

MINIMUM WAGE POLICY

SURVEY

INTERNATIONAL ORGANISATION OF EMPLOYERS

November 2006

METHODOLOGY

The IOE carried out a survey of its members on “Minimum Wage Policy” between July and September 2006. Of the 142 IOE members we surveyed, we received 48 answers from the following countries:

Algeria	Cyprus	Iran	Montenegro	Tanzania
Australia	Czech Republic	Japan	Netherlands	Tunisia
Bangladesh	Ecuador	Kuwait	Norway	Turkey
Belgium	France	Lesotho	Portugal	Uganda
Bulgaria ¹	Germany	Madagascar	Russia	U.K.
Cameroon	Ghana	Malaysia	Serbia	U.S.
China	Honduras	Mali	South Africa	Venezuela
Colombia	Hungary	Mexico	Spain	
Congo	Iceland	Moldova	Sweden	
Cote d’Ivoire	India	Mongolia	Switzerland	

Responses came from a mixture of developing and developed countries and represented a good regional spread. Twenty from Europe; Eight from Asia; six from the Americas; twelve from Africa; and one from the Arab States. Member federations were asked thirteen questions – although not every responding federation replied to all Thirteen.

The survey was designed to ascertain a general picture of employers’ views of the issue and the questions were reasonably broad. A comprehensive documentation of the issues under survey was beyond the scope of this project.

The information we subsequently received reflected this broad approach and in certain cases we made some assumptions based on the answers we received.

This paper is divided into two parts. The first part provides an overview of the survey results and tries to extract some tentative conclusions and key messages from each part of the survey. The second part provides the actual breakdown of answers for each question.

¹ We received two completed surveys from member organizations in Bulgaria

1. MINIMUM WAGE POLICY

1. COVERAGE

More than 80% of the countries surveyed replied that there is minimum wage legislation (hereafter “MWL”) in their jurisdictions. The majority of European Union countries for example currently have statutory minimum wages (nearly 75% of EU member states have some form of statutory minimum wage) in addition to collectively agreed wages.

Minimum wages are the same throughout the country in almost 50% of the cases (e.g. Colombia, where all the working population are covered by the same MWL). In almost 30% of the responding countries, the minimum wage differs within sectors, this is the case in South

THE MINIMUM WAGE IS A CONCEPT PREVALENT IN THE MAJORITY OF COUNTRIES SURVEYED

Africa. In Côte d’Ivoire, the minimum wage does not apply to the agricultural sector. In Tanzania there is legislation in place that seeks to establish a minimum wage sector by sector – but in practice a single minimum wage across all sectors has emerged.

In the US certain sectors of the economy are exempt from minimum wage laws. For example, doctors, lawyers, and other professionals meeting certain criteria are exempt from minimum wage and overtime laws. In addition, certain restaurant workers who receive gratuities as part of their work, and outside sales people who are compensated by commissions either have a reduced minimum wage or no minimum wage at all.

19% of the sample said that a high percentage of the workforce were covered by collectively agreed minimum wages. 28% of respondents said that differences in minimum wages exist between regions in their country but only 9% said that there were differences for younger workers and for other groups of workers. In India minimum wages are established state by state which adversely has had negative spill over effects and resulted in migratory pressures from low to high minimum wage states.

SOME COUNTRIES HAVE MULTIPLE MINIMUM WAGE

Some countries have multiple minimum wages in place. Australia for instance has over 20,000. In Germany there are more than 8,000 collective wage agreements with a statutory differentiation of wages with respect to skills, regions and sectoral differences. More than 80% of all employees are covered by those collectively agreed wages, either directly or indirectly.

Even in countries where there is MWL this can impact on only a minority of workers, as in Portugal where *collectively agreed* minimum wages predominate. When there is no MWL, workers are covered by collectively agreed minimum wages in half the countries reporting. In the US certain municipalities also have what is called “living wage” legislation where the minimum wage is set at a level that is artificially high in comparison to the market (this can be a detractor from economic development and growth).

