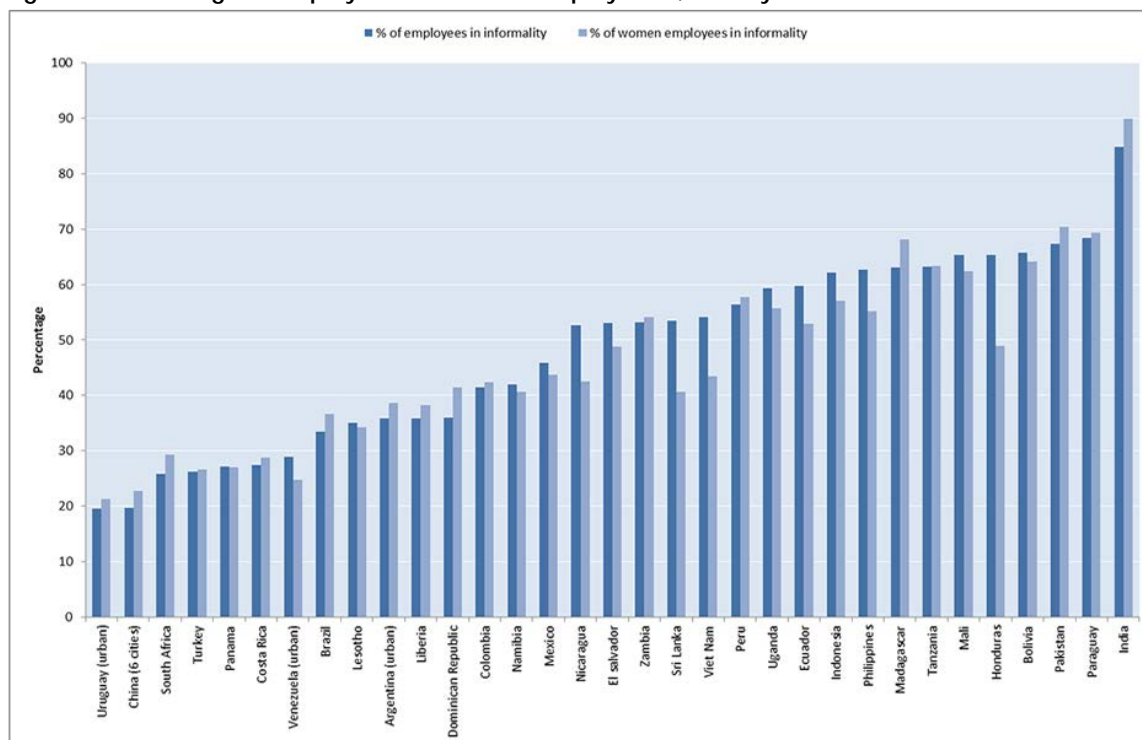
⁸¹ Kuddo, A., Robalino, D., and M. Weber, 2015. Balancing Regulations to Promote Jobs: From employment contracts to unemployment benefits, World Bank Group, Washington, D.C.,

⁸² Broecke, Forti and Vandeweyer (forthcoming), “The Effect of Minimum Wages on Employment in Emerging Economies: A Literature Review” OECD Social, Employment and Migration Working Paper, forthcoming

⁸³ See Mario D. Velasquez Pinto, forthcoming.

⁸⁴ On India, see Rani U. and P. Belser, 2012. “The effectiveness of minimum wages in developing countries: the case of India”, International Journal of Labour Research, Vol 4, Issue 1.

Figure 1. Percentage of employees in informal employment, latest year available



Source: ILO, 2013. Women and Men in the Informal Economy: A Statistical Picture, Second Edition, Geneva

In most countries, minimum wage laws in principle do apply to small or unregistered enterprises or non-declared jobs (see chapter 4 on who is covered). Almost by definition, however, enforcement of legal or regulatory frameworks is much more of a challenge when wage employment is not registered or takes place in un-registered enterprises.

Taking this reality of developing countries into account, economists have long hypothesized that instead of causing lower employment, minimum wages that are too high and effectively enforced may cause employees to be displaced or shifted from the formal to the informal economy – thereby leading to higher rates of non-compliance and downward pressure on wages in the informal economy.⁸⁵

Empirical findings

While several studies have documented reduced formal employment, a review of employment effects in Latin America shows that effects are frequently more complex. One study in Argentina found for example that minimum wage increases have had only little effect on the formal sector, but have increased wages in the informal economy⁸⁶ – pointing to the fact that non-compliance with one legislation (like registration or social security) does not necessarily mean that minimum wages have no influence.

One explanation for the effect of minimum wages on wages in the informal economy, where only few labour inspections take place, has been the “lighthouse effect” – i.e. a signal given by the minimum wage to workers and employers in the informal sector about socially acceptable minimum levels of pay.⁸⁷

⁸⁵ Nataraj, S., Perez-Arce, F. Srinivasan, S. V. and Kumar, K. B. 2014. [The impact of labor market regulation on employment in low-income countries: A meta- analysis. Journal of Economic Surveys 28\(3\): 551-572.](#)

⁸⁶ Khamis, M. 2008. “Does the Minimum wage Have a Higher Impact on the Informal than on the Formal Labor Market? Evidence from Quasi-Experiments”, Discussion Paper Series IZA DP No3911, Institute for the Study of Labor. Bonn, Germany.

⁸⁷ See, for example: Souza, P.; Baltar, P. 1979. “Salario minimo e taxa de salaries no Brasil” in Pesquisa e Planejamento Economico, 9, pp. 629-60; Bell, L. A. 1997. The impact of minimum wages in Mexico and Colombia. Journal of Labor Economics 15 (3): 103–35.

County-specific research is required to determine whether the displacement or lighthouse effect dominates. To understand overall effects, such research into the effect of the minimum wage on the uncovered/informal economy should include estimates of wage as well as employment effects.

[More work is currently under way at the ILO on transition from the informal to the formal economy.](#)

7.6 Effects on labour productivity

Recent studies have shown that minimum wages not only help to reduce wage dispersion and to channel productivity gains into higher wages, but they also can contribute to higher labour productivity – both at the enterprise level and at the aggregate economy-wide level.

At the enterprise level

At the enterprise level, workers may be motivated to work harder. Various studies have supported the hypothesis that first by Akerlof in 1982 that employees consistently provide higher effort levels in response to higher wages, the so-called “efficiency wage” theory.

Workers may also stay longer with their employer, gaining valuable experience and encouraging employers and employee to engage in productivity-enhancing training. Dube, Lester and Reich (2012) attribute reduced turnover for restaurant workers in California to the effect of the minimum wage, which reduces wage competition between low-paying enterprises. When employers can better retain their workforce, workers can learn on the job and be trained to become more productivity over time.

Researchers have pointed out that productivity increases may be the result of a fall in employment due to the minimum wage, as enterprises substitute capital for labour and adopt more capital-intensive production technologies.

While this remains a distinct possibility, particularly when the minimum wage is set too high, other research shows that productivity increases in enterprises were the result of organisational change, training and efficiency wage responses to increased labour costs from minimum wages.

Economy-wide labour productivity

At the aggregate level, minimum wages can result in more productive firms replacing least productive ones – and surviving firms becoming more efficient. These mechanisms can increase overall economy-wide productivity.

In China, for example, it has been observed that higher city-level minimum wages resulted in lower survival probability of low-productive firms. There was no negative employment effect, however, because employment and productivity increased in surviving firms. Hence the minimum wage may have allowed more productive firms to replace the least productive firms, and forced incumbent firms to strengthen their competitiveness.

Learn more:

- [Minimum wages and productivity: a brief review of the literature in Annex 5](#)

7.7 Joint effects of minimum wages and collective bargaining

The effects of minimum wages, and their magnitude, depends on how they interact with other policies and labour market institutions. One such interactions is between minimum wages and collective bargaining. Indeed, the effects of minimum wages are different in countries with a strong tradition of collective bargaining than in countries where wages are set unilaterally by enterprises in negotiation with individuals.

What is collective bargaining?

Collective bargaining refers to the negotiation of wages and working conditions between workers organizations and employers and/or their organizations. Negotiations as part of collective bargaining take place bilaterally, with government only intervening to create the necessary framework and promote its development.

Collective bargaining can take place at various levels. Under enterprise-level bargaining, each employer bargains independently; under sectoral multi-employer bargaining, employers come together in associations with a mandate to bargain.

The latter type of bargaining is sometimes seen as more inclusive, giving employers and workers more bargaining power and saving on bargaining costs and removing the potentially conflictual topic of pay negotiations from the workplace. This multi-employer type negotiation also establishes a common rule for competition among enterprises that are parties to the agreement. However, it can restrict the independence of individual firms, and may not take into account the heterogeneity of firms within a particular sector. Moreover, many agreements increasingly allow for tailor making of terms at the enterprise level (dual level bargaining) and provide for conditional derogations depending on firm size.

Extension of collective agreements⁸⁸ to all enterprises, in accordance with national law and practice, can also be used to ensure fair competition by providing a level playing field and extending coverage to all workers.

Empirical evidence

In many countries, minimum wages and collective bargaining co-exists and complement each other. **In principle, minimum wages should be targeted at the lowest-paid employees, while collective bargaining can set wage floors but should also promote wage increases for workers who also earn more than the minimum, in line with productivity growth.** However, if the minimum wage is too high or the minimum wage system too complex (with too many rates, including for workers with very different levels of qualifications or occupations), there is a risk that minimum wages will “crowd out” collective bargaining – that is, encroach on the domain of collective bargaining and not leave enough space for the latter to develop.

When collective bargaining is weak, there is a risk that many workers’ wages will be clustered around the minimum wage, dragging down median or mean wages.

Box 1

The combined effects of minimum wages and collective bargaining

In France, the minimum wage influences the base rate in collective agreements, which in turn also influences all collectively agreed wages above the floor. Because most collective agreements are extended to entire industries, spillover effects are “institutionalized” across the economy, and are therefore relatively strong and far-reaching. For example, studies suggest that the spillover effect is fully felt on wages up to 10 per cent above the minimum wage and extends to a wage level twice the minimum wage, equivalent to a wage above the 50th percentile.

In the United States, by contrast, weaker trade unions and lower collective bargaining coverage explain the weaker spillover effect. Studies in the United Kingdom find an even weaker spillover effect that is almost insignificant. In fact, for workers paid a little above the minimum, some studies even report a negative wage effect, suggesting that some employers have shifted the cost of minimum wage up-ratings on to other low-wage workers by proactively reducing differentials.

Source: adapted from [Grimshaw, Bosch and Rubery \(2014\). “Minimum wages and collective bargaining: What types of pay bargaining can foster positive pay equity outcomes?” *British Journal of Industrial Relations*, Vol. 52, Issue. 3, pp. 470-498.](#)

⁸⁸ An extension procedure is a legal process used in many countries which allows the government to extend the coverage of a sectoral agreement to all workers in the sector irrespective of whether an enterprise has signed the agreement.

7.8 Effects on household income and poverty

From Wages to Incomes

Can minimum wages reduce poverty or income inequality?

Income is measured at the household level, as the sum from all different sources accruing over a certain period of time. Figure 2 provides an example of a family of four (two adults and two children) with multiple sources of income. Wages are only one of these sources. Other sources include income from self-employment, income from capital and state transfers, such as social security.

In developed countries, wages represent the largest source of income - up to 70 or 80 per cent of total pre-tax and post-transfers income - for households with at least one member in the labour force. In emerging and developing economies, the contribution of wages to household income is smaller, ranging from about 50 to 60 per cent in Argentina or Brazil to about 40 percent in Peru and 30 per cent in Vietnam.

Hence higher wages are one part of the multiple components of a strategy to reduce poverty or inequality. The creation of wage employment (as opposed to other types of employment, like self-employment) and fiscal redistribution through taxes and social transfers also play a key role.

Figure 2. Components of a household income of US\$6,500



Source: ILO [Global Wage Report 2014/15](#) (see Appendix II).

Empirical evidence

While minimum wages may not directly affect all low-income households, empirical studies do show that they play an important role since a significant proportion of minimum wage workers live in poor or low-income households. But the effect of minimum wages on poverty headcounts varies depending on country characteristics.⁸⁹

For example, in the United States, 20 per cent of low-wage workers live in families with incomes below the poverty line. Another 16 per cent live in families with incomes less than 1.5 times the poverty line.⁹⁰ In European countries,

⁸⁹ Betcherman (2014, op.cit).

⁹⁰ CBO (Congress of the United States). 2014. The Effects of a Minimum-Wage Increase on Employment and Family Income, February

minimum wage workers are much more at risk of poverty than others.⁹¹ In India, about 30 per cent of salaried workers and 40 per cent of casual wage workers who earn less than state-level minimum wages live in poor households.⁹²

Minimum wages can therefore play a useful role in supporting incomes for those in the lower part of the distribution – even when they do not lift households above an “arbitrary” poverty line. What matters more than the effect on poverty-headcounts, is whether minimum wages improve the lives of low-income households and whether they are better off as a result of it.

7.9 Effects on Government Finances

Government finances

Minimum wages have sometimes been described as an attractive policy tool for poverty reduction and social justice because they do not require significant government spending (Cunningham, 2007)⁹³. Yet, minimum wage increases can have unintended collateral effects that do affect government finances.

There are three main linkages:

- One is that a higher minimum wage can lead to increases in the public sector wage bill, particularly when public sector pay scales are calculated as a multiple of the minimum. In some instances, this direct link – and the fear of its consequences – has prevented increases in the minimum wage.
- A second complication arises when different aspects of social protection, such as basic pensions, disability payments or maternity benefits, are automatically linked to the level of minimum wages. So, for example, the basic pension may be set at 75 per cent of the level of the minimum wage. In practice, this means that retirement and other benefits will be adjusted upwards when the minimum wage increases.
- A third linkage displays the reverse relationship and occurs where governments supplement low wages with means-tested in-work benefits to address problems of household poverty among low paid workers. Governments then face a strong incentive to raise the minimum wage so as to reduce the size of welfare transfers to the low paid.

While having these links may be attractive for various reasons, it creates the risk of potentially unsustainable increases in social security costs when the minimum wage is adjusted upwards. When the minimum wage increases faster than average wages in order to reduce wage inequality, the consequence is that social security spending grows faster than the revenue base for the social security system, which depends on trends in real earnings.

Marinakis and Velasco (2006, p. 13)⁹⁴, for example, point out that in the 1980s the fall in the real value of the minimum wage in Argentina and Brazil was in fact mostly aimed at shrinking the budget deficit by cutting social security spending. Some countries have thus chosen to de-link minimum wage increases from increases in social benefits.

➤ [De-linking Portugal's minimum wage](#)

In Portugal, social security benefits were previously set as a percentage of the minimum wage – the so-called “Guaranteed Monthly Minimum Remuneration” (RMMG). Since 2007, social security benefits, including pensions, have been separated from the RMMG. Law 53-B/2006 laid down rules for updating pensions and other social benefits and formally established a new index called the “social support index” (IAS) for adjusting social security benefits.

⁹¹ Rycx F. and S. Kampelmann 2012. “Who earns minimum wages in Europe? New evidence based on household surveys”, ETUI, Report 124

⁹² [Belser, P; Rani, U. 2011. “Extending the coverage of minimum wages in India: Simulations from household data.”](#)

⁹³ Cunningham, W. 2007. Minimum Wages and Social Policy: Lessons from Developing Countries, The World Bank

⁹⁴ Marinakis A; Velasco, J.J. (EDS.) 2006. Para Que Sirve el salario minimo? Oficina Internacional del Trabajo, Santiago, Chile

The minimum pension is now set as a percentage of the IAS, which is updated annually on the basis of the consumer price index (CPI) and the GDP growth rate.