In Hong Kong the authorities will introduce a voluntary approach to minimum wages called a ‘*wage protection movement*’ through which employers would voluntarily agree to respect minimum pay levels for certain categories of workers (e.g. cleaners, security guards etc). They will trial this policy and if it fails will then legislate. In China MWL has been in place since 1993 and the China Enterprise Confederation (CEC) are generally supportive of the legislation but have concerns of the negative impact future rises to the minimum wage could have on competitiveness.

2. ESTABLISHING MINIMUM WAGES

MWL is set through a variety of means such as: tripartite commissions; national agreements; tripartite institutions; collective agreements ; and directly by government.² In some countries, (for example Iceland) minimum wages are set through collective agreements and this can impact on employers and employees irrespective of whether they are members of the negotiating organizations.

**MINIMUM WAGES
ARE SET THROUGH A
VARIETY OF
MECHANISMS**

In the US some federal and state laws require certain sectors, such as government contracts, to pay above market wages as determined by survey. Great difficulties exist in determining the accuracy of such surveys and the appropriate level of premium wages. In addition, there is an increasing trend for local jurisdictions to impose higher than market wages based on the receipt of local funds, such as through government contracts.

In more than half of the countries surveyed, the set minimum wage is “about right”. In only 20% of cases respondents feel that the minimum wage was too high.³ In a quarter of cases respondents felt it was too low, for instance in Russia, where MWL is set below the current official subsistence level (but minimum wages are also set by collective agreements). In Cameroon the legislation is old and the rate the minimum wage is set at is now outdated relative to the cost of living, this is also the case in Uganda and Malaysia.

In contrast, the U.K’s National Minimum Wage is becoming too high and impacting significantly on differentials such as performance related pay or recruitment incentives. This increases costs, which are then offset by cutting benefits for employees. A major emerging theme from consultations by the Confederation of British Industry is the reduction of employee hours to compensate for MWL, either by having staff work less hours or having less staff working the same contracted hours. Cutting jobs is a drastic measure to cut the wage bill, but, worryingly, many companies appear to be considering this, particularly those competing with business in low wage economies. The most recent rise in the UK’s rate (October 2006) pushed up the main rate by 6% (ahead of average earnings which went up by 4.4%) since 1999 the minimum wage has risen by 49% (average earnings rose by 32% in the same period).

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In contrast, the U.S. relies heavily on market forces to set wages, and most employers pay more than the minimum wage.

² A 2005 study by the European Industrial Relations Review (EIRR) identified three main categories for minimum pay setting in Europe: A) A national minimum wage (NMW) set either by statute or binding collective agreement (Czech Republic, Estonia, France, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovenia, Spain and the UK); B) Legally binding minima set by collective bargaining at sectoral level (Austria, Denmark, Finland, Germany, Italy, Norway, Sweden and Switzerland); C) Selective means under which minima are largely set by means of collective bargaining, but where there are some statutory minima in selected trades or industries (Cyprus).

³ A 2005 study by European Industrial Relations Observatory (EIRO) found that in most EU countries minimum wages have increased rapidly over the last 10 years with the largest increases in some of the new Member States of the European Union.

CURRENT SITUATION IN EUROPE

National minimum wages in the European Union in 2006 range from €1,503 a month in Luxembourg to €129 in Latvia (Luxembourg's rate is twelve times higher than Latvia's). Increases in the minimum wage from 2005-2006 ranged from between zero in Greece and Portugal to 38% in Turkey, with the highest increase in the EU in Poland at 14%. The average rise in all countries was 8.5%.

The proportion of full-time employees earning the minimum wage differs markedly among European countries. The data from 2004 for 16 countries shows differences ranging from less than 3% (Spain, Slovenia and Slovak Republic); between 3-8% (Ireland, Hungary, Estonia, Poland and Portugal); to above 12% (France, Lithuania, Luxembourg and Romania). The comparable figure in the US is 1.4%. The percentage of female full-time employees earning the minimum wage is higher in all European countries except two (Malta and Hungary).

** All figures from the European union's statistics collection body EUROSTAT*

3. ADJUSTMENT MECHANISMS

There are mechanisms in place for adjusting minimum wages in 82% of countries surveyed. These adjustments are usually done on an annual basis. In instances, there is a mechanism for review – but it is not applied, such is the case in Côte d'Ivoire. In some countries, the minimum wage is set in relation to inflation (e.g. Bangladesh where currency movements are also taken into consideration) while in other countries it is not (e.g. Cameroon, Algeria). Adjustments in France are linked to inflation, if inflation exceeds 2% annually an automatic adjustment process kicks in. In India the tripartite minimum wages committees at state level decides on minimum wages based on the cost of living index which is compiled by the national labour bureau.

MOST COUNTRIES HAVE WAYS AND MEANS IN PLACE TO REVIEW THE MINIMUM WAGE

As evidenced from the survey results, there is a wide and varied range of mechanisms to decide, monitor and implement national wage policies. For instance, in Bangladesh a statutory body is responsible for recommending wages to the Government. In the Netherlands while there is no national wage policy, social partners at the national level in the bipartite negotiations may give recommendations on wage policy to their sectors and branches. This is not binding, nor subject of national regulation, but on the other hand, if such a recommendation is given (which is not automatically the case) it is usually consulted and approved by the membership of the umbrella organisations and therefore has a real impact. In Malaysia social partners and government agreed on a *Productivity Linked Wage System* in 1995 (however despite this it has proven difficult to implement in heavily unionised sectors). In Belgium a mechanism is in place to benchmark salaries with those of neighbouring countries.

In almost 70% of the cases, there have been no freezes on minimum wages for periods of time. In some countries like Montenegro, MWL has not had substantial change for four years. In Australia in the early 1980's a wages freeze took place during a period of recession. In Tanzania the rate has remained static since 2002 and in Algeria there was a freeze during structural adjustment phases. In Côte d'Ivoire and the Democratic Republic of the Congo freezes have been in place for more than 10 years in the last two decades. In the

Netherlands a freeze was in place most recently during the period 2003-2005 and since 1968 the minimum wage has been frozen several times, sometimes for more than five years in succession.

In 30% of cases the minimum wage has impacted negatively on inflation and some respondents have identified clear links between minimum wage increases and increases in prices. However, 70% are reporting no link – this would correspond with earlier figures of satisfaction rates with the level of the minimum wage. In countries where the minimum wage is too high the link with inflation may be more pronounced. Dutch employers for instance have pointed out that the high legal minimum wage has had an inflationary impact on wages and hinders the competitive position of Dutch companies on global markets.

**INCREASES TO THE
MINIMUM WAGE ACT
AS A FLOOR FOR
COLLECTIVE
BARGAINING**

Where the minimum wage has impacted negatively on inflation in most of the cases, legislation *has not been* reviewed. In only 19% of cases legislation was reviewed. In Uganda the practice in the 1980s was to announce changes to minimum wage legislation on the radio which had an immediate impact of prices.

Does the minimum wage impact on other wage negotiations? “*Everything is linked*” as the employers in Uganda put it and this was a view shared by a majority of respondents. Increases in the minimum wage can impact on everything from other wage negotiations to threatened strike action. Three quarters of respondents agreed that MWL impacted on collective bargaining generally. In practical terms, many respondents noted that increases to the minimum wage acts as a floor for collective bargaining.

4. MINIMUM WAGES : POSITIVE OR NEGATIVE?

When it came to analyzing the impact of the minimum wage on enterprise creation and growth 63% of respondents felt the impact was negative. Likewise for its impact on increased labour market entry for certain groups of workers, a majority 61% felt it was negative. In India for instance the system itself is extremely bureaucratic and extremely onerous on SMEs and moreover there has been an increased trend of looking to fix minimum wages for political gains, irrespective of economic performance.

**THE MINIMUM
WAGE IS GENERALLY
NOT FELT TO BE
SUPPORTIVE OF
ENTERPRISE
CREATION AND
GROWTH**

In terms of entry into the labour market for certain groups of workers, such as young, female, or disabled workers, MWL has made no difference or has been an obstacle. According to the survey, less than 20% of the respondents felt that the minimum wage acts as an incentive to entry into the labour market for these groups. Low skilled workers and young people were the two groups in particular identified as being adversely affected by MWL. In cases specific MWL is in place for disabled workers that is *specifically structured* not to act as a disincentive – and this works. In some cases benefits

from MWL can be hindered by lack of ancillary measures such as tax and social security reductions (this is the case in Turkey). In the Netherlands an idea pushed by employers is to individualize the minimum wage (several parts of the social security and pension systems are already individualized).