The de-linking of social security and minimum wages came from two important agreements signed between the government and social partners: the agreement on social security reform and the agreement on the fixation and evolution of the RMMG. The latter aimed to progressively raise the monthly minimum wage from €403 in 2007 to €450 in 2009 and to €500 in 2011.

Given the major effects that such an increase would have had on welfare spending, it was considered necessary to de-link social security from minimum wages. This meant the minimum wage was kept for its intended purpose, namely to increase the remuneration of low-paid workers. As such, the Portuguese system now resembles the system of many other European countries, such as France, which has a minimum wage that is independent of the "minimum social" index.

Source: Luisa Guimares, ILO

Chapter 8 – Minimum wages for domestic workers

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Summary

[Domestic workers](#) are amongst the lowest paid and often amongst the most informal group of wage employees.

They are also [frequently excluded](#) from minimum wage protection. **An estimated 21.5 million domestic workers have no minimum wage that is applicable to them, although they exist for other workers.** Among those who are covered, many are entitled to a rate that is lower than the minimum wage for other workers.

Domestic workers should not be discriminated against. They [should enjoy minimum wage coverage](#) equivalent to that provided to other workers generally, where such coverage exists. **A minimum wage recognizes the economic and social contribution of these workers and is a key means of ensuring the principle of equal pay for work of equal value.**

ILO [Convention No. 189](#) recognizes that “Each Member shall take measures to ensure that domestic workers enjoy minimum wage coverage, where such coverage exists, and that remuneration is established without discrimination based on sex” (Article 11).

Setting a minimum wage for domestic workers follows [largely the same procedure](#) as for workers in other sectors. Organizations of domestic workers and employers of domestic workers [should be involved](#) , where such bodies exist. They are most intimately aware of the challenges surrounding wages in the sector.

When extending a single national minimum wage to domestic workers, in cases where they were previously excluded from the minimum wage coverage, some countries elected to provide them gradually with equality of treatment. This gradual approach involves cases where the minimum wage is initially set at a lower level than the national minimum wage in place and is gradually increased over time to equal the national minimum wage level.

As for other sectors, minimum wage levels should be set by taking into account the [needs of workers and their families](#) , as well as [economic factors](#) .

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

- [See also ILO's thematic website on Domestic Workers.](#)

8.1 Defining domestic work

When defining the term “domestic worker”, the delegates to the 2011 International Labour Conference did not rely on listing the specific tasks or services performed by domestic workers – these vary from country to country and may change over time. Rather, they supported a general formulation that draws on the feature common to domestic workers – that they work for private households.

The [Domestic Workers Convention, 2011 \(No. 189\)](#) , reflects this when it defines “domestic workers” in Article 1:

- (a) the term “domestic work” means work performed in or for a household or households;
- (b) the term “domestic worker” means any person engaged in domestic work within an employment relationship;
- (c) a person who performs domestic work only occasionally or sporadically and not on an occupational basis is not a domestic worker.

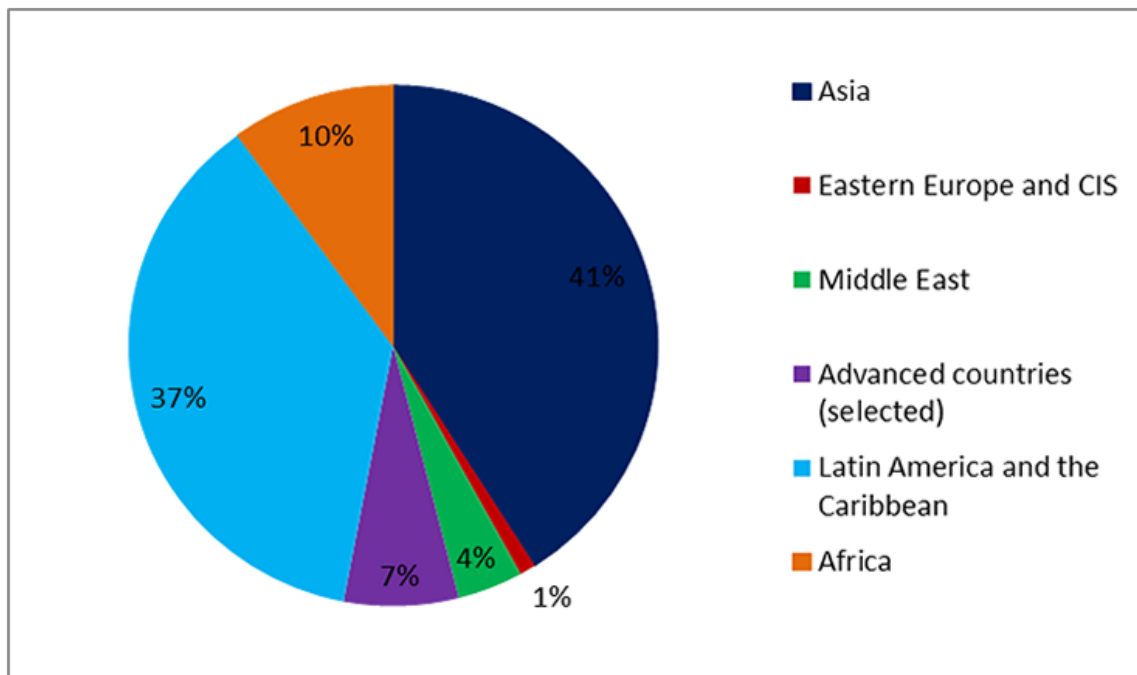
From a statistical standpoint, the restriction of domestic work to private households also provides a convenient way of identifying domestic workers under the International Standard Industrial Classification (ISIC). The still widely used ISIC Revision 3.1 contains the sectoral division “Activities of private households as employers of domestic staff” (Division 95), which corresponds to the definition in [Convention No. 189](#). It captures:

the activities of households as employers of domestic personnel such as maids, cooks, waiters, valets, butlers, laundresses, gardeners, gatekeepers, stable-lads, chauffeurs, caretakers, governesses, babysitters, tutors, secretaries etc. It allows the domestic personnel employed to state the activity of their employer in censuses or studies, even though the employer is an individual.⁹⁵

A second advantage of this sectoral approach is that it imposes relatively low requirements for the level of detail in statistical data. Using this sectoral approach, 52.6 million men and women were employed as domestic workers across the world in 2010. Figure 1 below shows that the vast majority of domestic workers work in Latin America and the Caribbean and Asia.

⁹⁵ Published in 2008, ISIC Revision 4 includes Division 97 “Activities of households as employers of domestic personnel”; however, its definition is identical to that of ISIC Revision 3.1 Division 95, despite the slight modification to the title. ISIC Revision 4 was developed for use during the 2010 Population Census round, but it has not yet been adopted by many national statistical offices around the world. [More information on ISIC.](#)

Figure 1. Distribution of domestic workers by sex and region, 2010



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

It is also possible to identify domestic workers on the basis of their occupation however, this is not recommended. Although some occupations are predominantly performed within households, others can also be performed outside the home – a cook can also work in a restaurant, a gardener in a flower nursery and a gatekeeper at an office building. This makes it difficult to distinguish domestic workers from other workers, thereby potentially over or undercounting them.⁹⁶

8.2 Why domestic workers' wages are often very low

Domestic workers provide crucial services to households around the world. It is thanks to the labour of domestic workers that the women and men of the households for which they work are able to go to work, to earn a living for their own family, and to realize sustainable and fruitful futures for themselves and their children. Yet, the wages paid to domestic workers are often extremely low. In fact, available data shows that they receive substantially lower wages in comparison to other employees.⁹⁷ Estimates suggest that they typically earn less than half of average wages – and sometimes no more than about 20 per cent of average wages.

The low levels of remuneration among domestic workers is the result of a range of factors, including a large labour supply, undervaluation of domestic work and its contribution to society, the low bargaining power of domestic workers, the lack of representation in the sector, and frequent exclusion from labour protection, particularly minimum wage coverage – all of which tend to be interlinked. Establishing a minimum wage for these workers is a key means to ensure their right to decent work and a decent life.

Undervaluation

Despite the clear contributions of the sector, domestic work is frequently not perceived as real work, performed within an employment relationship. Employers and societies often perceive domestic work as a natural part of any

⁹⁶ Cited from ILO (2013). [Domestic workers across the world: Global and regional statistics and the extent of legal protection, \(Geneva, ILO\)](#).

⁹⁷ ILO (2013). [Domestic workers across the world: Global and regional statistics and the extent of legal protection, \(Geneva, ILO\)](#).

woman's work, and not as a valuable service provided to their households, performing concrete tasks such as cleaning, cooking, shopping, laundry, as well as caring for children, older people, disabled and other household members in need of care.

Such attitudes and perceptions tend to result in domestic work being undervalued in comparison with jobs predominately performed by men.⁹⁸

Gender-based pay discrimination in domestic work may also be compounded with other forms of discrimination. For example, the worker's ethnic or social origin, or nationality may determine the level of remuneration as opposed to being based on legitimate criteria, such as the type of work performed or actual hours of work.

Low pay in the domestic work sector is also linked to the perception of domestic work as "unproductive" because it is not seen as directly generating economic gains or profits for the households employing them. Yet, domestic workers enable their employers – especially women – to go to work and earn income to support their families. In this way, domestic workers' labour supports households and national economies.

Low bargaining power and representation

Domestic workers' weak bargaining power in the home and the low incidence of representative domestic workers' organizations also make them subject to low wages.

Because their workplace is a private household, domestic workers perform their duties in relative isolation from other workers. This particularly holds true for domestic workers who reside in the household for which they work ("live-in workers"). Domestic workers usually have no co-workers. Long and unpredictable hours of work may make it exceptionally difficult for them to meet up with fellow workers to exchange experiences and information and to organize collectively. Employers often do not see themselves as employers and are usually not organized.

This decentralization and isolation of the workforce has posed challenges to establishing representative organizations for domestic workers, or for their employers. Although organizations do exist in some countries, large swaths of the domestic workforce remain unorganized and therefore more vulnerable to abusive practices such as unduly low wages or non-payment of wages. Live-in domestic workers are particularly unlikely to demand higher wages, since losing their job also means losing their accommodation.

In some countries, socio-cultural factors, such as language barriers, may prevent domestic workers, particularly migrant domestic workers and those belonging to ethnic minority groups or indigenous peoples, from engaging and negotiating with their employers.

Low levels of education among domestic workers and their position in society often limits their access to other job opportunities, pushing domestic workers into accepting poor conditions. Such factors also increase their vulnerability to abusive treatment, discrimination and unfair working conditions.

8.3 Should domestic workers be covered by minimum wages?

Many domestic workers around the world are excluded from minimum wage coverage

Low remuneration is also due to the frequent exclusion of domestic workers from labour law generally, and from minimum wage coverage specifically. In fact, 22.4 million domestic workers (42.6 per cent of the total worldwide) do not have any protection against unduly low wages and no minimum wage is applicable to them.

⁹⁸ ILO (2007) "General Observation on the Equal Remuneration Convention, 1951 (No. 100)", in Report of the Committee of Experts on the Application of Conventions and Recommendations, Report III (Part IA), International Labour Conference, 96th Session, Geneva, 2007 (Geneva), pp. 27172; and ILO (2009): Decent Work for Domestic Workers, Report IV(1), International Labour Conference, 99th Session, Geneva, 2010 (Geneva).

To a small extent, this is due to the fact that they live in countries that do not have minimum wage legislation (0.8 million workers thus affected). However, far more domestic workers – 21.5 million – live in countries with minimum wage regulations that protect other workers but not them. In addition, many more domestic workers are not effectively covered by minimum wage provisions because of the high levels of informality in the sector.

Just over half of domestic workers have the right to the same or higher statutory minimum wage as other workers under their national legislations. Around 3.1 million domestic workers (5.9 per cent of the total) are entitled to a minimum wage fixed below the statutory minimum wage for other workers. Moreover, when there are several minimum wages, for example, at sectoral level, the minimum wage for domestic workers tends to be the lowest of these. Even where minimum wages are in place, ensuring that employers comply with the rate poses challenges. Employers often are not aware of their responsibilities, labour inspectorates are frequently under-resourced, and often require permission from the householder or judiciary authorization to enter the home.

However, numerous labour ministries and inspectorates have developed innovative practices to raise awareness among employers about the minimum wage when it is introduced, and to ensure that employers are in compliance.⁹⁹

Domestic workers deserve minimum wage protection equivalent to that enjoyed by workers generally

Minimum wage provisions are important instruments to protect the most vulnerable and lowest-paid workers – such as domestic workers – from unduly low wages. A minimum wage recognizes the basic contribution of these workers to homes and societies, and is a key means of ensuring the principle of equal pay for work of equal value.

In fact, Convention No. 189 explicitly states that “Each Member shall take measures to ensure that domestic workers enjoy minimum wage coverage, where such coverage exists, and that remuneration is established without discrimination based on sex” (Article 11). In line with this provision, several countries have taken measures to extend minimum wage coverage to domestic workers, such as Namibia, Brazil, [South Africa](#), Switzerland, the [United States](#), and some [Indian States](#).

Minimum wages should respect the principle of equal pay for work of equal value

Countries across the globe have different minimum wage systems in place. Some set a national minimum wage, while others have a regional system. Some set minimum wages by sector or occupation or use a combination of multiple systems (see chapter 2). South Africa, for example, sets minimum wages by sector, region and occupation. An overview of selected country practices is provided in Table 1 below.

In some countries with a single national minimum wage, domestic workers have the same minimum wage rate as all other workers. This is in line with Article 11 of Convention No. 189.

In countries that adopt a sectoral or occupational approach, a minimum wage can also be established specifically for the domestic work sector – for example, through a tripartite wage board or via collective bargaining. However, when sectoral minimum wages are set, it is important that they respect the principle of equal pay for work of equal value (see section 2.4). Otherwise the minimum wage fixing mechanism would directly reinforce the traditional undervaluation of care work, and the system would then be in violation of that principle.

⁹⁹ ILO (2015). [Labour inspection and other compliance mechanisms in the domestic work sector: Introductory guide](#). (ILO, Geneva).

Table 1. Summary of minimum wage systems for domestic workers in selected countries

Included in national minimum wage	Gradual approach	Sectoral approach	Combination
United States	Chile	Switzerland	South Africa (sectoral, regional, and by occupation)
Brazil	Ecuador	Italy	Philippines (sectoral, regional)
Algeria	Portugal	Austria	
Burkina Faso		Botswana	
Colombia		India	
Mexico		Namibia	
Republic of Moldova		Uruguay	
Netherlands		Zambia	
Russia		Tanzania	
Spain			
Turkey			
Senegal			

8.4 Who should set the minimum wage for domestic workers?

Organizations of domestic workers and employers of domestic workers should be involved

The [Minimum Wage Fixing Convention, 1970 \(No. 131\)](#), clearly outlines that organizations of employers and workers concerned or, where no such organizations exist, representatives of employers and workers concerned on a basis of equality and persons having recognized competence for representing the general interests of the country should be involved in the minimum wage setting process (see Chapter 3).

This is no different for domestic workers.

When setting a minimum wage for the domestic work sector, organizations of domestic workers and employers of domestic workers should be involved, where such bodies exist. They are most intimately aware of the challenges surrounding wages in the sector.