According to the results, the minimum wage leads to the growth of informality in more than 40% of the cases, but in almost 35% of the cases, the minimum wage is not a key issue in

the informal economy. Other factors are drivers for informality. In a very small percentage of the cases (5%) the minimum wage has led to decrease informality and in more than 15% of the countries the minimum wage has made no difference.⁴

The impact of the minimum wage on employment, poverty reduction and investment varies. Positive, negative and no difference categories had similar results. It has had no impact in almost 40% of the cases; in more than 30% of cases it has had a negative impact, while in less than 30% it has been positive.

Sometimes when wages are high, unemployment will increase and poverty is more likely and MWL can limit investment or in cases encourage relocation or outsourcing of functions. The following example from the US showed how an ‘incentivising’ piece of legislation can become a disincentive for investment. When “living wage” legislation with artificially high minimum wages is put in place in economically depressed jurisdictions such as large urban areas, this can actually restrict enterprise development and job growth because large employers with the ability to create significant numbers of entry level jobs tend to avoid relocating to such jurisdictions because of the artificially high labour costs.

**A HIGH
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GROWTH AND
INVESTMENT**

Some respondents stated while MWL can have a positive impact on poverty at the same time it can impact negatively on employment growth. Other said that the social welfare system should address poverty issues and not MWL as wage policy is too blunt an instrument to address poverty.⁵

A central theme running through responses was the danger of setting the MWL too high as this will put pressure on competitiveness, increase informality and discourage investment – a fairly lethal mix.

⁴ In Costa Rica World Bank research (2002) found positive effects for wages, employment, and hours for full-time workers in the formal economy, but for part-time workers in the formal economy they found no effect on wages, but a negative effect on employment and hours. In the informal economy, they discovered negative wage effects for both the full and part time self-employed, but a positive impact on employment and hours worked of part-time workers and no effects on employment and hours for full-time workers.

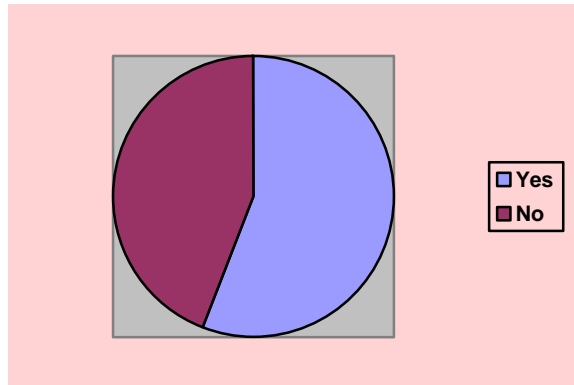
⁵ Research by the Central Bank in Colombia (2004) found that MWL had important gains for families in the middle and the upper income streams but none to significantly negative effects for families at the bottom

2. PART II : SURVEY RESULTS

1. Currently is there a national wage policy?

(43 of 48 responded)

Yes 24 No 19

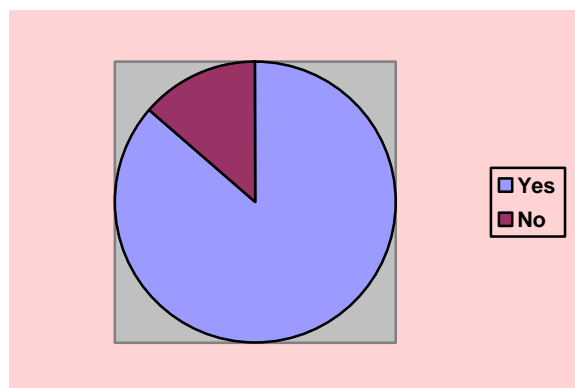


1. A If yes to Q17, what is the nature of the wage policy?

2. Is there minimum wage legislation (MWL) in your country?

(44 of 48 responded)