The [Domestic Workers Convention, 2011 \(No. 189\)](#), taking into account the low level of organization in the sector, calls for Members to:

...implement the provisions of this Convention, in consultation with the most representative employers' and workers' organizations, through laws and regulations, as well as through collective agreements or additional measures consistent with national practice, by extending or adapting existing measures to cover domestic workers or by developing specific measures for them, as appropriate. (Article 18)

Ensuring the voice and representation of workers and their employers is a fundamental right. Yet domestic workers are not always organized into representative organizations of workers, and their employers are even less frequently organized into representative organizations of employers.

Sometimes organizations of domestic workers and their employers exist and domestic workers are represented by the most representative organizations. In other cases, they either do not exist, or are not affiliated with such representative bodies.

In some countries, domestic workers are not organized into formal unions. This occurs because they may not have the right to form a union, or because of practical barriers to forming a union.

Several countries have established minimum wages for the sector through collective bargaining, tripartite consultations, or tripartite expert groups, in consultation with organizations of domestic workers and of employers of domestic workers, or with the most representative organizations of employers and workers, or both.

Specific situations to consider

When representative organizations exist

When domestic workers and their employers have their own representative organizations, wage setting should take place through collective bargaining or in consultation with these representative bodies.

France's minimum wage (SMIC) applies to all workers, including domestic workers. Three collective agreements have also been negotiated between various trade unions and organizations representing employers of domestic workers. Each agreement takes into account varying employment relationships, depending on whether a public or private agency places the workers, or if the household employs the worker directly. Organizations of employers representing each type of employment relationship exist, and each one is a signatory to the respective collective agreement.

When there is an alternative employers' organization

Often, a union of domestic workers exists, but there is no organization of employers. In Uruguay, the domestic workers' union SUTD advocated for a minimum wage for domestic workers, but an employer body first had to be identified to act as the negotiating counterpart.

The government approached the Chamber of Commerce, which declined. It then approached the Liga de Amas de Casa, Consumidores y Usuarios de la Republica de Uruguay (LACCU), [the Housewives' League], to step in as the representative organization of employers. The LACCU accepted, and agreement was signed including, among other working conditions, a minimum wage for domestic workers.

An agreement on a minimum wage increase was also reached between seven domestic workers' unions and two employers' organizations in Argentina.¹⁰⁰

When domestic workers and employers are insufficiently organized

More often than not, the minimum wage is established specifically due to the vulnerability and lack of representation within a sector. For this reason, other representatives sometimes play a role.

In Switzerland, a minimum wage was negotiated for the sector through a standard employment contract. This process was called for by the national trade union confederation UNIA, and was negotiated by the representative sectoral organizations that most closely related to domestic work (i.e. the hotel and service sector union, and its employer counterpart from the restaurant and hotel business).

In [South Africa](#), sectoral determinations for a minimum wage were issued through consultation with a tripartite committee of experts to set wages for sectors that do not have representation. In 2002 the South African Ministry of Labour established the first minimum wage for the domestic work sector, following consultation with tripartite experts, the domestic workers' union SADSAWU, workers, employers, and the general public.

¹⁰⁰ Hobden, C. (2015). Labour Relations and Collective Bargaining, Issue Brief 2: [Improving working conditions for domestic workers: organizing, coordinated action and bargaining](#) (Geneva, ILO).

8.5 How should the level be set and adjusted for domestic workers?

The criteria should be the same as for all other workers, observing the principle of equal pay for work of equal value

There is a common perception that the process and criteria used to set a minimum wage for domestic workers should be different from that used for other workers. This is not the case.

The process and criteria used to set a minimum wage for domestic workers should be the same as that used for all other workers (see chapter 5). [Article 3 of Convention No. 131](#) gives guidance on the basic criteria that should be used when establishing a minimum wage for any group of workers:

The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include—

- (a) the needs of workers and their families , taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
- (b) economic factors , including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

In the case of a national or regional minimum wage – where domestic workers are included in the legal scope of their application – the process of minimum wage setting is the same for all workers across the economy.

The particular effects on the domestic work sector should be considered, just as for all other sectors of the economy, in the analyses conducted by the country concerned to set a national minimum wage. However, in some countries, domestic workers are excluded from surveys. Measures should be considered to include them in [data collection](#) (see [Technical Note 1](#) for more examples).

In general, the minimum wage for domestic workers is and should be set using the predominant system in the country concerned. Where a national minimum wage is in place, this protection should be extended to domestic workers. When sectoral wages are set, a sectoral approach should be taken, observing the principle of equal pay for work of equal value.

In countries where sectoral minimum wages are in place, minimum wages should be set using the same criteria outlined in [Convention No. 131](#) – namely, [the needs of workers and their families](#), and [economic factors](#).

Gradual approaches can be used

When extending a single national minimum wage to domestic workers, in cases where they were previously excluded from the minimum wage coverage, some countries elected to provide them gradually with equality of treatment. This gradual approach involves cases where the minimum wage is initially set at a lower level than the national minimum wage in place and is gradually increased over time to equal the national minimum wage level.

The gradual approach is often based on prevailing wage rates in a particular sector and arises from employment concerns. If they are particularly low, in relation to all other sectors, a drastic increase in the wage in a particular sector could prompt considerable negative employment effects.

Such an approach was applied in the domestic work sector in countries like Portugal, Chile and Ecuador, but it has also been used in other countries for different sectors. For example, it was used for small and medium enterprises in Malaysia and for different regions in Brazil before 1984 when one national minimum wage was established.

➤ [Chile: A gradual approach for domestic workers](#)

The gradual approach, described above, has been used in cases where a national minimum wage is significantly higher than the average wage in the domestic work sector, prompting concerns about the negative effects on employment and informality if the minimum wage were to increase significantly at once. A gradual approach allows time for employers to adapt to new wage levels, with the promise of achieving equality within a clear timeline.

In these cases, a clear plan for the gradual increase is key to ensure that equality is reached within a reasonable timeframe. Otherwise, in cases where a national minimum wage is in place, and a separate and lower sectoral minimum wage is set for domestic workers, this would violate the principles of equal pay for work of equal value, and of equality of treatment in line with [Convention No. 100](#) and [Convention No. 189](#).

Adjusting the minimum wage

Adjusting the minimum wage for domestic workers should be carried out in the same manner as minimum wages are adjusted for all other workers. This generally involves considering changes in the needs of workers and their families and economic factors since the previous period when the minimum wage was adjusted.

For example, this includes increases in the incomes of the households that employ domestic workers. More detailed information about adjusting minimum wages can be found in Chapter 5 and [Technical Note 1](#).

Careful stock must be taken of the particularities of the sector

Irrespective of the approach taken, careful stock must be taken of the particularities of the sector – most notably the high prevalence and proportion of [wages paid in kind](#), and the typically [long weekly hours and lack of working time protections](#), such as limits on working time and right to overtime pay. These situations effectively reduce the take-home pay of domestic workers.

Indeed, if a domestic worker works 60 hours a week and is not protected by working time or overtime provisions, that person is effectively bringing home a lower wage per hour than other workers who earn the monthly minimum wage, are protected by working time legislation and work 40 hours a week. The result is inequality in the outcome of the minimum wage legislation.

8.6 Needs of domestic workers and their families

Assessing the needs of workers and their families is no different for domestic workers than for other workers. Generally this involves assessing the needs of domestic workers' families in relation to the national and/or international poverty line, family size and number of individuals who work within the household.

See Section 5.2 on "The needs of workers and their families".

8.7 Economic factors in the domestic work sector

As for other sectors, some of the indicators on which the economic factors in the domestic work sector are based include: the percentage of employees affected by an increase in the minimum wage, the impact of this increase on the total wage bill, and the minimum to average wage ratio (see chapter 5).

In the case of domestic work, these indicators are defined by the employer's capacity to pay. Identifying the capacity to pay requires identifying who the employer is (the household) and what proportion of the household budget can go to domestic work (see [Technical Notes 1, 2 & 3](#)).

Who is the employer?

In this sector, households are the employers. Instead of balance sheets with profit and loss statements, they have a household income. In this regard, the capacity of employers of domestic workers to pay is based on the household income (see [Technical Notes 1, 2 & 3](#)).

Figures 2 and 3¹⁰¹ use data on household income from Namibia and the Philippines to show that domestic workers are disproportionately hired by the wealthiest families (see [Technical Note 1](#)).

It is also possible to calculate the percentage of household expenditure which is spent on the employment of domestic workers. This exercise is akin to calculating the total wage bill of an enterprise (see chapter 5). Figure 4 shows the percentage of household income spent on the employment of domestic workers in Costa Rica. While the percentage of household income spent on domestic work varies depending on the household's income, on average, households spent about 4 per cent on domestic work.

In computing these analyses, it is also important to consider both wage costs and social contributions that employers must pay.

Data on household income is also used because labour productivity – as calculated from a country's national accounts statistics – cannot be computed for the domestic work sector as it is for sectors like manufacturing.

In the manufacturing sector, for example, labour productivity is computed as the value of the output produced by the sector minus the value of the inputs used to produce the output.

Domestic work is not the only sector that faces this challenge: similar challenges also arise in the public sector.¹⁰² (see chapter 5). However, it is possible to use other indicators to assess the potential economic impact that an increase in the minimum wage for domestic workers might have. These include the percentage of domestic workers who would be affected by a particular minimum wage level (i.e. the percentage of domestic workers who currently earn less than the proposed level), and the impact this increase might have on average wages in the economy and on the average wage of the domestic work sector.

Ensuring affordability for employers

Concerns often arise about the ability of households to afford higher wages for domestic workers. There are often claims that many employers are minimum wage earners themselves. An excessive increase in the minimum wage could result in a loss of employment, a loss in the number of hours worked and/or an increase in undeclared hours and work. This is facilitated by high levels of informality in the sector and the low capacity of institutions to enforce compliance. Indeed, when setting a minimum wage, government and social partners must balance the needs of workers and their families, and the capacity of households to pay the minimum wage.

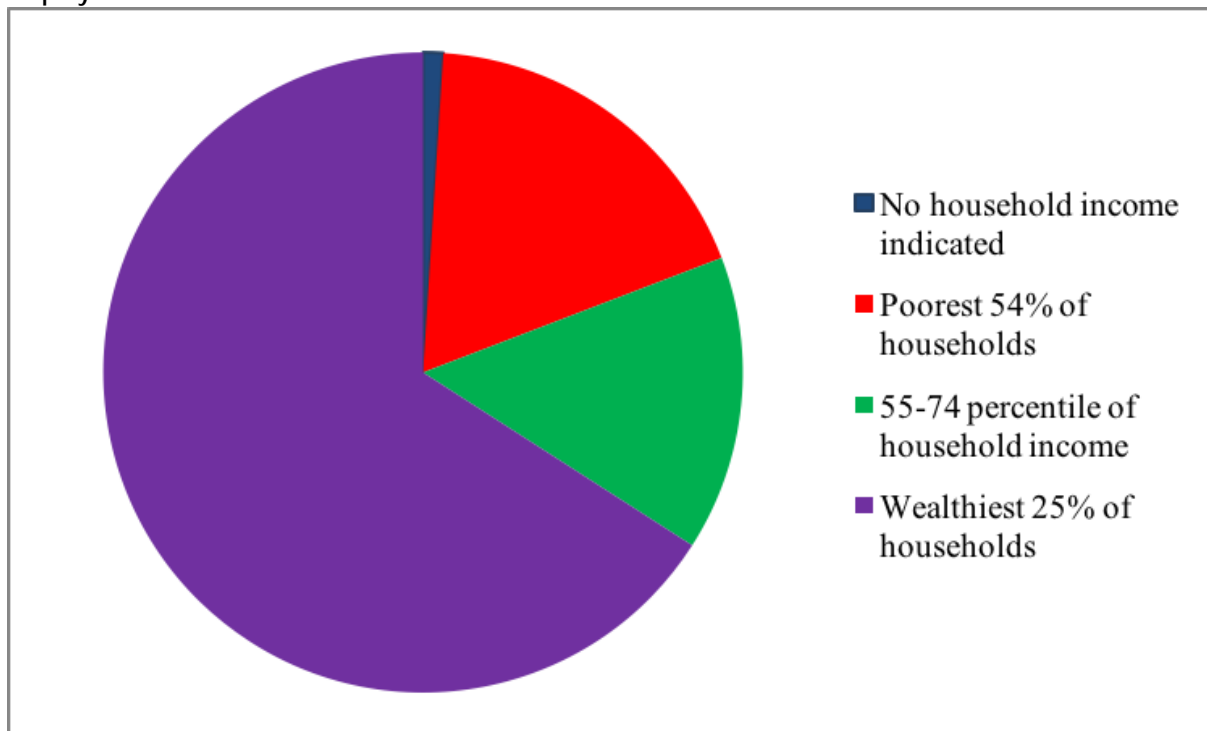
As the information we provide here shows, data on households can significantly help in identifying a suitable wage level in countries where minimum wages are set at sectoral level. Where there are concerns about affordability for lower-income households, whether in national or in sectoral minimum wage setting systems, several countries have established or promoted the establishment of child care and older people's care centers that are usually more affordable for these households.

¹⁰¹ Data collected from household surveys do not always fully capture the size of the domestic work labour force or the hours they work because of high levels of undeclared work and hours.

¹⁰² [Atkinson \(2005\). Atkinson Review: Final Report, Measurement of Government Output and Productivity for the National Accounts \(New York, Palgrave MacMillan\)](#) .

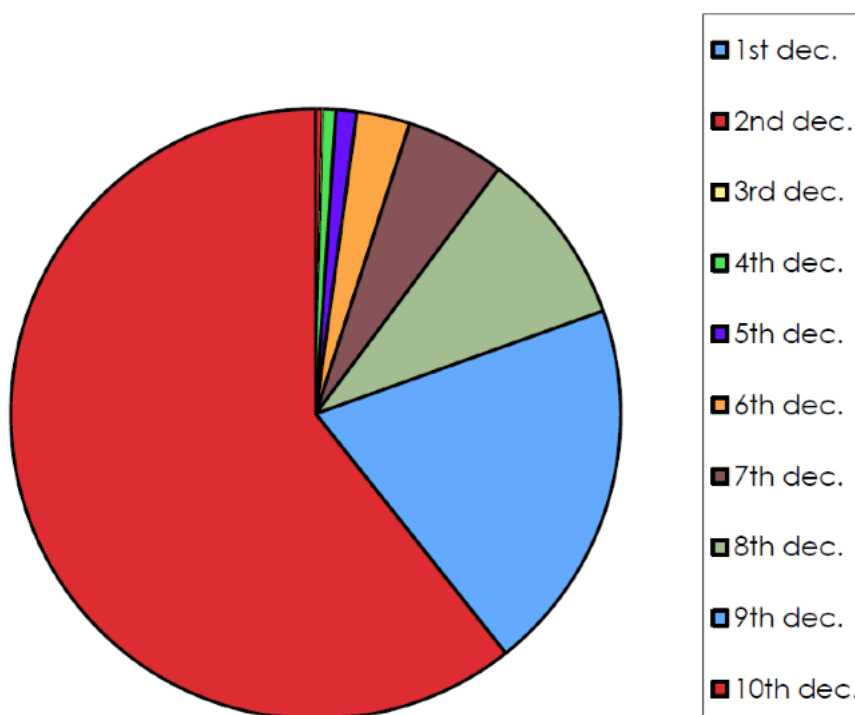
In countries like France and Belgium, domestic work is publicly subsidized to enable the payment of a minimum wage that meets the needs of workers and their families. In doing so, these countries have ensured protection for a typically vulnerable category of workers who provide essential services to hundreds of millions of homes around the world.¹⁰³

Figure 2. Domestic worker employment in Namibia in 2012, by the disposable household income of the employer



Source: ILO commissioned study. Budlender, D. Wages and conditions of work of domestic workers in Namibia. 2013.