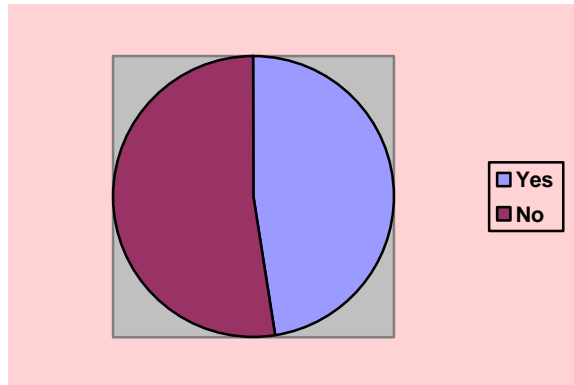
Yes 38 No 6



3. If there is no MWL, is a high percentage of the workforce covered by collectively agreed minimum wages, i.e., through sectoral agreements?

(19 of 48 responded)

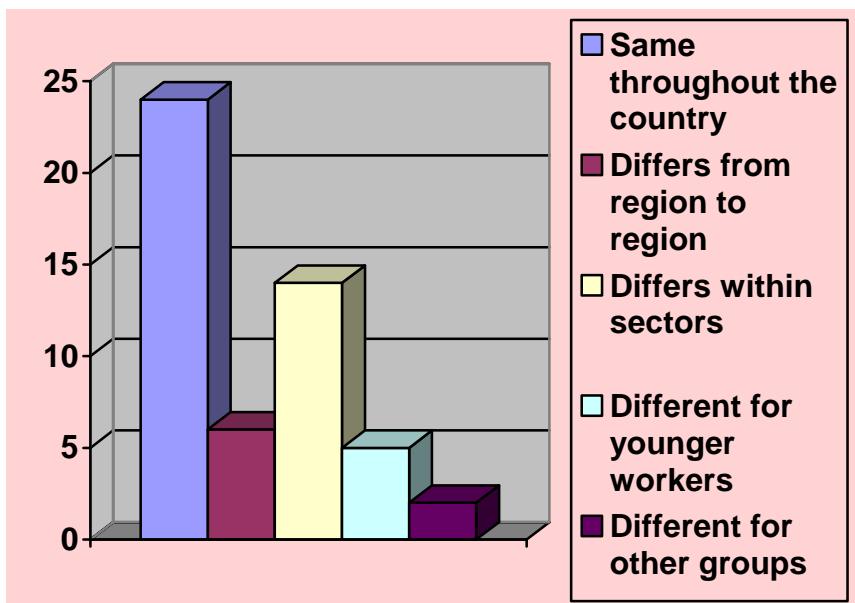
Yes 9 No 10



4. If yes (to Q18) does MWL differ by region, sector or by specific groups of workers?

(45 out 48 responded to at least one of the options)

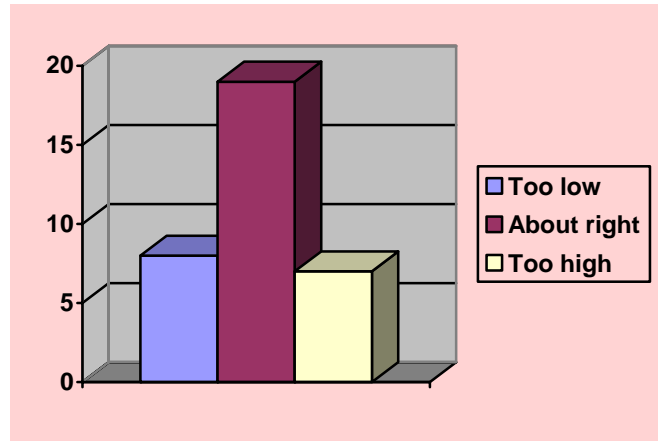
- 24 it is the same throughout the country
- 6 it differs from region to region
- 14 it differs within sectors
- 5 it is different for younger workers
- 2 it is different for other groups of workers (please specify)