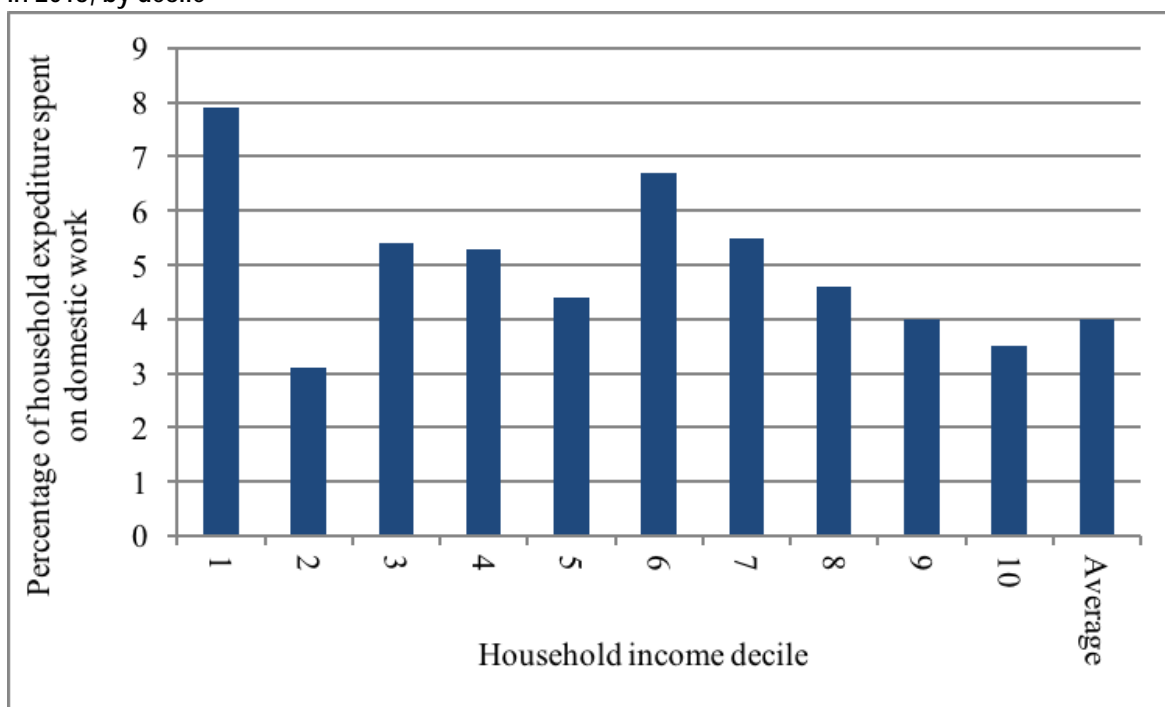
Figure 3. Domestic worker employment in the Philippines in 2009, by the disposable household income of the employer.



Source: [ILO, Domestic Workers in the Philippines: Profile and Working Conditions \(Geneva, ILO\)](#).

¹⁰³ [ILO \(2010\). Policy Brief 1: remuneration in domestic work, \(Geneva, ILO\)](#).

Figure 4. Percentage of household expenditure spent on payment for domestic work services in Costa Rica in 2013, by decile



Note: Deciles divide a group into 10 parts. For example, in the figure, the first decile refers to the poorest 10% of households, while the 10th decile refers to the wealthiest 10% of households.

Source: ILO commissioned study. Trejos, J.D. The application of minimum wages in the domestic work sector in Costa Rica. 2015.

8.8 Putting the numbers together

Once the calculations on the needs of workers and their families, and economic factors have been done, there will be a series of indicators available for discussion. These will include:

- the amount required for a worker to support their family
- the number and profile of households that employ domestic workers
- their capacity to pay a given wage level
- the percentage of workers affected if the minimum wage were to increase by a specific amount
- the minimum wage proposed as a share of the current average wage.

How should these numbers be used to determine a final minimum wage level?

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

Each of the values for the other indicators falling under economic factors could also be ranked, thereby creating a range of minimum wage values for each indicator. Once the ranges for all of the indicators are overlaid (combined together), the result is a general range of figures wherein social partners can negotiate.

However, the indicators could also be examined individually, and parties to the negotiation process could decide how much weight to attribute to each indicator. For example, some countries may give more weight to the needs required to support a worker and their family, while others may give more weight to trends in productivity. This is described in more detail in chapter 5.

8.9 Live-in and live-out domestic workers

The two guiding criteria have now been adapted to set general parameters for a minimum wage rate negotiation. In addition, several particularities of the domestic work sector, including different types of employment practices, are usually considered when setting the level, to take into account the working time arrangements of live-in and live-out domestic workers, their average weekly hours, and prevailing practices of payments in kind.

Domestic work employment practices and types

Among domestic workers, there are various types of employment arrangement that create subgroups within the sector. One major differentiation is between domestic workers who live in the homes of their employers and those who live in their own homes (live out). Among those who live out, some work full time for a single family, whereas others work on a daily or hourly basis for several households within a week, or even within a single day.

Recent ILO estimates have found that domestic workers generally work some of the longest and most unpredictable hours.¹⁰⁴ Those who live in are particularly vulnerable to long hours because they remain in the homes of their employers. Indeed, the average weekly working hours of live-in domestic workers tend to be higher than those of live-out domestic workers.

In Chile, live-in domestic workers worked in 2000 an average of 67.6 hours per week, while live-out domestic workers averaged a far more reasonable 40 hours.¹⁰⁵ In the Philippines, 51 per cent of female and 38 per cent of male live-in workers worked at least 61 hours in a given week in 2010 – approximately one-third recorded working on average two hours more per day than live-out domestic workers.¹⁰⁶

Such long working hours arise partly from the workers' exclusion from provisions that limit working time. The ILO estimates that 56.6 per cent of domestic workers have no legal limits to their normal weekly hours,¹⁰⁷ and 44.9 per cent have no entitlement to weekly rest.¹⁰⁸

When setting the minimum wage, governments and social partners should therefore take into account whether domestic workers have rights to limits on normal weekly hours, daily rest and weekly rest, and whether they have overtime protection – many don't.

These types of protection are necessary to ensure domestic workers' human and labour rights, and also to facilitate the process of setting a minimum wage.

These employment types may see different practices in wage setting and payment. A live-out domestic worker, for example, may be paid on an hourly, weekly, or monthly basis, while live-in domestic workers are often paid weekly or monthly. A monthly wage without strict limits on working time or a right to overtime pay puts domestic workers at risk of excessively long hours, thus reducing the de facto hourly wage rate to unreasonably low levels.

Live-in domestic workers are often paid partly in kind. Since they are living in the household of the employer, the employer sometimes pays an even lower wage, under the presumption that some of the worker's daily living costs are covered by living with the employer. This can put live-in domestic workers in a vulnerable position.

Similarly, live-in domestic workers who are paid partly in kind risk not bringing in enough cash income to support their own family members, contribute to social security, or put aside savings for future needs. When accommodation is

¹⁰⁴ ILO (2013). [Domestic workers across the world: Global and regional statistics and the extent of legal protection, \(Geneva, ILO\)](#)

¹⁰⁵ *ibid*

¹⁰⁶ ILO, [Domestic Workers in the Philippines: Profile and Working Conditions \(Geneva, ILO\)](#) .

¹⁰⁷ ILO (2013). [Domestic workers across the world: Global and regional statistics and the extent of legal protection, \(Geneva, ILO\)](#) . p.61.

¹⁰⁸ *ibid*. p.63

provided to the worker instead of cash, workers become especially vulnerable to abuses. If they suddenly must find alternative accommodation they may have very little money in pocket. Consequently workers often remain in abusive situations that they may otherwise have chosen to escape.

The effective cash wages of domestic workers are therefore closely linked with their working time and the proportion of the wage paid in kind. Domestic workers earning a monthly salary equivalent to other workers may still earn a comparatively low salary if they are in reality working a 60-hour week. As such, minimum wage protections should ideally be accompanied by limits on working time and a right to compensation for overtime.

Policy-makers may also consider having separate wage rates for live-in and live-out workers. When there is a common practice of paying a high proportion of the wage in kind, the wage rate should still be set such that workers receive sufficient payment in cash to be able to provide for their future financial well-being as well as for their own families. Policy-makers may also consider prohibiting in-kind payments as part of the minimum wage, with payments in kind only allowed above this threshold (see [Technical Notes 1, 2 & 3](#)).

8.10 Payment in kind

Under certain circumstances [ILO Convention No.95](#) allows for the partial payment of wages in-kind, particularly when such form of payment is customary, appropriate for the personal use and benefit of workers and their families, and the value of such allowances is fair and reasonable. See section 1.6 for a review.

To summarise:

- Domestic workers should be entitled to conditions that are not less favourable than for workers generally.
- When setting a minimum wage for domestic workers, it should be paid in cash.
- If payments in kind are to be allowed, the terms cannot be less favourable than for workers generally; they should be limited to the personal use and benefit of the worker and their family; they should be fairly and objectively valued; and they should not unduly diminish the remuneration necessary for the needs of domestic workers and their families.
- If domestic workers are required to live in, no deductions from the remuneration for accommodation should be allowed, unless agreed to by the worker.

The impact of payment in kind in domestic work

In domestic work, it is quite common for a portion of the wage to be paid in kind. Domestic workers who live in the homes of their employers in particular receive monthly cash wages below the average because they receive accommodation. Employers of domestic workers may also provide meals that are deducted from the wage paid, whether they live in or out.

While receiving food and accommodation from the employer can be of benefit to the domestic worker, and of expense to the employer, receiving such payments in kind as part of the minimum wage makes these workers more dependent on the employer. This can have negative long-term impacts on their pension and other contributory social security schemes that are based on income.

In addition, a domestic worker who lives in the home of their employer may well be receiving accommodation, but it also means that in case of an unresolvable dispute, that worker would lose both job and shelter. Moreover, domestic workers must earn sufficient amounts in cash in order to provide shelter and food for their own families, while saving enough for their future and that of their families'.

The Committee of Experts has also reinforced the notion that payments in kind do not necessarily benefit the worker. In the General Survey on the reports concerning the Protection of Wages Convention, 1949 (No. 95), and the Protection of Wages Recommendation, 1949 (No. 85), the Committee of Experts states that:

"Paying remuneration in the form of allowances in kind, that is to say providing goods and services instead of freely exchangeable legal tender, tends to limit the financial income of workers and is therefore a questionable practice. Even in those industries or occupations in which such a method payment is long-established and well-received by the workers concerned, there is still a need for safeguards and legislative protection against the risk of abuse."

Limiting payment in kind

Recognizing the high prevalence and the sometimes abusive practices of paying domestic workers in kind – and the risks that workers face as a result – [Convention No. 189](#) explicitly states that domestic workers are to be paid in cash, like workers generally. It places strict limits on the proportion of the wage that can be paid in kind, when such payments can be made, and what they can include, under conditions not less favourable than those enjoyed by workers generally.

A limited proportion of the remuneration in the form of payments in kind may be allowed, under the following conditions:

- Payments in kind cannot be less favourable than those generally applicable to other categories of workers.
- The worker must agree to the payments in kind.
- The payments in kind must be for the personal use and benefit of the worker; and
- The monetary value attributed to such payments in kind must be fair and reasonable. (Art. 12(2))

Paragraph 14 of the [Domestic Workers Recommendation, 2011 \(No. 201\)](#), provides further guidance on how policy-makers can ensure that payments in kind are not abused. These provisions are also in line with those contained in Article 4 of Convention No. 95, which also aims to protect workers from abusive or excessive payments in kind. It equally applies to domestic workers

When provision is made for the payment in kind of a limited proportion of the remuneration, Members should consider:

- (a) establishing an overall limit on the proportion of the remuneration that may be paid in kind so as not to diminish unduly the remuneration necessary for the maintenance of domestic workers and their families;
- (b) calculating the monetary value of payments in kind by reference to objective criteria such as market value, cost price or prices fixed by public authorities, as appropriate;
- (c) limiting payments in kind to those clearly appropriate for the personal use and benefit of the domestic worker, such as food and accommodation;
- (d) ensuring that, when a domestic worker is required to live in accommodation provided by the household, no deduction may be made from the remuneration with respect to that accommodation, unless otherwise agreed to by the worker; and
- (e) ensuring that items directly related to the performance of domestic work, such as uniforms, tools or protective equipment, and their cleaning and maintenance, are not considered as payment in kind and their cost is not deducted from the remuneration of the domestic worker. (para. 14).

While the Convention and Recommendation do not fix a specific threshold for payments in kind, the [Committee of Experts](#) has expressed doubt concerning payment in kind that exceeds 50 per cent of the wage (see section 1.6)

These measures ensure the effectiveness of the minimum wage protections. By ensuring that domestic workers earn sufficient remuneration in cash, policy-makers are effectively protecting them from unacceptable forms of work and situations of abuse that they may face in the homes of their employers.

In practice

- [Prohibiting the deduction of payments in kind from the minimum wage](#)
- [Measuring the value of payment in kind](#)
- [Should the value of payments in kind count towards social security contributions?](#)

8.11 Hourly or monthly minimum wage rates for domestic workers

In principle, minimum wages can be set for an hour of work, a week of work, or a month of work (see section 1.8 for a review).

Domestic workers are often in a situation of partial legal coverage – they are covered by minimum wage legislation, but not by working time provisions. 56.6 per cent are excluded from limits on working time worldwide. Regardless of legislation, live-in domestic workers typically work on average far longer hours than other workers, sometimes with no clear indication of when they are on a break or free to dispose of their time as they please.

In Chile, for instance, live-out domestic workers worked an average of 40 hours per week in 2000, while live-in domestic workers worked an average of 67.6 hours. Similarly, in Peru the average weekly working time was 49 hours for live-out domestic workers and 62 hours for live-in domestic workers.

As a result, a monthly minimum wage may not correspond to the number of hours actually worked by a domestic worker, making their pro rata hourly minimum wage significantly lower than that received by other workers who work a standard work week.

In light of this, the first step to setting a minimum wage for domestic workers is to determine:

1. Whether domestic workers are covered by working time provisions.
2. The proportion of domestic workers who live in the homes of their employers, and those who live out.

Once those answers are identified, they can be used to set the minimum wage using the appropriate unit or units (hourly, monthly, weekly, daily).

Hourly minimum wages:

Hourly minimum wages provide the most flexible approach to minimum wage setting, irrespective of whether a domestic worker lives in or out. They:

- Ensure equal treatment between live-in and live-out domestic workers.
- Ensure that workers are paid for the hours for which they actually work, as opposed to the assumed standard work week. This is especially relevant if certain groups of workers are entitled to the minimum wage, but not covered by working time provisions (normal hours of work, daily rest, weekly rest or overtime).
- Require careful monitoring to record the number of hours worked. ¹⁰⁹

¹⁰⁹ [ILO. 2014. Working around the clock? A manual for trainers to help live-in domestic workers count their working time. \(Geneva, ILO\)](#)

However, while an hourly minimum wage may be practical in countries where live-out domestic work is common, setting an hourly minimum wage in countries where live-in domestic work is predominant can prove challenging because of the “standby” or “on-call” nature of the work. Standby or on-call periods refer to “periods during which domestic workers are not free to dispose of their time as they please and remain at the disposal of the household in order to respond to possible calls...”, according to [Convention No. 189](#).¹¹⁰

While standby time is considered working time – as opposed to a rest period – it is often remunerated at a rate lower than for a normal hour of work, and can be difficult for both employers and domestic workers to monitor. To address these concerns, some countries have devised specific practices to set the minimum wage such as to ensure equal treatment. These are some examples.

Monthly minimum wages:

Some countries have a monthly minimum wage with a separate standard work week that more accurately reflects the standard work week of a live-in domestic worker.

- This is the case in Burkina Faso where domestic workers’ working time is regulated by a special scheme. For workers under the general scheme, the standard work week is 40 hours. However, under the special scheme, week for domestic workers is 60 hours of work.
- This is also the case in Senegal where the standard working month for domestic workers is 260 hours (60 hours per week), of which 173.33 represent hours of effective work. Overtime is only to be paid for hours that exceed 60 hours per week. In other words, the domestic worker receives the monthly minimum wage for working between 40 and 60 hours per week.

Other countries have a minimum wage that includes separate rates of pay for standby time:

- Czech Republic: the worker is entitled to remuneration of at least 10 per cent of their average earnings, unless it has been agreed otherwise in the relevant collective agreement regarding standby time.¹¹¹
- Finland: in cases where workers are obliged by contract to remain at home in order to be available if they are called to work comprising child minding or care of a sick family member or another member of the household, no less than half such standby time shall count as working hours or such standby shall be remunerated [at least half the worker’s basic wage payable for an equal number of hours].¹¹²
- Spain: in any case, except for where it has been agreed that the worker will be compensated with rest periods in lieu, standby time shall not exceed an average of 20 hours per week in any given month, and shall be remunerated at least at the same rate as normal hours of work.¹¹³
- France: there is regulation of what is known as “hours of responsible presence”, which is different from “night presence”. The former are defined as “those during which the employee can use his or her time for himself or herself, while being ready to intervene if necessary”. The latter is defined as “compatible with a daytime job, refers to the obligation for the employee to sleep on site in a separate room, not actually working, but being ready to intervene if necessary as part of his or her duties. Night presence cannot exceed 12 hours. It shall not be requested more than five consecutive nights, except in exceptional cases.”¹¹⁴

While one “hour of responsible presence” counts for two-thirds of the wage normally paid for one hour of work, one hour of “night presence” is remunerated at no lower than one-sixth of the normal rate of hourly pay. If several interventions are needed at night, all night hours are considered hours of responsible presence.

¹¹⁰ [Convention No. 189, Article 10\(3\) ; Recommendation No. 201](#) , Paragraph 9(1).

¹¹¹ ILO. 2012. [Effective Protection for Domestic Workers: A guide to designing labour laws](#) . (Geneva, ILO).

¹¹² Ibid

¹¹³ Ibid

¹¹⁴ Ibid

A third group of countries have a monthly minimum wage based on the minimum rest period.

Instead of regulating standby time and hours of work, the monthly minimum wage can be set by regulating rest. Once the minimum rest period is established, a monthly or weekly minimum wage is established for the remaining hours. For example, in the Philippines, domestic workers are entitled to eight hours of daily rest in addition to a 24-hour weekly rest. This is also the case in Chile where the domestic worker must rest for at least half an hour per day and daily rest should at least be 12 consecutive hours long.

Combining hourly and monthly minimum wages:

If countries have both live-in and live-out domestic workers, one approach is to set both an hourly and a monthly minimum wage.

For example, while the federal minimum wage for domestic workers in Switzerland is specified at the national level, the minimum wage specified in one of its cantons (states), Geneva, provides it at the monthly level alongside a formula to calculate the hourly rate for part-time domestic workers.¹¹⁵

The hourly rate is simply the monthly rate divided by 195 hours (which corresponds to a 45-hour work week). This approach is not limited to the domestic work sector – many countries use it to accommodate the different working hours of full- and part-time employees (see [Technical Note 2](#)).

¹¹⁵ [Contrat-type de travail de l'économie domestique \(CTT-Edom\) in Switzerland](#) .

Annex 1

Minimum Wages for Public Sector Workers

Are public sector workers covered?

Practices vary across countries:

- In some countries, the legal minimum wage laws clearly state that public sector workers are included in the laws regarding minimum wages. For example, the minimum wage legislation applies to public workers in the Bahamas. Act No. 1 of 2002 on Minimum Wages in Commonwealth of the Bahamas states that application of the Act includes "... any such employment by or under the Crown in right of the Government of The Bahamas..."¹
- Most frequently, however, the public sector is excluded, in whole or in part, from the general labour legislation, and consequently from its provisions on minimum wage fixing. When the public sector is excluded, wage setting for the public sector is often based on administrative law, which sets out how wages should be determined for these workers. These laws can set wages for public sector workers from national level down to provincial and local levels. While many countries have laws with provisions that set public sector wages higher, some countries do use the national minimum wage set in the private sector as a basis for wage setting for government workers. These minimum wages can be applied to some categories of public sector workers or to all public sector workers in the country.
- In some countries minimum wage laws may apply to some categories of public sector workers, but not to others. Public workers that are not included in these laws in many countries often include the military, security services, and police whose wage levels. In Zambia, for example, the employment law excludes the military, the police and the prison services.² In Uganda, only the military is excluded from minimum wage coverage in the law.³ In countries that exclude some categories of workers, other laws and regulations will set base pay levels for the specific group of public sector workers not covered by other labour laws.

How does the minimum wage affect public sector wage scales?

A major influence on wage levels for public sector workers is the impact that these levels may have on public spending. For this reason, national legislative bodies (e.g. parliament, congress, etc.) will have some level of influence on decisions regarding wages paid to public workers, usually by providing final approval on any wage setting exercise.

Of course, not all public sector workers are paid the same, and minimum wages directly only apply to a fraction of public sector workers. Wages in the public sector differ across workers depending on the grade level of the worker, such as managers who may be on different pay grades or levels than workers. There also may be pay differences based on the level of government in question (e.g. local, provincial/state, national). However, changes in minimum wages can have large impacts on the public sector wage bill. Indeed, the minimum wage can

¹ Act No. 1 of 2002 on Minimum Wages, Application of Act, Section 3.(1)

² Employment Act, Part I, Section 2 of Zambia.

³ Employment Act, 2006, Part I, Section 3 of Uganda.

act as a base upon which public sector wages can be set at higher levels. In this case some categories of public workers will earn the minimum wage, and higher rank public sector workers will be paid for example two or three times the minimum wage. In such a case, the minimum wage acts as a baseline for the wages of many or all public sector workers, and increases in minimum wages can have large “spill-over” or “domino” effects on the entire public sector wage bill. Hence the effects of minimum wages on the public sector wage bill, will depend on how public sector wages are set.

How are public sector wages determined?

(a) Collective bargaining

One method of wage setting in the public sector is collective bargaining between government and public sector unions. Collective agreements between public sector workers and the government can be done centrally, or can be decentralized. Collective bargaining is commonly found in the public sector in Northern European countries, such as Sweden and Finland⁴. In Sweden and Finland wages are negotiated in a two tiered collective bargaining system, in which the central collective agreement specifies an average salary for all public workers, but allows ministry directors to use comparable wages outside of the agency to set wage levels above the collectively bargained minimum level.

In Germany collective bargaining is used, but public sector workers are divided into two distinct groups: civil servants (*Beamte*) and public employees (*Tarifebeschäftigte*). *Beamte* cannot collectively bargain or strike and the government sets terms and conditions of employment, including wages. *Tarifebeschäftigte* are regulated by civil law and similar conditions to private industry including the right to collectively bargain. The negotiations for the *Tarifebeschäftigte* can in principle influence the wage setting for the *Beamte*.⁵ This is similar to the situation in Israel, where centrally organised collective bargaining takes place as a basis for a second collective agreement negotiated with trade unions for professional public sector workers. Brazil has this form with a centralised collective bargaining framework instituted and two forms of remuneration are set for different groups of workers.

In Turkey, public sector trade unions must be legally be consulted regarding any issues affecting remuneration. Negotiations on public sector working conditions, including remuneration, are highly centralised. The result of negotiations on remuneration, including wages, can lead to only one set of agreements that cover all public sector workers. In Mexico, agreement on wages and remuneration between public sector unions and the government is legally mandatory, with this agreement applying to all public sector workers.

De facto negotiations can also be decentralised. For example, in Australia base pay for public sector workers is determined through decentralised negotiations. Departments of the government negotiate base salary with respective public sector unions. While leading to consistent remuneration outcomes for workers within a government department, this also can create significant differences in pay for workers in different government departments.

⁴ This is also in line with Part IV, Article 7, of the ILO Labour Relations (Public Service) Convention, 1978 (No. 151) which encourages the full development and utilisation of the machinery to negotiate working conditions for employees. Both Sweden and Finland have ratified ILO Convention No. 151.

⁵ Keller, B. (2013), Germany: The public sector in financial and debt crisis, *European Journal of Industrial Relations*, 19(4), pgs. 359-374.

It is also important to note that pay can vary between levels of the government. Public workers, who work for the national government, as described above, may be covered by collective bargaining agreements that do not apply to state, regional, or local government. Also, collective agreements may be used in some layers of government, but not others. Similarly, state, provincial or local governments might also determine wage levels to be paid to public sector workers at the respective levels. For example, a provincial governor might legally set pay and remuneration levels for public sector workers based on commission recommendations, collective agreements, or they may have final say on compensation. City mayors and city councils may also be able to set wages in a city. Often the levels of pay for regional, state, or local public workers is less than national government workers, but this may be different if in large or industrial cities in a country.

(b) State decides with or without consultation

Wages for public workers can be set simply by unilateral state decision-making. In these countries the role of the public sector union may be limited to only consultations, not collective bargaining. In addition, the state may rely on recommendations made by state appointed bodies (e.g. committees or commissions) that review wages and remuneration for public sector workers. These bodies then provide this information to the government who make the final decision on wages and remuneration.

The legal requirement to consult can vary by country. In some countries there is a legal obligation to consult on wages. Public sector unions in Japan, by law, must be consulted regarding pay related issues. Base pay is based on the recommendations of an independent examining committee. These recommendations form the basis of remuneration for Japanese public sector workers, which is then centrally negotiated.

In other countries there is not legal requirement for the government to consult public sector trade unions. There is no binding obligation to consult public sector trade unions in Chile regarding any work or employment issue, including wages. However, public sector unions are consulted on a voluntary basis on wage related issues. While consultation requires no legal obligations and offers limited influence on the wage setting process, it can be important as it provides public sector unions with the opportunity to present their views on wage and remuneration issues public sector workers.

In some countries the government decides without consultation. Base salary for public sector workers in the Russian Federation are set by recommendations of the government. While public sector trade unions are consulted on working conditions, base wages are determined and decided by the government.

Annex 2

The needs of workers and their families

The discussion of needs has been part of the main concerns of minimum wage fixing from the outset. The Preamble of the [ILO Constitution in 1919](#) makes reference to a “provision of an adequate living wage”. The minimum wage issue was also discussed during the 1927 and 1928 sessions of the International Labour Conference (ILC). The report draft from these sessions, which produced the [Minimum Wage Fixing Machinery Convention, 1928 \(No. 26\)](#), considered different alternatives to workers’ needs: “mere subsistence, the amount necessary for health and decency, and the amount to provide a standard of comfort”, as well as whether minimum wages should take into consideration the needs of the worker alone, or of the whole family.¹¹⁶

In the end, consideration of the family was not included, and the idea of a living wage was not one of the alternatives. The responding countries rejected the inclusion of criteria for minimum wage fixing, as well as methods for how to do it. Indeed, most governments agreed that the Convention should only lay down general principles. As a result, [Convention No. 26](#) represented a step towards improving labour conditions by promoting the adoption of a minimum wage, but offered no concrete guidance on the criteria to be applied.

By contrast, [Convention No. 131](#) groups the social protection role of minimum wages in a first set of criteria, including “the needs of workers and their families”. The economic considerations were kept separately, forming a second set. Although the inclusion of this “needs of workers” criterion was evident at the time, it was agreed that it was difficult to put into practice. The experts’ report shows that even the determination of nutritional needs, which are basic for survival, was very much discussed. Another concern was the inclusion of family needs. The reference to family needs was retained in the Convention on the proviso that it did not promote different rates for workers with and without dependants.

Many countries’ national legislation reflects a reference to the needs of workers or to poverty reduction. For example, Costa Rica’s Labour Code establishes that “every worker has the right to a minimum wage that covers the normal needs of the household (material, moral and cultural)” (Article 177). This is also the case in Armenia, some provinces of Canada, Croatia, the Czech Republic, Kenya, Lithuania, South Africa and the United Republic of Tanzania.¹¹⁷

Measuring the needs of workers and their families

[Convention No. 131](#) states that in determining the level of the minimum wage, the needs of workers and their families should be taken into account, irrespective of the complexity or simplicity of the minimum wage system in place. Assessing the needs of workers and their families, for the purpose of setting the minimum wage, can be complex for three principle reasons

¹¹⁶ ILO. 1927. Minimum wage-fixing machinery, questionnaire, International Labour Conference, Tenth Session, Geneva; ILO. 1927. Minimum wage-fixing machinery, questionnaire, International Labour Conference, Eleventh Session, Geneva, 1928.

¹¹⁷ [ILO General Survey 2014 on minimum wage systems](#)

tied to: the measurement of the minimum income level, the household size, and the number of household members working. The three elements are discussed in detail below.

Income benchmarks – what are the needs of an individual?

The definition of needs is a relative concept. There can be basic needs, higher needs, and so on. The definition of these different types of needs can also vary across and within countries. For example, should allowance for recreation be considered as part of basic needs – or are they higher needs? The difficulty of pinning down what constitutes what type of need explains why there is no universal definition that is widely accepted. This is despite the fact that there are multiple references to needs in international conventions, national legislation or even enterprise-level regulations. Generally however, as countries develop, standards of living rise and as they do, so does the definition of needs.

As a starting point, national poverty lines or thresholds, combined with information on household size and labour force participation rates, can be used to estimate a potential minimum wage that is high enough to lift households out of poverty. This section reviews such a method in detail and provides a practical example of its application. A poverty threshold offers a benchmark for minimum needs, usually based on the cost of basic requirements for adequate nutrition and other non-food essentials such as clothing, shelter and other items.

International poverty lines

There are both international and national poverty lines. International poverty lines are used for the purpose of international comparison. They include those established by the World Bank at 1.25 purchasing power parity (PPP) dollars per day and at 2 PPP dollars per day. PPP dollars capture the amount of a country's currency that is required to buy the same basket of goods and services in the domestic market as a US dollar would buy in the United States. In addition, while the Food and Agriculture Organization of the United Nations (FAO) does not provide information on poverty lines, it does provide data for selected countries on food security. Some of the indicators on food security include: the minimum dietary energy requirement per country and the average dietary energy requirement. The minimum dietary energy requirement captures “the minimum amount of dietary energy per person that is considered adequate to meet the energy needs at a minimum acceptable BMI [body mass index] of an individual engaged in low physical activity”¹¹⁸ (expressed in kilocalories per day). The average dietary requirement calculates the average amount of dietary energy per person (expressed in kilocalories per day). In the absence of a poverty line (or a recent poverty line) these data could be used in combination with data on local prices to estimate an approximate amount of cash required to meet minimum dietary requirements.