5. If yes (to Q18), in your view is MWL currently set:

(34 of 48 responded)

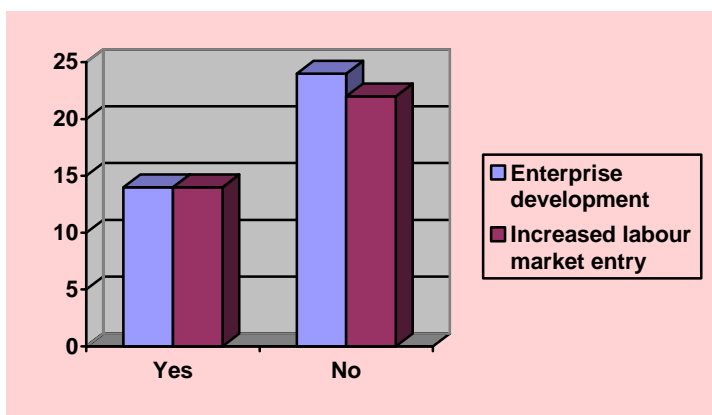
- 8 too low
- 19 about right
- 7 too high



6. In your view, does the current national MWL lead to :

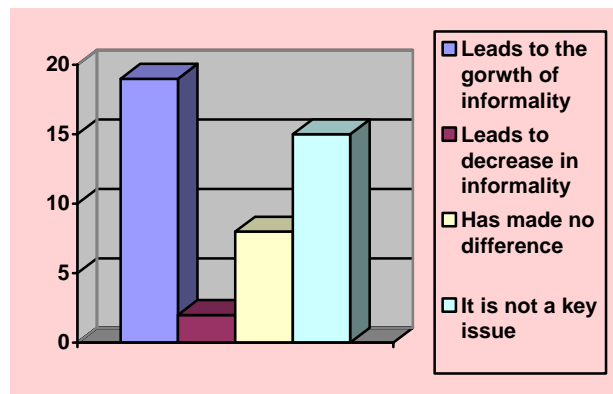
(45 of 48 responded at least to one of the options)

enterprise development and job growth	Yes	14	No	24
increased labour market entry for certain groups of workers	Yes	14	No	22



**7. In terms of its impact on the informal economy, do you believe that the MWL:
(44 of 48 responded)**

- 19 leads to the growth of informality
- 2 leads to decreases in informality
- 8 has made no difference
- 15 is not a key issue, i.e., other factors are the key drivers of informality



8. In terms of entry into the labour market for certain groups of workers, e.g., young workers, disabled workers does MWL:

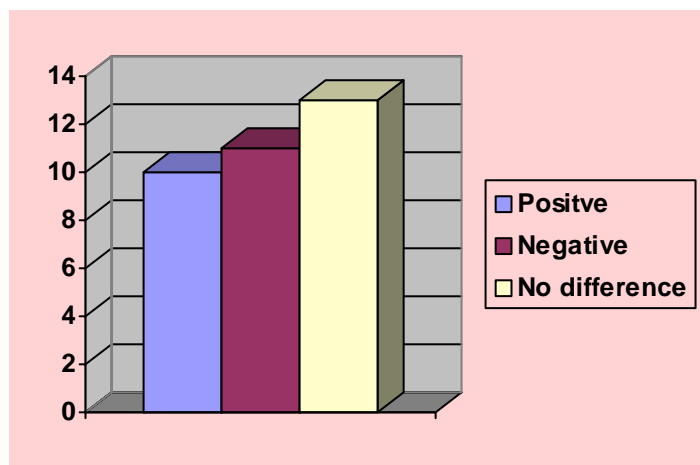
(38 of 48 responded)

- 7 act as an incentive
- 15 act as an obstacle
- 16 make no difference

9. What has been the impact of MWL on employment, poverty reduction; investment?

(34 of 48 responded)