¹¹⁸ [Food and Agriculture Organization of the United Nations, FAOSTAT.](#)

National poverty thresholds

National poverty thresholds provide a more useful reference for policy-makers since they take into account the level of development and context specific to a given country.¹¹⁹ National poverty lines can normally be found from the national statistical office and/or other government agencies responsible for their calculation. However, it is important to bear in mind that the national, statistical definition of a poverty line may not necessarily correspond to the legal definition of the needs of workers established in national legislation and necessary for minimum wage fixing. In case of a discrepancy, poverty lines can and should be complemented with additional elements. Poverty lines or any other index measuring workers' needs are not permanent parameters. The sustained development of a country should result in the inclusion of more concepts in the basic needs basket for low-income workers. For this reason, it is recommended that these standards be revised on a regular basis.

Relative poverty lines

Relative needs and relative poverty lines are defined as some proportion - sometimes 60 per cent - of median household income. Relative poverty lines better capture the “cost of social inclusion and equality of opportunity in a specific time and space” and are usually preferred in more developed economies¹²⁰.

Household size: How many people's needs can or should be met?

Household size varies across workers and also through the lifetime of a worker. During the working lifetime of an individual, it is common that a wage earner's family comprises both adults and dependants. But how many dependents? How many people's needs should be met? Considering the potential multiplicity of situations, what is the best approach to estimate the size of a household? Three possible options are presented below:

- consider the national average
- consider two adults and two minors as a structure that ensures population replacement
- consider the average household size of lower-income households, given that minimum wages generally aim to protect these groups and that poorer households tend to be larger.

Irrespective of the option chosen, household size should also be adjusted for the lower consumption needs of children and for economies of scale. The poverty line for a family of four is not equivalent to four times the poverty line for one person, since, for example, children

¹¹⁹ National poverty thresholds may be determined on the basis of various methods. Some examples are described in [Haughton, J.; Khandker, S.R. 2009. *Handbook on poverty and inequality* \(World Bank, Washington DC\).](#)

¹²⁰ Jonathan Bradshaw; Yekaterina Chzhen; Gill Main; Bruno Martorano; Leonardo Menchini; Chris de Neubourg (January 2012). [Relative Income Poverty among Children in Rich Countries](#) (PDF) (Report). Innocenti Working Paper. Florence, Italy: UNICEF Innocenti Research Centre. [ISSN 1014-7837](#).

consume fewer calories and only one house is needed (instead of four homes for a four-person family).

There are different ways to account for differences in consumption and economies of scale. One example of an adjustment formula is: $E = (A + \alpha K)^\theta$ where A represents the number of adults, K is the number of dependent children, α represents the spending of a child relative to an adult, and θ captures the economies of scale in a given household.¹²¹ Another option is to use the OECD equivalence scale, which assigns a value of 1 to the first household member, of 0.7 to each additional adult and of 0.5 to each child.

Labour force participation rates: how many people work in a household?

How many people work in a household? This question is important to determine how many people's needs should be met through one minimum wage. The answer is of course different if two adult members earn a minimum wage as opposed to only one adult.

When minimum wage policies were introduced at the beginning of the twentieth century, the labour force was mainly composed of male workers, with only one breadwinner per household. This has changed in recent times and labour force participation rates among women have generally increased. In developed countries, female labour force participation averaged around 53 per cent in 2013, compared to about 67 per cent for men.¹²² In developing and emerging economies, labour force participation rates vary across regions, and gaps still remain between men and women. For example, in Latin America, female labour force participation in 2013 was about 54 per cent (compared to about 80 per cent for men), while in the Middle East it was only about 19 per cent (compared to 75 per cent for men).

Changes in the labour force participation rates of women over time increase the likelihood that families may have more than one income. This is equally true for youth that may postpone their transition out of the family home. At the same time, in many parts of the world there has been an increase in the number of mono-parental households, which still depend on only one income. The amount of income earners per household is very much related to the income distribution, which can vary across the distribution. For example, high-income families may have one, two or more incomes, while at the lower end of the distribution poorer families may have only one income earner.

Hours worked

It is also important to take into consideration the number of hours worked, as the minimum wage usually corresponds to the amount obtained when working full time. Part-time workers are only entitled to the proportion of the minimum wage that corresponds to the hours worked. Therefore,

¹²¹ [Deaton, A.; Zaidi, S. 2002. Guidelines for constructing consumption aggregates for welfare analysis, Living Standards Measurement Study Working Paper 135 \(Washington DC, World Bank\).](#); Also see [OECD, "What are equivalence scales"](#).

¹²² [ILO, Key Indicators of the Labour Market \(KILM\).](#)

when estimating the number of workers per household it is important to adjust the figures to the equivalent full-time worker (i.e. 1.5 full-time equivalent workers implies one person working full time and one working part time).¹²³

Given all these different situations, as well as the methodological aspects, what is the most appropriate way to estimate the number of income earners per household for purposes of the minimum wage fixing process? Four possible model scenarios are presented here:

- Only one full-time worker, in order to ensure that a household covers its basic needs with one minimum wage.
- All working-age adults in a household work full time. For example, in a family with two adults and two children, the two adults would work full time.
- The average at the national level, taking into consideration that in many households there is more than one income earner and that not all workers work full time.
- The average among lower-income families, in case the number of workers differs from the average family.

Estimating the needs of workers and their families in practice – an illustration

To illustrate the effects of applying the different alternatives, we have selected data from Costa Rica. In Costa Rica, the minimum wage is set for nine skill levels (unskilled worker, semi-skilled worker, and so on); and for selected occupations (such as domestic workers and coffee pickers among others). The minimum wage for unskilled workers is known as the *salario minimo minimorum*. It acts as the floor for all workers, except those with specific rates (like domestic workers).

In 2011 Costa Rica estimated the cost of a basic basket of foods on the basis of the National Survey of Incomes and Expenditure. This basket, known as “canasta básica de alimentos” (CBA), contains the food necessary to satisfy the caloric needs of an average household (at the monthly market price). Non-food basic needs are also included and estimated to be 12 per cent above the CBA. In addition, the average size of the household was estimated at 3.4 people, while the average size of the poorest 50 per cent of households was 3.8 people. The average number of full-time equivalent workers per household was estimated to be 1.48, while in the poorest 50 per cent of households the average number of full-time equivalent workers was 1 per household.

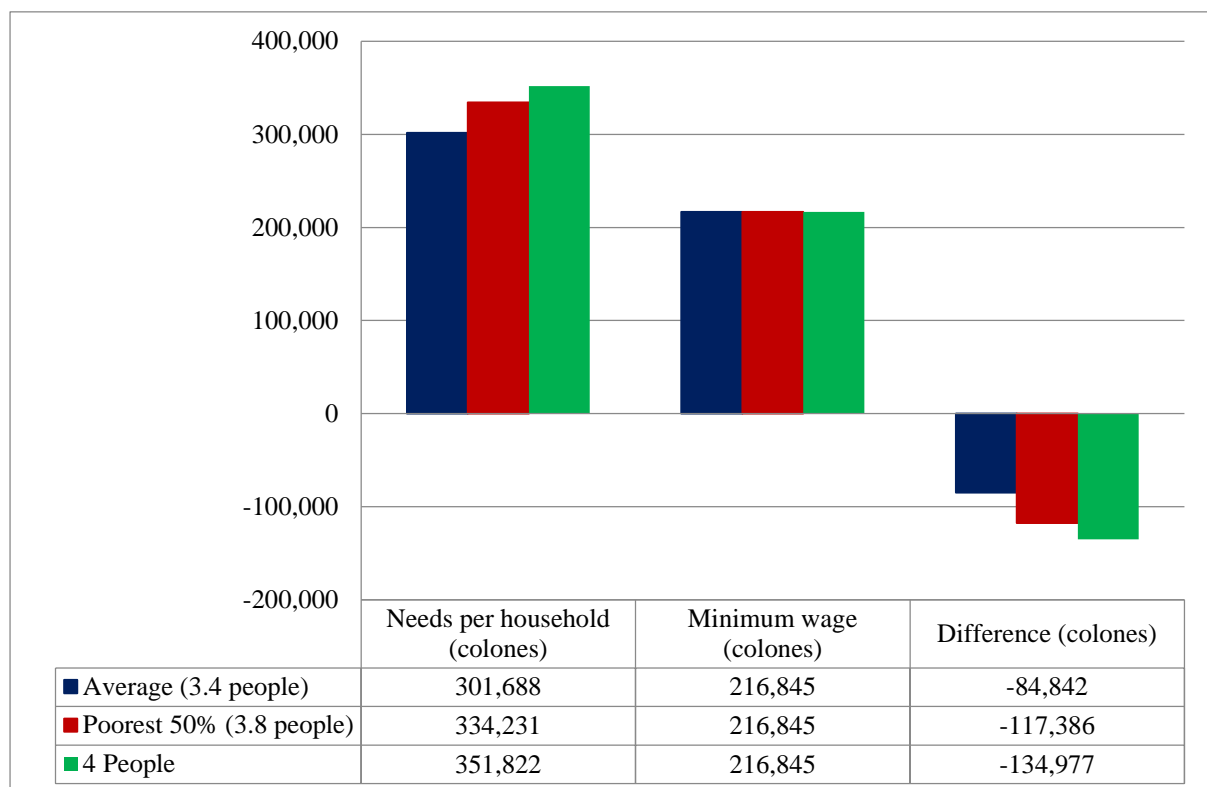
Lowest minimum wage example

In order to estimate a potential minimum wage that is high enough to lift households out of poverty, first we consider the situation of a family with only one minimum wage earner (which corresponds to the reality of the poorest 50% of households). We estimated whether the lowest minimum wage (the *salario minimo minimorum* for unskilled workers), provided below in local

¹²³ [Fagan, C.; Norman, H.; Smith, M.; and Gonzalez Menendez, M. “In search of good quality part-time employment”, Conditions of Work and Employment Working Paper Series No.43, \(ILO INWORK, Geneva\).](#)

currency (Costa Rican colones), was enough to cover the basic needs of a family of three alternative sizes: 3.4 people (national average), 3.8 people (poorest 50 per cent) and four people (the size guaranteeing reproduction). For this comparison we considered the minimum wage net of mandatory contributions to social security (9.2 per cent less than the gross minimum wage). In all three cases, there is a gap between the needs requirement and the minimum as illustrated by the difference column in the chart (it is negative for all household sizes). Therefore, in all three cases, the lowest minimum wage (*salario minimo minimorum*) is insufficient to cover the needs of workers and their families, using the national poverty line as a basis.

Figure 1: Meeting the needs of workers and their families with one minimum wage, by household size (2012)



Examples with multiple minimum wages

By contrast, as can be seen in Figure 2, if we consider the average number of workers per household to be 1.48, the national average, the gap between the minimum wage and the needs of the household disappears for the average 3.4 person household. However, the small gap remains for households with 3.8 and four people. Finally, Figure 3 shows the case where two people work full time. In all family types, the minimum wage earned by two full-time workers meets their needs and those of their families. This can be seen by the positive difference column.

Figure 5.2 Costa Rica: Meeting the needs of workers and their families with 1.48 minimum wages, by household size (2012)

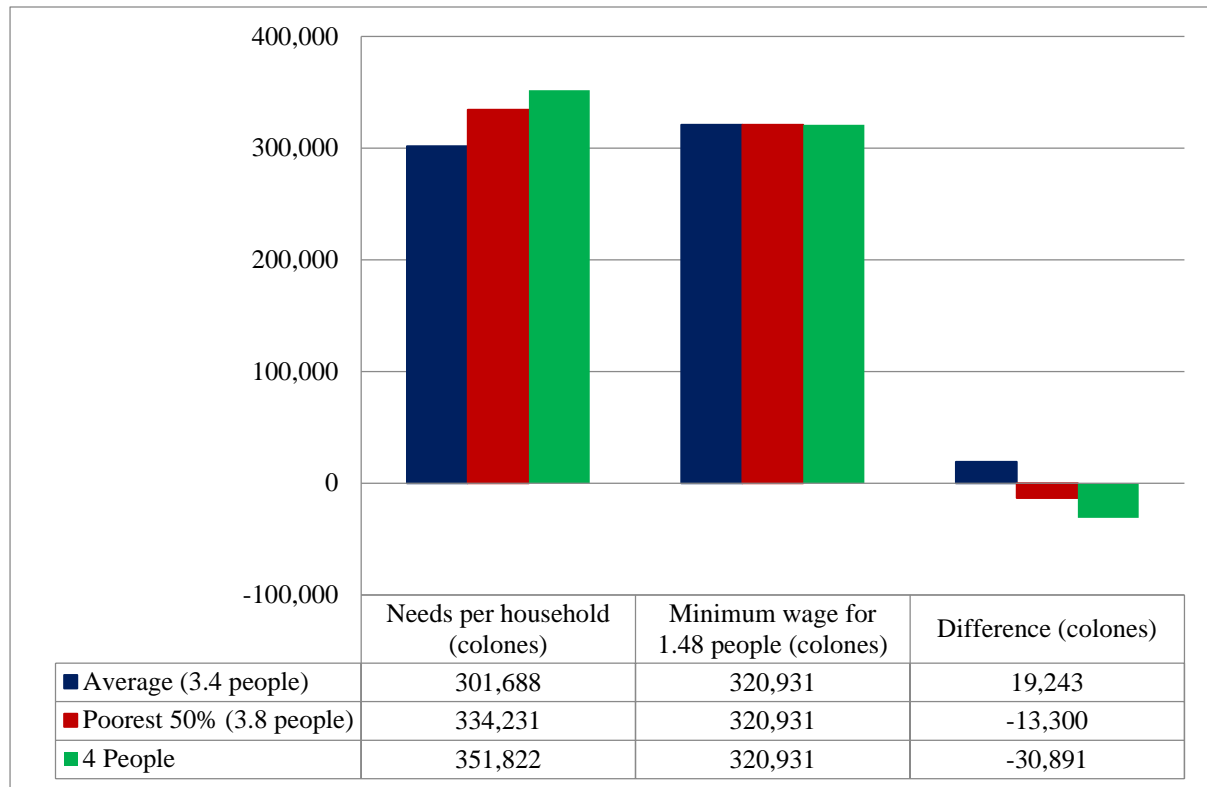
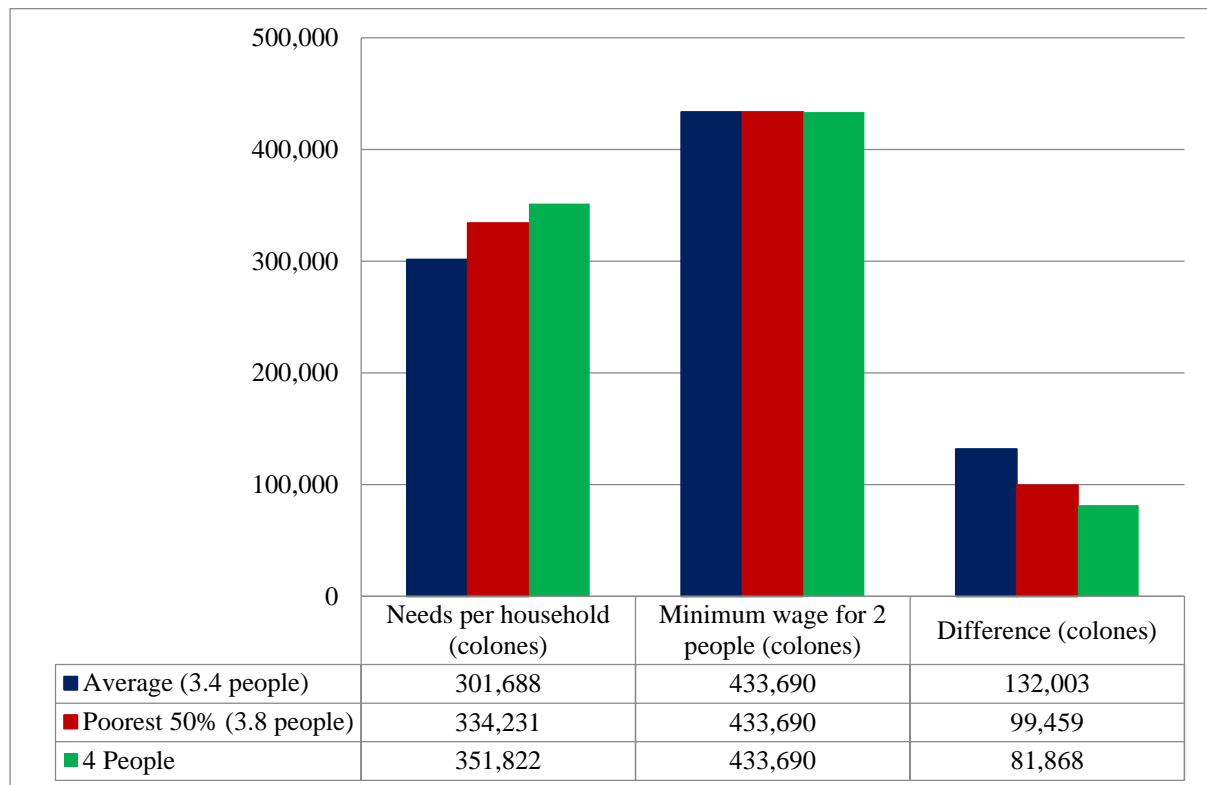


Figure 5.3 Costa Rica: Meeting the needs of workers and their families with two minimum wages, by household size (2012)



A short conclusion

Our discussion shows that there are no unambiguous ways to determine whether a minimum wage meets the needs of workers and their families. The answer will always depend on what criteria are used to determine the needs of workers and their families in a given country, the household size of workers, as well as the number of workers per household. It is important for policy makers, however, to have a clear understanding of the living standard that minimum wage earners can afford, and to try to agree on minimum income benchmarks that should be reached through minimum wages and other policies such as income transfers.

Annex 3

The effects of inflation on real minimum wages

Figure 1 presents two situations with constant inflation and full indexation of minimum wages on the basis of past inflation. In country A, with an annual inflation rate of 10 per cent, the annual average of the real minimum wage is 95. At the beginning of the second year the application of full indexation results in a starting level of 100 and the constant inflation rate reproduces the erosion in the purchasing power, resulting in the same average real minimum wage of 95.

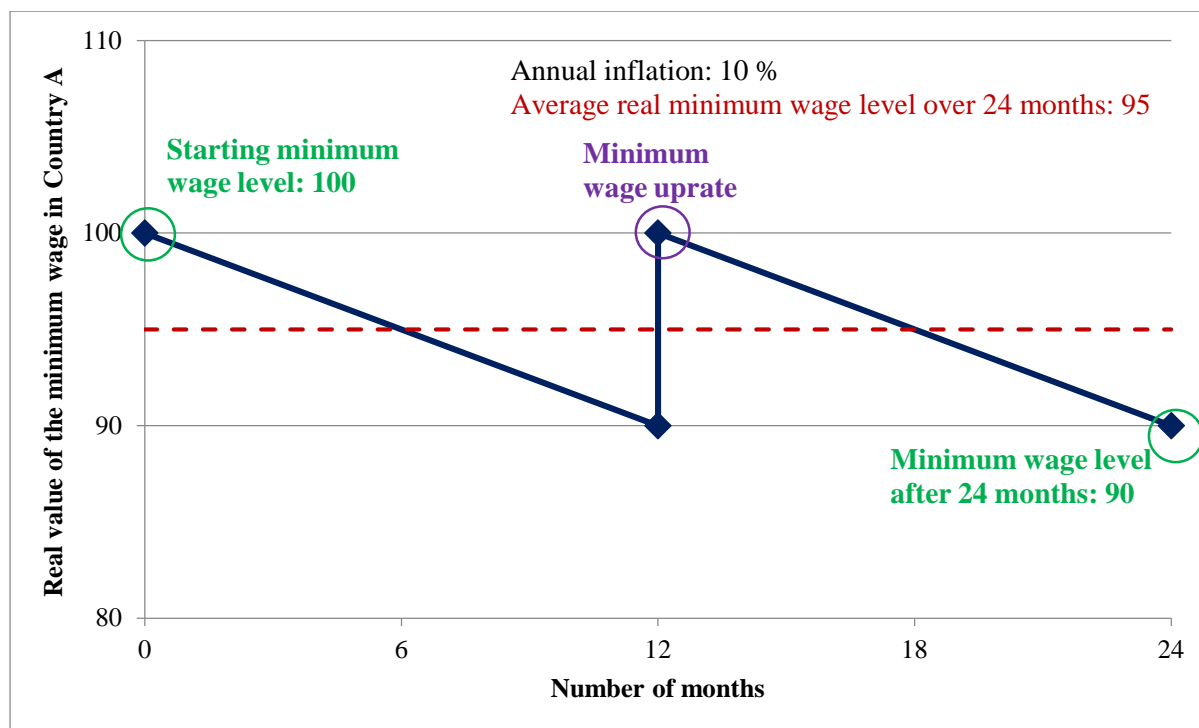
In country B, where the inflation rate is only 2 per cent per annum, the annual average real minimum wage is 99. Therefore, although this kind of indexation seeks to protect the purchasing power of minimum wages, the real minimum wage is affected by the inflation rate.

The faster inflation accelerates, the more the real minimum wage loses value.

Figure 2 illustrates this situation for a hypothetical country where the inflation rate goes from 5 per cent in year 1, to 10 per cent in year 2 and 15 per cent in year 3 (the intensity of the inflationary process is reflected in the slope of the curve in each of the years). Although the departing level is the same for each of the three years, the real minimum wage at the end of each period is smaller every year, as well as the resulting average real minimum wage level.

Figure 1. Two situations with constant inflation and fully indexed minimum wages

Country A: Constant inflation and full indexation to past inflation (annual inflation 10%)



Country B: Constant inflation and full indexation to past inflation (annual inflation 2%)

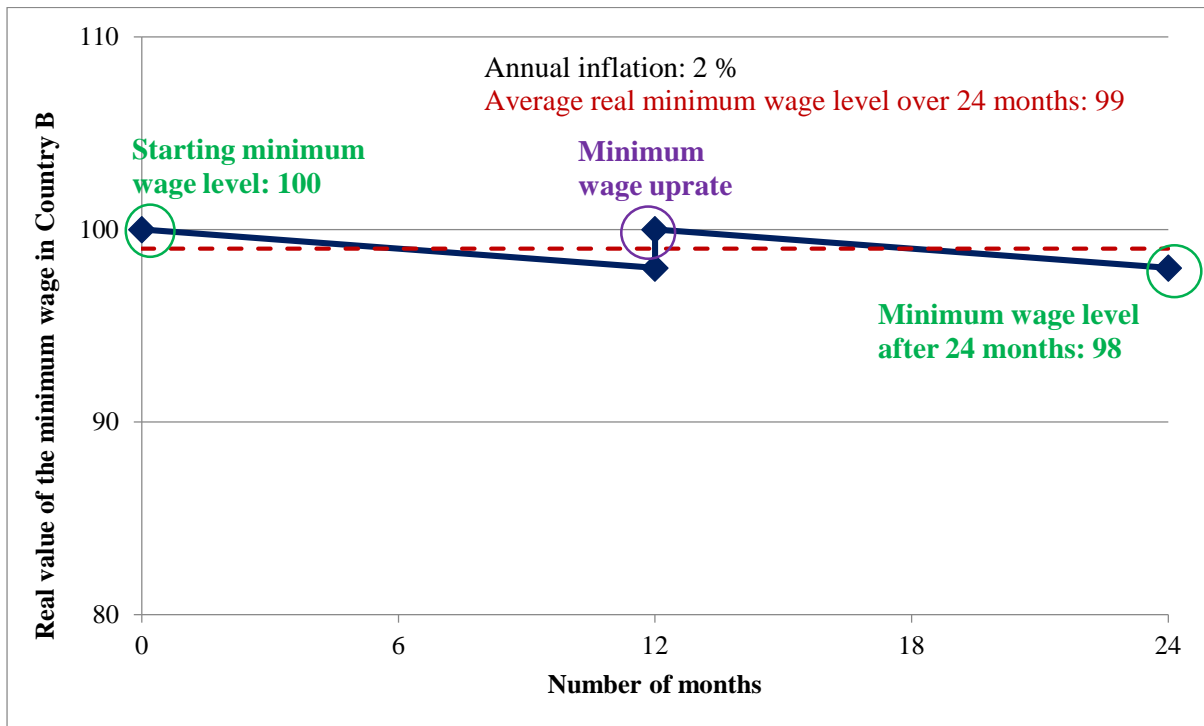
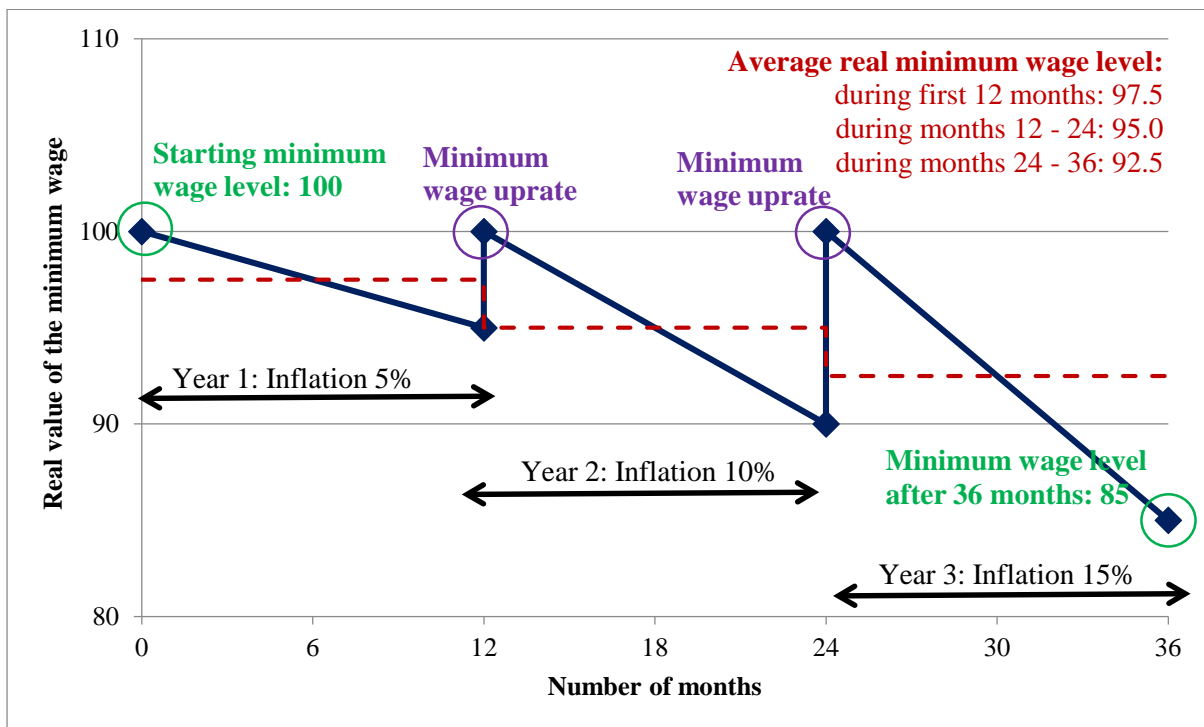


Figure 2. Accelerating inflation, minimum wage fully indexed to past inflation

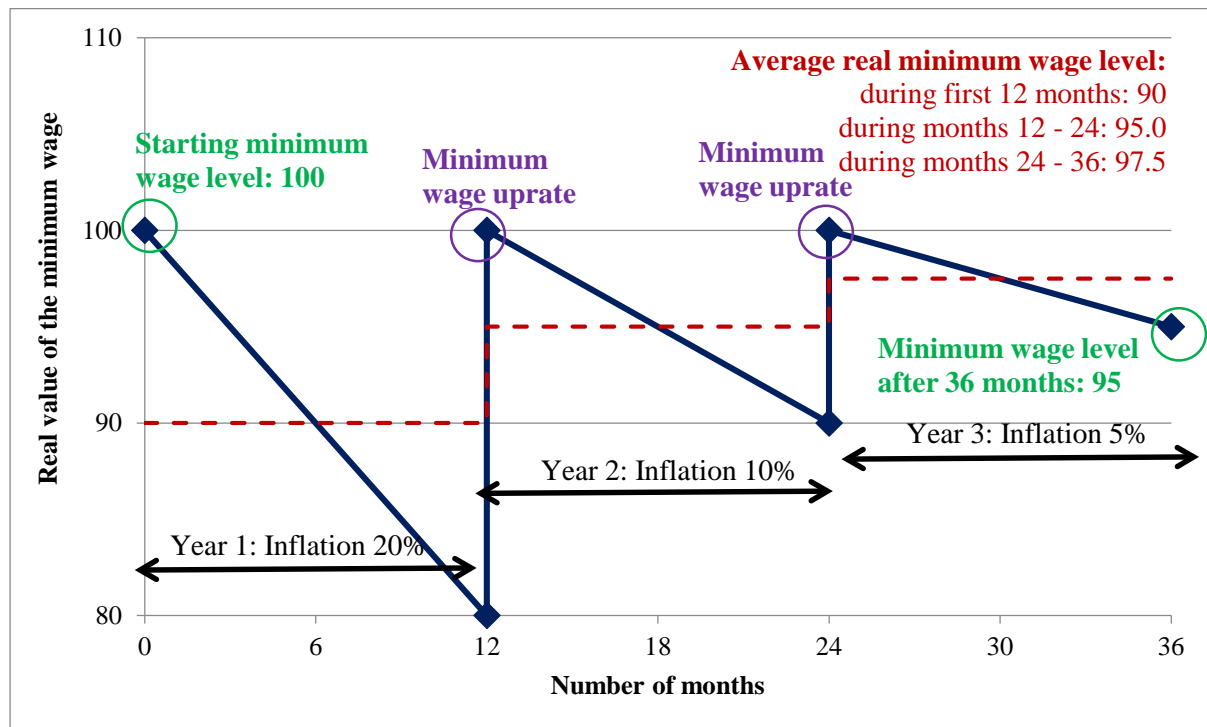


By contrast, the application of full indexation to past inflation in a situation where the inflation rate is falling would result in real minimum wage increases. Figure 3 presents a situation where the inflation rate goes from 20 per cent in year 1 to 10 per cent in year 2 and 5 per cent in year 3. The reduction in

the rate of inflation results in an improvement of the average real minimum wage in the successive years, even if indexation only recovers the initial level.

Hence, although full indexation to past inflation is implemented to protect the purchasing power of minimum wages, keeping inflation at low levels is still crucial to attain that objective.

Figure 3. Decelerating inflation, minimum wage fully indexed to past inflation



The Frequency of the Adjustment

In a context of inflation, the frequency of the adjustment matters too: the longer the period without adjustment, the higher the erosion in the real value of the minimum wage.