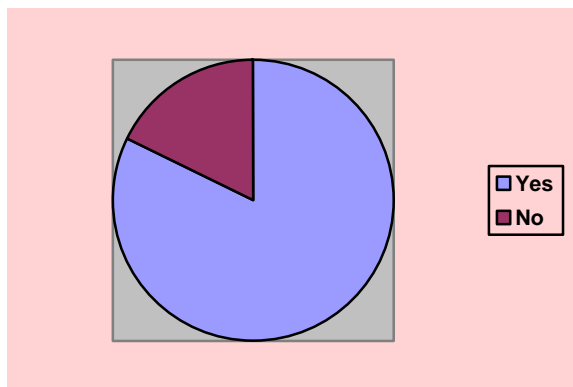
- 10 positive
- 11 negative
- 13 no difference



10. Are there mechanisms in place for adjusting MWL, i.e. regular reviews?

(34 of 48 responded)

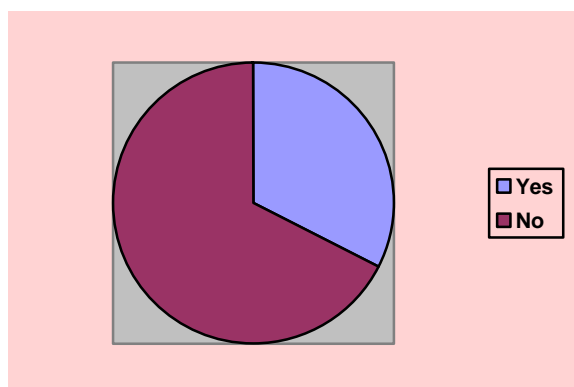
Yes 28 No 6



11. Have there been freezes on minimum wages for periods of time?

(37 of 48 responded)

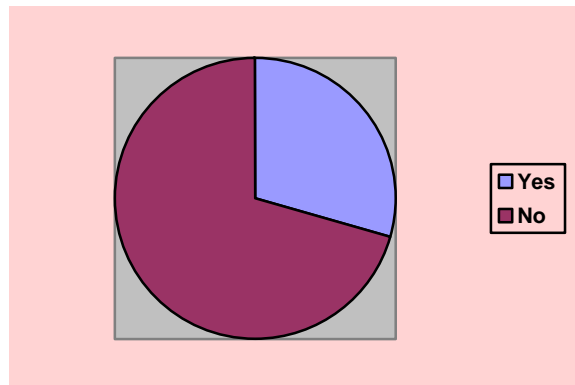
Yes 12 No 25



12. Has MWL impacted negatively on inflation?

(34 of 48 responded)

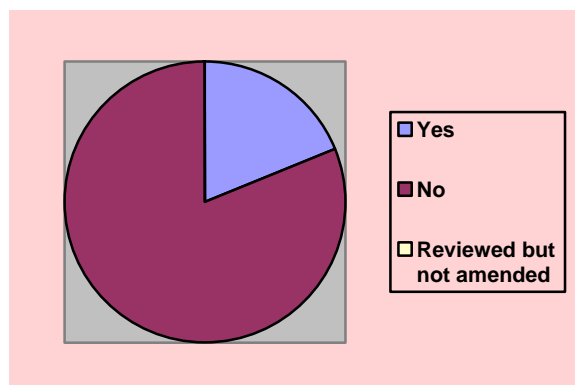
Yes 10 No 24



12.a If so was the legislation reviewed and amended?

(16 of 48 responded)

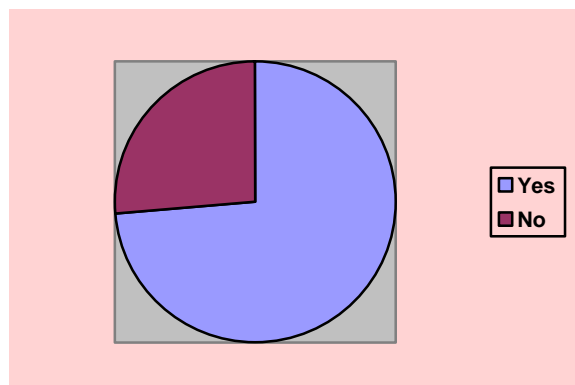
Yes 3 No 13 Reviewed but not amended 0



13. Has MWL impacted on collective bargaining?

(38 of 48 responded)

Yes 28 No 10



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