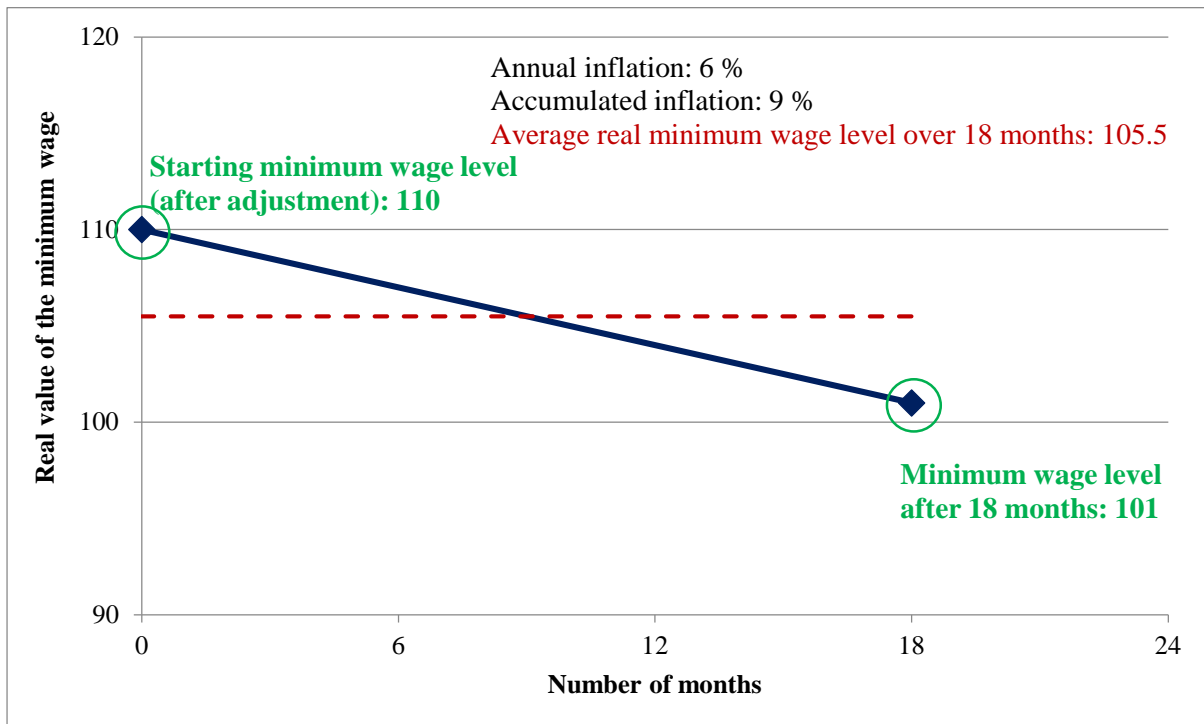
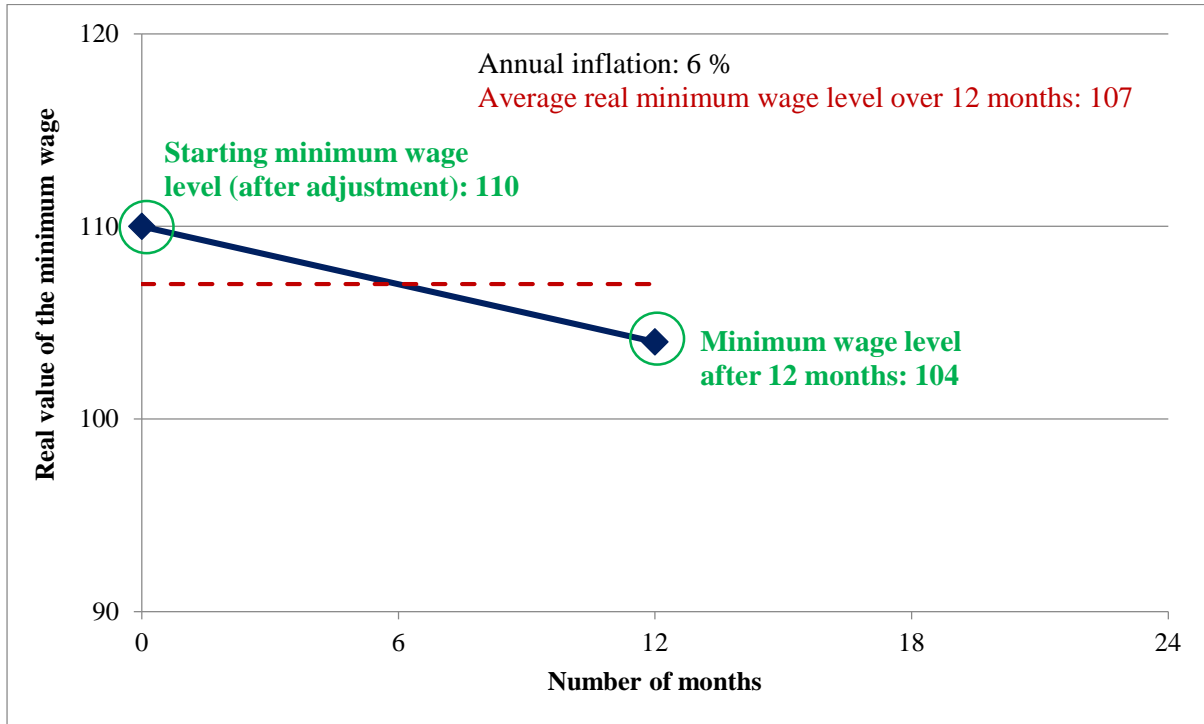
Let's take a hypothetical example of Country X where the social partners have just agreed to increase the minimum wage by 10 per cent. Of that rise, 9 per cent corresponded to past inflation accumulated during the previous 18 months, and the additional point corresponded to the other criteria considered. Assume that annual inflation is around 6 per cent.

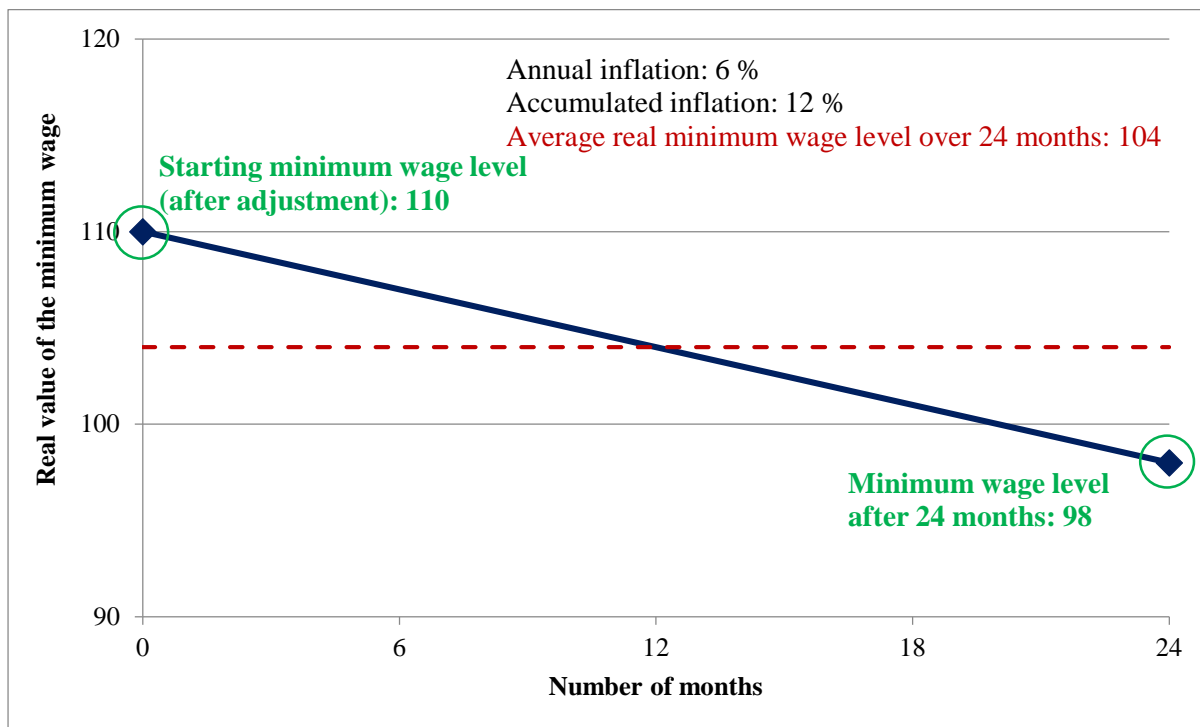
To simplify matters, we will consider that Country X's inflation rate remains stable at that same level in the coming months, and that economic performance is constant over the same period.

Country X adjusts minimum wages at irregular periods, which are not determined by any quantitative variable. This means that when the new minimum wage level is determined, the parties involved do not know the duration for which it will be applied.

What would be the result of the 10 per cent minimum wage adjustment if the period of application is 12 months, 18 months or 24 months? This is illustrated in Figure 4.

Figure 4. The result of Country X's 10% minimum wage rise, 12 months, 18 months, 24 months





If the new minimum wage level is applied during 12 months, the accumulated inflation during the period would have been 6 per cent. Compared to the real level prevailing just before the last adjustment, the real value at the end of the actual period would be 104, that is, four percentage points above the departing level.

However, if the minimum wage is applied during 18 months, the accumulated inflation would be 9 per cent and the real gain at the end of that period would be just one percentage point (101).

In the last case, the new minimum wage is applied during 24 months, during which the accumulated inflation is 12 per cent, and the real minimum wage ends at 98. In this case, at the end of the period, the minimum wage reflects a real loss of 2 percentage points.

The Country X example shows that the same minimum wage adjustment could result in a real gain, could be neutral, or could even result in a real loss, depending on the duration of application of the new minimum wage level. As the parties involved in determining the new level do not know its effective duration, they are taking into account only part of the decision – the other part remains in the hands of the body determining the timing of the next minimum wage adjustment.

Annex 4

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.

Annex 5

Minimum wages and labour productivity

Recent studies have shown that minimum wages not only help to reduce wage dispersion and to channel productivity gains into higher wages, but they also can contribute to higher labour productivity – both at the enterprise level and at the aggregate economy-wide level. At the enterprise level, workers may be motivated to work harder. They may also stay longer with their employer, gaining valuable experience and also encouraging employers and employee to engage in productivity-enhancing training. At the aggregate level, minimum wages can result in more productive firms replacing least productive ones – and surviving firms becoming more efficient. These mechanisms can increase overall economy-wide productivity.

(a) workers can be more motivated

A large number of experimental studies have supported the hypothesis formulated by Akerlof in 1982 that employees consistently provide higher effort levels in response to higher wages, the so-called “efficiency wage” theory. Most of these studies have focused on pay levels of individual firms, showing that higher pay compared to elsewhere can attract more experienced and motivated applicants. Higher pay can also elicit greater commitment and productivity from existing employees (Ehrenberg and Smith, 2009). The effect of minimum wages - as opposed to higher wages in individual firms - on workers’ motivation has also been found to be positive. Using a standard natural experiment design Georgiadis (2013) for example found that the U.K. national minimum wage has operated as a kind of “efficiency wage” in the residential care homes sector, increasing motivation and leading to a reduction in the level of worker supervision required. Experimental evidence in the U.S. by Owens and Kagel (2010) also points to a positive relationship between minimum wages and workers’ effort, leading to the conclusion that – if well-designed – minimum wages can generate improved outcomes where employees have higher wages and employers have the same, or slightly higher, average labour cost.

(b) there can be more productivity-enhancing training as a result of lower turnover

Another area that has been increasingly researched in recent years is the link between minimum wages and reduced turnover, i.e. the flow of workers in and out of jobs (or the rate of employee separations and hires). Dube, Lester and Reich (2012) found that in the U.S. a 10% increase in the minimum wage results in a reduction of 2.1% in turnover for restaurant workers and a 2.0% reduction in turnover for teenagers. They attribute this finding to the reduction in wage competition between low-paying enterprises. In Canada, Brochu and Green (2013) found that hires, quits and layoffs of young workers with low education decline in the year after a minimum wage increase. In Portugal, a study documents how separations of young workers fell substantially after a youth-specific minimum wage increase (Portugal and Cardoso, 2006).

All this evidence suggests that with a more generous minimum wage, employers more easily retain their workforce, as a result of which workers can learn on the job and be trained to become more productivity over time. Efficiency wage and training responses to increased

labour costs have been studied by Arulampalam et al. (2004), who found indication that the introduction of the national minimum wage in Britain led to increased employers' training.

(c) some firms can become more efficient

Researchers have pointed out that productivity increases may be the result of a fall in employment due to the minimum wage, as enterprises substitute capital for labour and adopt more capital-intensive production technologies. While this remains a distinct possibility when the minimum wage is set too high, the emerging trend is that the effects of minimum wages on employment are often small or insignificant, and in some cases positive (Kuddo et al., 2015). Although the range of estimates from the numerous existing studies varies widely, meta-studies (studies of studies) in the U.S. and the U.K. found the most precise estimates to be clustered at or near zero employment effects (Doucouliagos and Stanley, 2009; Leonard et al., 2013; Belman and Wolfson, 2014). Among emerging economies, no obvious employment effects of minimum wages were identified in China (Wang, forthcoming).

Riley and Bondibene (2015) exploited the introduction of the National Minimum Wage in Britain and subsequent increases to identify the effects of minimum wages on productivity. They found that companies responded to these increases in labour costs by raising labour productivity. These labour productivity changes did not come about via a reduction in firms' workforce or via capital-labour substitution. Rather they were associated with increases in total factor productivity, consistent with organisational change, training and efficiency wage responses to increased labour costs from minimum wages. These conclusions align with findings of some previous studies, such as those of Croucher and Rizov (2012) who found an improvement in labour productivity in all of U.K.'s low-paying sectors as a result of the introduction of the national minimum wage, and particularly so in larger firms.

(d) There can be increased efficiency at the macro level

At the macro-economic level, it has been observed that minimum wages may prompt low-productivity firms to leave the market and higher-productivity firms to expand – thereby raising overall efficiency of the economy. Mayneris, Poncet and Zhang (2014), using data for more than 160'000 manufacturing firms in China found that increases in city-level minimum wages resulted in lower survival probability of low-productive firms. For surviving firms, wage costs increased without negative repercussions on employment. They explain this finding by the fact that productivity in surviving forms improved significantly, allowing firms to absorb the higher labour costs without hurting their employment or profitability. They conclude that minimum wage growth allows more productive firms to replace the least productive firms and forces incumbent firms to strengthen their competitiveness.

Although less scientific, surveys of employers also show that companies first and foremost try to meet the cost of higher minimum wages by investing in training and equipment to make their workers more productive (FT, November 18, 2015). This suggests that minimum wages can also lead to more innovation over the long run (Noah Smith, Bloomberg View). Using semi-structured interview with 80 senior representatives of employers' organizations and trade unions, senior civil servants and industrial relations academics, McLaughlin (2007) examined how minimum wage regulations can raise productivity in Denmark, New Zealand

and Ireland. He found that higher minimum wages are important for productivity but in the long-term other supporting institutions – such as collective agreements that enable training outcomes - can contribute to encourage firms to adopt the “high road” strategy through training and higher quality-based products market strategies.

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Contact

www.ilo.org/minimumwage

Inclusive Labour Markets, Labour Relations &
Working Conditions Branch (INWORK)
International Labour Office
Route des Morillons 4
CH - 1211 Geneva 22

Tel. +41 22 799 76 46

inwork@ilo.org